

A.

Finance Commission

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FINANCE COMMISSION OF TEXAS

MEETING DATEFebruary 17, 2017

MEETING LOCATIONState Finance Commission Bldg.
William F. Aldridge Hearing Room
2601 North Lamar Boulevard
Austin, Texas 78705

CONTACT INFORMATION.....Phone: (512) 936-6222
Email: Finance.Commission@fc.texas.gov
Website: www.fc.texas.gov

FUTURE MEETING DATESApril 21, 2017
June 16, 2017
August 18, 2017
October 20, 2017
December 15, 2017

*** The State of Texas fiscal year begins September 1 and ends August 31. The dates noted meet the minimum statutory requirement of six meetings per calendar year. Fin. Code §11.106*

Meeting Accessibility. Under the Americans with Disabilities Act, the agency will accommodate special needs. Those requesting auxiliary aids or services should notify the Texas Finance Commission Administrator several days prior to the meeting using the contact information above by mail, telephone, or email.

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FINANCE COMMISSION AGENDA

Friday, February 17, 2017

9:15 a.m. or upon adjournment of the Audit Committee (whichever is later)

Finance Commission Building
William F. Aldridge Hearing Room
2601 N. Lamar Blvd.
Austin, Texas 78705

Section A.3 will take up the following agenda items with NO DISCUSSION as notated in bold and italicized A1, B2

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

A. FINANCE COMMISSION MATTERS

- 1. Review and Approval of the Minutes of the December 16, 2016 Finance Commission Meeting**
2. General Public Comment
3. Consent Agenda
4. Finance Commission Operations
5. Audit Committee Report
 - A. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action Pursuant to §551.076, Texas Government Code: Deliberation Regarding Security Devices or Security Audits, Relating to the Cyber Security Assessment Report of the Office of Consumer Credit Commissioner
 - B. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Finance Commission's Internal Audit Activity Charter
 - C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2017 Internal Auditor's Risk Assessment and Audit Plan
 - a. Texas Department of Banking
 - b. Department of Savings and Mortgage Lending
 - c. Office of Consumer Credit Commissioner

- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' November 30, 2016 Investment Officer Reports
 - a. Texas Department of Banking
 - b. Department of Savings and Mortgage Lending
 - c. Office of Consumer Credit Commissioner
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2017 First Quarter Financial Statements
 - a. Texas Department of Banking
 - b. Department of Savings and Mortgage Lending
 - c. Office of Consumer Credit Commissioner
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on Proposal for the Department of Savings & Mortgage Lending to Contribute Funds to the Texas Financial Education Endowment
- 6. Discussion of and Possible Vote to Take Action Regarding Personnel Matters Pursuant to §551.074, Texas Government Code: Deliberations with Respect to the Duties and Compensation of a Person Holding the Position of Executive Director of the Finance Commission, Deliberations with Respect to the Duties and Compensation of Persons Holding the Position of Agency Commissioner Positions, and Other Staff
- 7. Discussion of and Possible Vote to Take Action Regarding Facility Planning and Real Property Matters Pursuant to §551.072, Texas Government Code: Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property
- 8. Discussion and Consultation with Attorney and Possible Vote to Take Action Pursuant to §551.071, Texas Government Code, for the purpose of seeking the advice or attorney-client privileged communications from our attorneys, including matters related to the potential financial exposure of the Finance Commission Agencies and their officers and the Finance Commission and its officers and including matters of pending and contemplated litigation

B. TEXAS DEPARTMENT OF BANKING

- 1. Industry Status and Departmental Operations: a) Items of Interest from the Commissioner's Office; b) Bank and Trust Division Activities; c) Corporate Division Activities; d) Special Audits Division Activities; e) Administrative and Fiscal Division Activities; f) Strategic Support Division Activities; g) Legal Division Activities; h) Legislative Activities; and i) General Items of Interest
- 2. *Discussion of and Possible Vote to Take Action on the Reappointment of Wallace Jones as the Trust Industry Representative to the Guaranty Fund Advisory Council for the period January 1, 2017 to December 31, 2018*
- 3. Discussion of and Possible Vote to Take Action on Anticipated and Pending Litigation

State of Texas v. Myrtlewood Memorial Services, Inc. d/b/a Harlingen-Combes Memorial Cemetery, Cause No.D-1-GN-16-000565, 353rd District Court, Travis County, Texas

Texas Department of Banking v. Lamesa Memorial Park, LLC, Cause No. 16-09-19874, 106th District Court, Dawson County, Texas

C. DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

1. Industry Status and Departmental Operations - State Savings Bank Activity: a) Industry Status; b) State Savings Bank Charter and Merger Activity; c) Other Items
2. Discussion of and Possible Vote to Take Action on Annual Assessments to be Paid by the Texas State Savings Banks
3. Industry Status and Departmental Operations – Mortgage Lending Activity: a) Residential Mortgage Loan Originators; b) Mortgage Examination; c) Consumer Complaints; and d) Other Items
4. Fiscal/Operations Activity: a) Funding Status/Audits/Financial Reporting; b) Staffing; and c) Other Items
5. Legal Activity: a) Enforcement; b) Gift Reporting; and c) Legislative Activities
6. Discussion of and Possible Vote to Take Action on Anticipated and Pending Litigation

Catherine Sims vs. Texas Department of Savings and Mortgage Lending, Cause No. D-1-GN-16-001194, 201st District Court, Travis County, Texas.

D. OFFICE OF CONSUMER CREDIT COMMISSIONER

1. Industry Status and Departmental Operations: a) Consumer Protection and Assistance Division Activities; b) Licensing Division Activities; c) Administration Division Activities; d) Financial Division Activities; e) Legal Division Activities; and f) Legislative Activities
2. Discussion of and Possible Vote to Take Action on Anticipated and Pending Litigation

Lynn Rowell d/b/a Beaumont Greenery, MPC Data and Communications, Inc., Micah Cooksey, NXT Properties, Inc., Mark Harken, Montgomery Chandler, Inc., Paula Cook, Townsley Designs, LLC, and Shonda Townsley v. Leslie L. Pettijohn, in her official capacity as Commissioner of the Office of Consumer Credit Commissioner of the State of Texas; Case No. 15-1455, in the Supreme Court of the United States

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

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

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**MINUTES OF THE
FINANCE COMMISSION MEETING
Friday, December 16, 2016**

The Finance Commission of Texas convened at 8:30 a.m. on December 16, 2016 with the following members present:

Finance Commission Members in Attendance:

Stacy G. London, Chairman
Jay Shands, Vice Chairman
Bob Borochoff
Hector Cerna
Molly Curl
Phillip Holt
Lori McCool
Matt Moore
Paul Plunket
Vince E. Puente

Finance Commission Members Absent:

Will Lucas

Finance Commission Chairman Stacy G. London announced a quorum with ten members present.
(0:10) start of discussion)

Stacy G. London made a motion to excuse Will Lucas from the Finance Commission meeting held on December 16, 2016. There were no objections and the motion passed unanimously. (0:036)

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. FINANCE COMMISSION MATTERS		
1. Review and Approval of the Minutes of the October 21, 2016 Finance Commission Meeting	On Consent Agenda – Item A1 This item approved on the Consent Agenda.	1:04 start of discussion
2. General Public Comment	No Action Required.	1:21 start of discussion
3. Consent Agenda – Items A1, C2, D2-D4	Molly Curl made a motion to approve Consent Agenda items A1, C2, D2-D4. Phillip Holt seconded and the motion passed.	1:33 start of discussion 2:12 vote
4. Finance Commission Operations	No Action Required.	n/a

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
5. Discussion of Legislative Recommendations of the Department of Savings and Mortgage Lending, Texas Department of Banking, and the Office of Consumer Credit Commissioner	No Action Required.	2:47 start of discussion
6. Update on Audit Activities	No Action Required.	7:44 start of discussion
7. Discussion of and Possible Vote to Take Action Regarding Personnel Matters Pursuant to §551.074, Texas Government Code: Deliberations with Respect to the Duties and Compensation of a Person Holding the Position of Executive Director of the Finance Commission, Deliberations with Respect to the Duties and Compensation of Persons Holding the Position of Agency Commissioner Positions, and Other Staff	Deferred to Executive Session – no vote taken.	n/a
8. Discussion of and Possible Vote to Take Action Regarding Facility Planning and Real Property Matters Pursuant to §551.072, Texas Government Code: Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property	Deferred to Executive Session – no vote taken.	n/a
9. Discussion and Consultation with Attorney and Possible Vote to Take Action Pursuant to §551.071, Texas Government Code, for the purpose of seeking the advice or attorney-client privileged communications from our attorneys, including matters related to the potential financial exposure of the Finance Commission Agencies and their officers and the Finance Commission and its officers and including matters of pending and contemplated litigation	Deferred to Executive Session – no vote taken.	n/a

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
B. DEPARTMENT OF SAVINGS AND MORTGAGE LENDING		
1. Industry Status and Departmental Operations - State Savings Bank Activity: a) Industry Status; b) State Savings Bank Charter and Merger Activity; c) Other Items	No Action Required.	22:23 start of discussion
2. Industry Status and Departmental Operations – Mortgage Lending Activity: a) Residential Mortgage Loan Originators; b) Mortgage Examination; c) Consumer Complaints; and d) Other Items	No Action Required.	26:30 start of discussion
3. Fiscal/Operations Activity: a) Funding Status/Audits/Financial Reporting; b) Staffing; and c) Other Items	No Action Required.	27:51 start of discussion
4. Legal Activity: a) Enforcement; b) Gift Reporting; and c) Legislative Activities	No Action Required.	37:31 start of discussion
5. Discussion of and Possible Vote to Take Action on Anticipated and Pending Litigation <i>Catherine Sims vs. Texas Department of Savings and Mortgage Lending,</i> Cause No. D-1-GN-16-001194, 201 st District Court, Travis County, Texas	No Action Required.	n/a
C. OFFICE OF CONSUMER CREDIT COMMISSIONER		
1. Industry Status and Departmental Operations: a) Consumer Protection and Assistance Division Activities; b) Licensing Division Activities; c) Administration Division Activities; d) Financial Division Activities; e) Legal Division Activities; and f) Legislative Activities	No Action Required.	47:38 start of discussion

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
2. Discussion of and Possible Vote to Take Action on the Adoption of Amendments to 7 TAC Chapter 83, Subchapter B, Regarding Rules for Credit Access Businesses	On Consent Agenda – Item C2 This item approved on the Consent Agenda.	n/a
3. Discussion of and Possible Vote to Take Action on Anticipated and Pending Litigation <i>Lynn Rowell d/b/a Beaumont Greenery, MPC Data and Communications, Inc., Micah Cooksey, NXT Properties, Inc., Mark Harken, Montgomery Chandler, Inc., Paula Cook, Townsley Designs, LLC, and Shonda Townsley v. Leslie L. Pettijohn, in her official capacity as Commissioner of the Office of Consumer Credit Commissioner of the State of Texas; Case No. 15-1455, in the Supreme Court of the United States</i>	No Action Required.	n/a
D. TEXAS DEPARTMENT OF BANKING		
1. Industry Status and Departmental Operations: a) Items of Interest from the Commissioner’s Office; b) Bank and Trust Division Activities; c) Corporate Division Activities; d) Special Audits Division Activities; e) Administrative and Fiscal Division Activities; f) Strategic Support Division Activities; g) Legal Division Activities; h) Legislative Activities; and i) General Items of Interest	No Action Required.	1:10:52 start of discussion
2. Discussion of and Possible Vote to Take Action on the Adoption of Amendments to 7 TAC, §12.91 Concerning Other Real Estate Owned	On Consent Agenda – Item D2 This item approved on the Consent Agenda.	n/a
3. Discussion of and Possible Vote to Take Action on the Adoption of Amendment to 7 TAC, §3.37 Concerning Calculation of Annual Assessment for Banks	On Consent Agenda – Item D3 This item approved on the Consent Agenda.	n/a

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
4. Discussion of and Possible Vote to Take Action on the Adoption of Amendment to 7 TAC, §33.4 Concerning Payment Processors	On Consent Agenda – Item D4 This item approved on the Consent Agenda.	n/a
5. Discussion of and Possible Vote to Take Action on Anticipated and Pending Litigation <i>State of Texas v. Myrtlewood Memorial Services, Inc. d/b/a Harlingen-Combes Memorial Cemetery, Cause No.D-1-GN-16-000565, 353rd District Court, Travis County, Texas.</i>	No Action Required.	n/a

Chairman Stacy G. London called for an Executive Session at 10:28 a.m.(1:43:00 on the audio file). The open meeting resumed at 11:02 a.m. (1:43:25 on the audio file).

There being no further business, Chairman Stacy G. London adjourned the meeting of the Finance Commission at 11:02 a.m. (1:43:45) on the audio file).

Stacy G. London, Chairman
Finance Commission of Texas

Charles G. Cooper, Executive Director
Finance Commission of Texas

Anne Benites, Executive Assistant
Finance Commission of Texas

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Finance Commission of Texas

Consent Agenda

February 17, 2017

A. Finance Commission Matters

1. Review and Approval of the Minutes of the December 16, 2016, Finance Commission Meeting

B. Texas Department of Banking

2. Discussion of and Possible Vote to Take Action on the Reappointment of Wallace Jones as the Trust Industry Representative to the Guaranty Fund Advisory Council for the period January 1, 2017 to December 31, 2018

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B.

Texas Department of Banking

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TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 / 877-276-5554
www.dob.texas.gov

To: Finance Commission Members

From: Kurt Purdom, Director of Bank & Trust Supervision

Date: February 3, 2017

Subject: Summary of the Bank & Trust Supervision Division Activities

Bank and Trust Supervision					FY 2017							
8/31/2015		8/31/2016			11/30/2016		2/28/2017		5/31/2017		8/31/2017	
Industry Profile (# / Assets in billions)												
# Banks	256	\$240.7	247	\$248.3	244	\$252.3						
# Trust Co. (1)	20	\$97.1	19	\$101.4	19	\$104.6						
# FBA/FBB	9	\$89.2	10	\$70.0	10	\$63.1						
Examinations Performed												
Banks	118		105		25							
Trust Co.	28		31		6							
FBA/FBB	2		2		0							
Bank Uniform Financial Institution Composite Ratings												
1	127	49.6%	126	51.0%	129	52.9%						
2	122	47.7%	109	44.1%	103	42.2%						
3, 4, & 5	7	2.7%	12	4.9%	12	4.9%						
Non-Rated	0	-	0	-	0	-						

(1) Fiduciary assets for public trust companies (non-exempt) only.

The Department considers any bank with a Uniform Financial Institutions Composite Rating of 3, 4, or 5 to be a problem institution, requiring that remedial action be taken by the bank's board and management. As of this writing, problem institutions total 13. This level is consistent with last fiscal year-end and is well below the peak number of problem banks experienced during the last recession at 58. We consider the present number to be within the normal range of between 3% and 5% of the total number of institutions. We anticipate that the number of problem institutions will be relatively stable over the next six months, however, we will continue to closely monitor banks that may be impacted by a protracted period of low oil prices or experience other increased risk factors.

Summary of the Bank & Trust Supervision Division Activities

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Administrative/Enforcement Actions (Number outstanding as of the date indicated)			FY 2017			
	8/31/2015	8/31/2016	11/30/2016	2/28/2017	5/31/2017	8/31/2017
Banks Safety and Soundness						
Formal	2	0	0			
Informal	14	19	21			
Banks Bank Secrecy Act (BSA)						
Formal	1	0	0			
Informal	0	0	2			
Banks Information Technology (IT)						
Formal	0	0	0			
Informal	2	0	0			
Trust Departments of Banks and Trust Companies						
Formal	0	0	0			
Informal	2	3	3			
Total Administrative/Enforcement Actions						
Formal	3	0	0			
Informal	18	22	26			
Total	21	22	26			

Formal actions include Orders to Cease and Desist, Consent Orders and Written Agreements.

Informal actions include Determination Letters, Memoranda of Understanding, Commitment Letters and Board Resolutions.

Orders of Supervision, Orders of Conservatorship and Compliance actions are not included.

Compliance with Examination Priorities Percent of Examinations Conducted within Department Guidelines		
Entity Type	FY 2016	FY 2017 (YTD - Jan 2017)
Commercial Banks (All / DOB Only)	97% / 98%	89% / 94%
IT	98% / 100%	91% / 100%
Trust	94% / 94%	90% / 100%
Foreign Banks (FRB)	100%	100%
Trust Companies (DOB)	78%	100%
IT	94%	100%

Compliance with examination priorities for commercial banks at 89% has lagged behind the agency's goal of completing 90% of examinations within policy guidelines. Through five months of the current fiscal year, eight bank examinations were delayed, two of which were the Department's responsibility (averaged 16 days past due) and six were the FDIC's responsibility (averaged 20 days). Delays in the Department's examinations were caused by resources being diverted to complete follow-up examinations of banks which had been adversely affected by the decline in oil and gas commodity prices. Delays in FDIC examinations were caused by similar diversions of resources to more troubled institutions. Over the remainder of this

Summary of the Bank & Trust Supervision Division Activities

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fiscal year, compliance is expected to improve. However, a failure to fill vacant examiner positions for the Department could result in a lag in conducting examinations when they are due.

Division Highlights

- **Oil and Gas:** Geographic locations in Texas that are isolated and primarily dependent upon the oil and gas (O&G) industry, such as Midland/Odessa and parts of South Texas, have been hit harder than other diversified economies such as Dallas/Ft. Worth, San Antonio, Austin, and to some degree, Houston. While there has been a modest increase in the dollar volume of adversely classified assets for banks with significant O&G lending activity, most state chartered banks have “weathered the storm” and promptly identified and addressed the borrowers that are experiencing financial difficulties. Regardless of the locality, recent examinations have revealed that proactive management teams who followed sound policies and procedures have fared much better than institutions that were not proactive. Though crude oil prices rebounded modestly in 2016, they remain well below the prices observed in mid-2014. Increased oil prices have led to more rigs coming on line in Texas, which should improve stability in the industry. Agency staff will continue to closely monitor the impact of energy prices on the 25 institutions that we have identified as higher risk. These selected institutions submit quarterly worksheets that quantify the dollar volume of direct/indirect energy loans, problem energy credits, charge offs, price decks, and total adversely classified assets. Quarterly reports show that most are reducing their energy book of business. Agency staff will continue to analyze trends over the prior quarters for each institution and report the findings to executive management and Regional Directors.
- **Temporary Review Assignments:** Senior Examiners from the four regional offices have been given the opportunity to perform a temporary report review assignment at the Austin Headquarters Office. This temporary assignment, which was a recommendation of the Department’s Employee Advisory Council, allows examiners to become more familiar with the activities at our Austin Headquarters Office and it fosters better working relationships between Headquarters’ personnel and the regional office field staff. The length of the assignment varies but is usually scheduled to run from ten to twelve weeks.
- **Strategic Planning and Communication:** Regional Directors, Director of IT Security Examinations Hinkle, Director of Examination Support Activities Robinson, Chief IT Security Examiner Pearson, and Chief Trust Examiner Walker participated in a meeting at the Austin Headquarters Office on 1-24-17 and 1-25-17. The meeting, among other issues, focused on planning for the coming calendar year, improvements to the Division’s Offsite Monitoring Program, staffing needs, training, and budgeting.
- **Special Operations and Conferences:**
 - Commissioner Cooper and other staff members participated in the CSBS Board Meeting and Supervisors Symposium held in Orlando, Florida, the week of 12-5-16.
 - Director Purdom participated in a bank regulatory panel at the Independent Bankers Association of Texas Winter Summit held in Avon, Colorado the week of 1-16-17.

- **Federal Capital Programs:** The table below provides a snapshot of the two federal capital programs.

Federal Programs	Troubled Asset Relief Program (TARP) ⁽²⁾	Small Business Lending Fund (SBLF) as of 12/31/2016
Number of Applicants	80	23
Number of Banks that Received Funds	21	12
Total Amount Distributed (\$ in millions)	\$2,837.7	\$255.7
Number of Banks with Outstanding Funds	0	2
Total Amount Outstanding (\$ in millions)	\$0	\$25.5

(2) - The U.S. Treasury sold some of the TARP debt listed above at auction to private investors. In many cases, this debt is still outstanding, even though it is no longer payable to the U.S. Treasury.



Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

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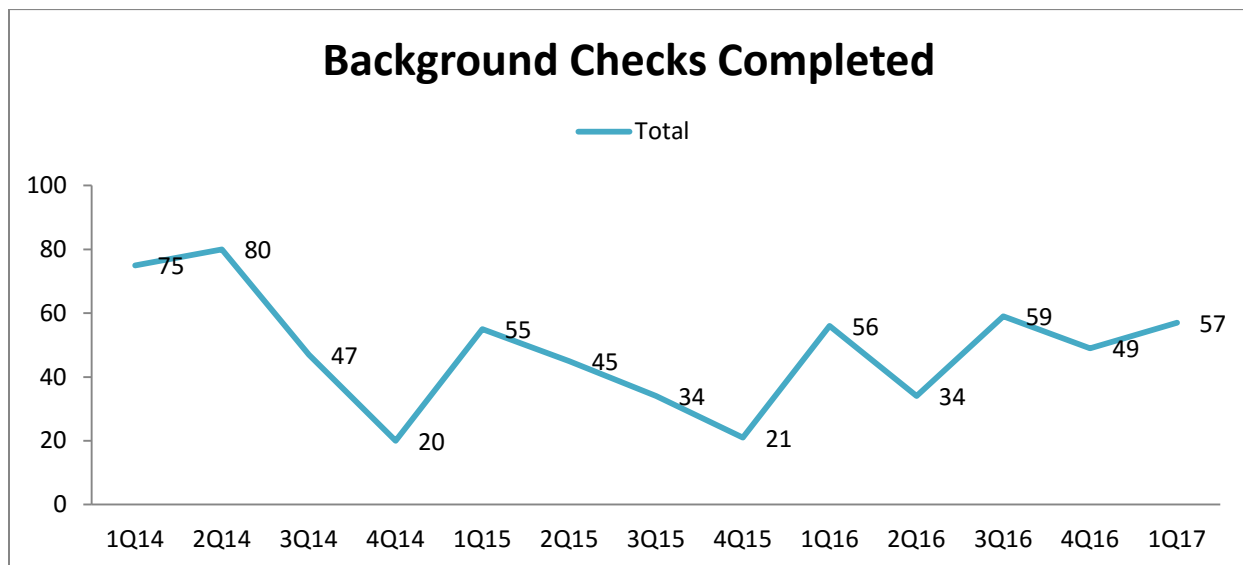
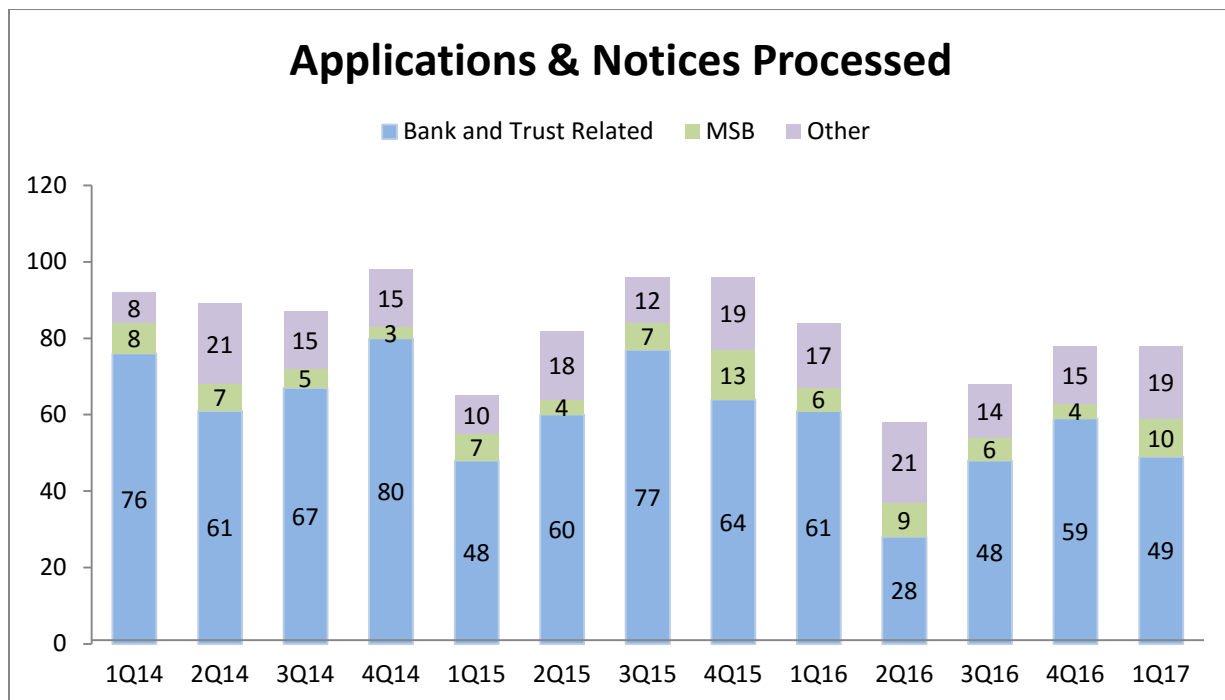
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To: Finance Commission Members

From: Daniel Frasier, Director of Corporate Activities *DBF*

Date: February 2, 2017

Subject: Summary of the Corporate Division Activities



Entities/Activities	Applications and Notices Under Review (as of February 1, 2017)
Bank Related	20
Trust Companies	1
Money Services Business (MSB)	9
Others	1
Totals	31

Division Highlights

- The volume of bank and trust applications as well as MSB applications received in late December through January has jumped as compared to slow months of October and November.
- Chartering, Conversion, and Merger Activity – The following transactions have consummated since Corporate’s last report to the Finance Commission:
 - *Banks*
 - International Bank of Commerce, Laredo, completed its distribution of 50 branches and corresponding assets and liabilities to affiliated International Bank of Commerce, Oklahoma City, Oklahoma, as part of its internal corporate reorganization
 - State Bank of Texas, Dallas, completed its FDIC assisted failed bank acquisition of Seaway Bank and Trust Company, Chicago, Illinois
 - *Trust Companies*
 - Family Legacy Trust Company, Plano, completed its dissolution and liquidation
- Conferences and Committee Meetings – Corporate participated in the following committee meeting since the last report to the Finance Commission:
 - Corporate Analyst Xazel Garcia participated in a meeting in Washington, D.C., sponsored by the State Regulatory Registry LLC to provide input into a re-write of the software for the Nationwide Multistate Licensing System (NMLS).



Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

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To: Finance Commission Members

From: Russell Reese, Director of Special Audits *Russell Reese*

Date: February 1, 2017

Subject: Summary of the Special Audits Division Activities

Special Audits			FY 2017							
Entity	FY2016		1 st		2 nd		3 rd		4 th	
Industry Profile (# / Assets (billions))										
Money Services Businesses (MSB)	155	\$114.7	156	\$106.7						
Prepaid Funeral Contract (PFC)	380	\$3.9	379	\$3.8						
Perpetual Care Cemeteries (PCC)	243	\$314.1	243	\$315.6						
Cemetery Brokers (CB)	12	n/a	14	n/a						
Private Child Support Enforcement Agencies (PCSEA)	10	n/a	10	n/a						
Check Verification Entities (CVE)	2	n/a	2	n/a						
Examinations Performed										
MSB	97		18							
MSB Limited Scope	3		0							
MSB Accepted other State	17		5							
PFC	260		65							
PFC Limited Scope	6		1							
PCC	179		54							
PCC Limited Scope	6		2							
Ratings (# / %) Assigned to All Regulated Entities										
1	317	42%	315	42%						
2	351	47%	356	47%						
3,4, & 5	82	11%	82	11%						
Noncompliance with Examination Priorities (Past Due)										
MSB	14		21							
PFC	10		9							
PCC	15		8							

NOTES:

PCC \$ amounts reflected in the millions.

Limited scope examinations do not receive a rating.

Noncompliance with Examination Priorities (Past Due)

- The 21 MSB past due examinations are on average 1.85 months past due.
- Fourteen of the seventeen PFC/PCC past due examinations are on average one month past due. The remaining three PFC/PCC past due examinations are in legal proceedings, which prohibited the completion of the examination.
- Our current examination schedule reflects that nine of the past due PFC/PCC examinations were completed in January 2017; five will be completed in February 2017.
- Our current examination schedule reflects that four of the past due MSB examinations were completed in December 2016, six completed in January 2017, ten will be completed in February 2017 and the remaining examination has been delayed until May 2017 due to coordination with other MTRA state agencies.
- Special Audits met all performance measures for the first quarter of FY 17.

Division Activities:

During the week of January 9th Deputy Commissioner Newberg and Review Examiner Saucillo attended the annual Multi-State MSB Examination Taskforce (MMET) meeting in Charleston, South Carolina. The MMET is the state representative body charged with coordinating and facilitating multistate supervision of MSBs. The MMET consists of 10 regulatory representatives appointed by CSBS and MTRA. Mr. Saucillo was elected as Vice-Chair of MMET at this meeting.

On January 18th Department representatives attended a hearing on Lamesa Memorial Park, LLC (LMP) held at the 106th District Court of Dawson County, Lamesa, Texas. At the hearing, the Court considered and approved the Receiver's request to transfer the cemetery to Dawson County and the proposed plan of distribution of funds to claimants. Furthermore, the county will receive the perpetual care funds on deposit from the trustee and will be responsible for all future maintenance of the cemetery. The Department has been acting as a Receiver of LMP since being appointed by the Court on October 5, 2016.

During the week of February 13th MSB Administrator Gonzales, Mr. Saucillo and other representatives from the Department, will attend the NMLS Annual Conference & Training in Austin, Texas. The conference is attended by state and federal regulators and licensees and is focused on assisting both new and experienced NMLS users on the system and regulatory compliance issues that affect their organizations.

In preparation for the NMLS Annual Conference in Austin, Texas, Mr. Saucillo and Corporate Analyst Xazel Garcia were invited to participate in a "NMLS 2.0 Steering Committee" that was held on January 31st and February 1st at the CSBS offices in Washington, DC. The purpose of the meeting was to discuss core issues of the NMLS 2.0 system capabilities and review previous feedback received from the industry.

Special Audits		FY 2017			
Entity	FY2016	1 st	2 nd	3 rd	4 th
Enforcement Actions					
MSB	8	3			
PFC	2	1			
PCC	0	1			
PCSEA	1	0			

Actual Performance for Output/Efficiency Measures

Fiscal Year 2017

For Period Ending November 2016

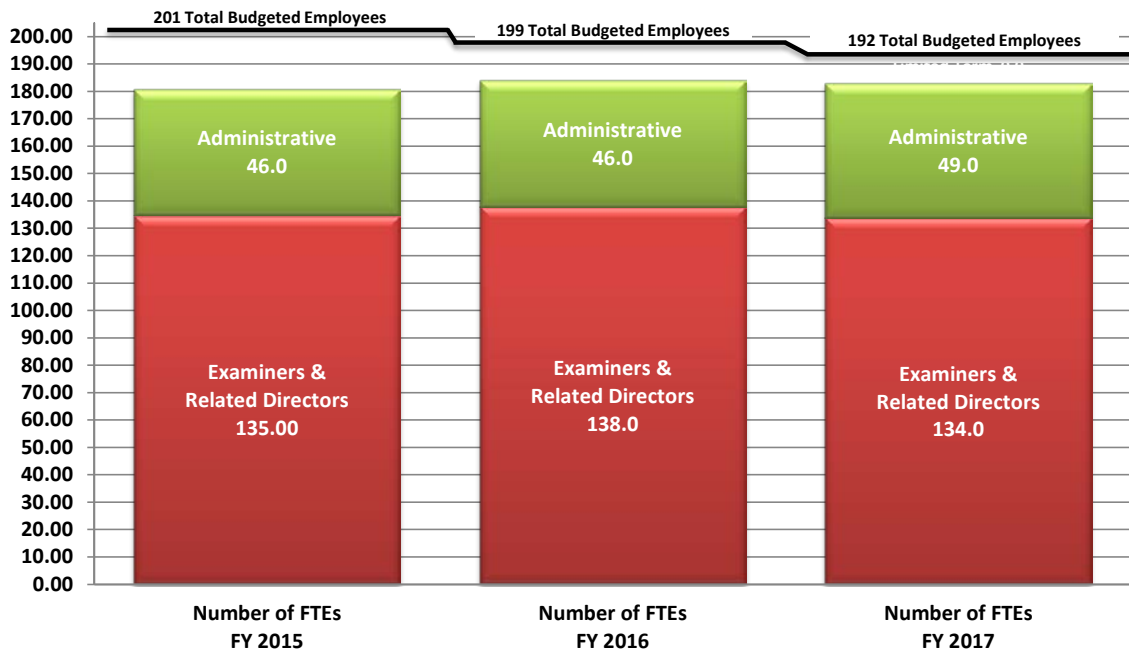
Type/Strategy/Measure	2017 Target	2017 Quarter	2017 YTD	Percent of Annual Target
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Output Measures-Key

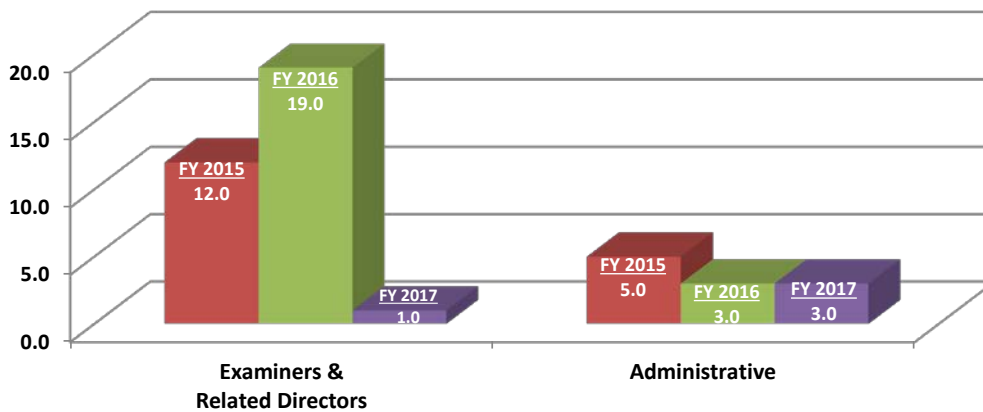
1-1-1	BANK EXAMINATION				
	1. # BANK EXAMINATIONS PERFORMED				
	Quarter 1	102	25	25	24.51%
	2. # TRUST/IT EXAMINATIONS PERFORMED				
	Quarter 1	206	44	44	21.36%
1-2-1	NON-BANK EXAMINATION				
	1. # SPECIAL AUDIT LICENSEES EXAMINED				
	Quarter 1	560	145	145	25.89%
1-3-1	APPLICATION PROCESSING				
	1. # LICENSE APPLICATIONS COMPLETED				
	Quarter 1	267	78	78	29.21%

* Varies by 5% or more from target.

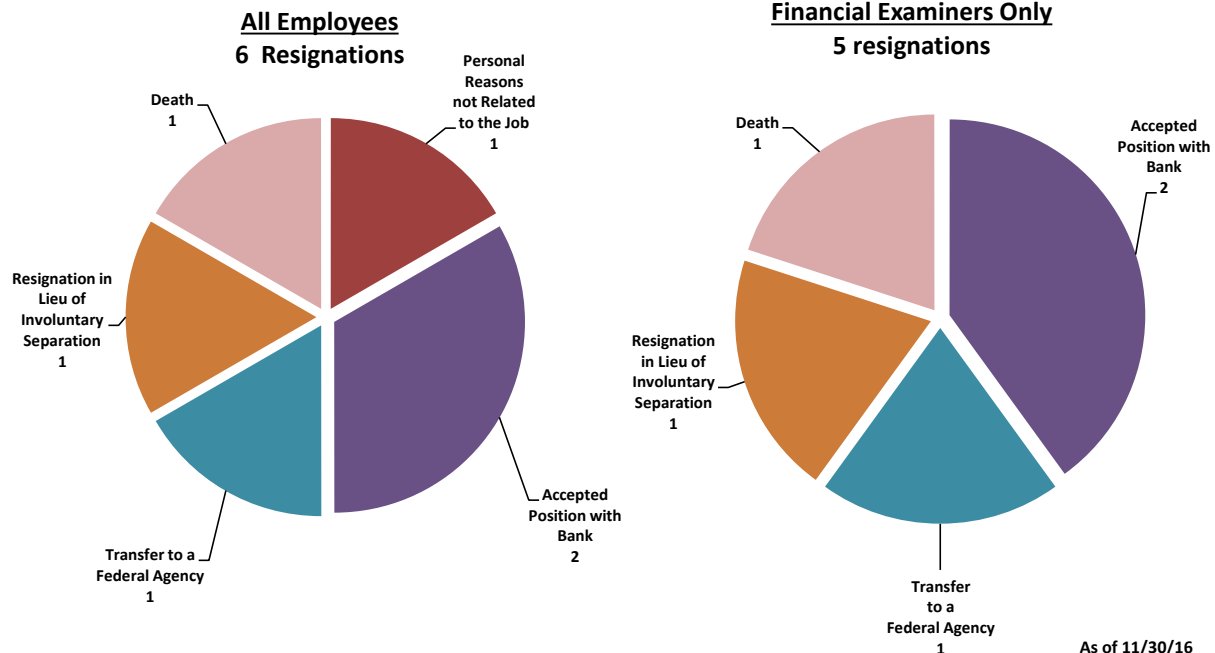
Texas Department of Banking
Employee Data for Fiscal Years 2015, 2016 and 2017 as of 11/30/16



New Hire Data for Fiscal Years 2015, 2016 and 2017



FY 2017 Employee Turnover Reasons






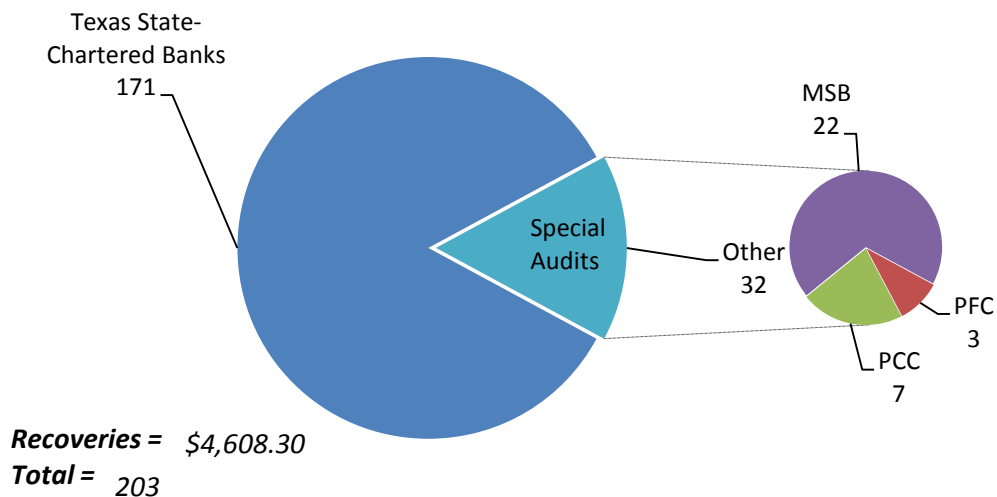
Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

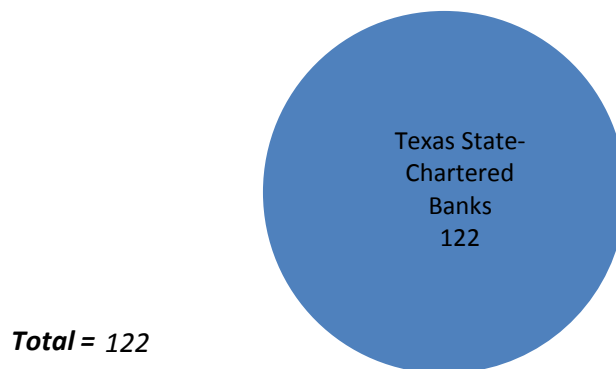
2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 / 877-276-5554
www.dob.texas.gov

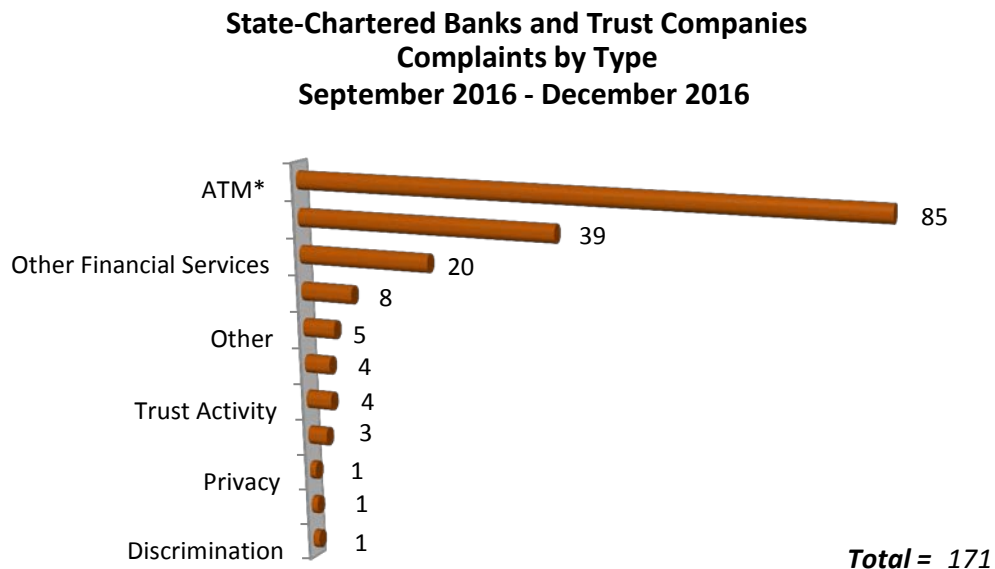
To: Finance Commission Members
From: Wendy Rodriguez, Director of Strategic Support 
Date: February 1, 2017
Subject: Summary of the Strategic Support Division Activities

Complaints on Regulated Entities September 2016 - December 2016

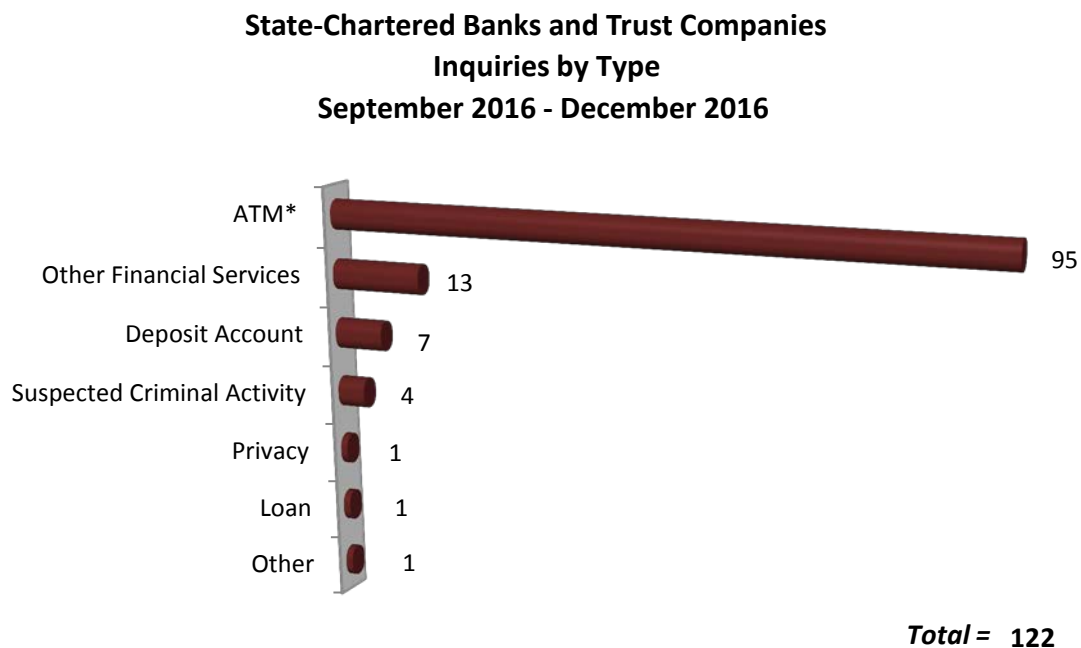


Inquiries on Regulated Entities September 2016 - December 2016



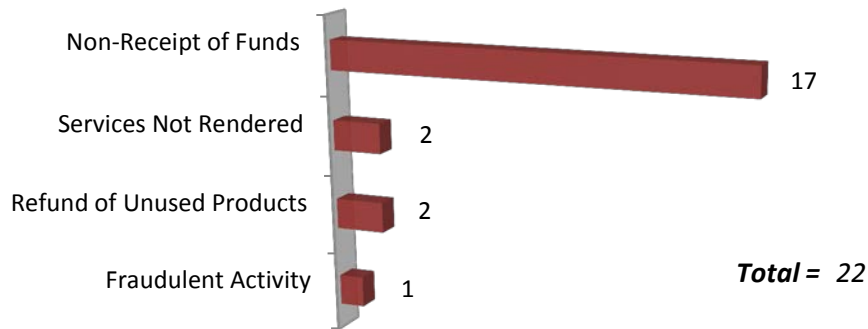


* Activity related to a single state bank. Consumer complaints range from needing clarification of the notice to account balance issues and card related problems.

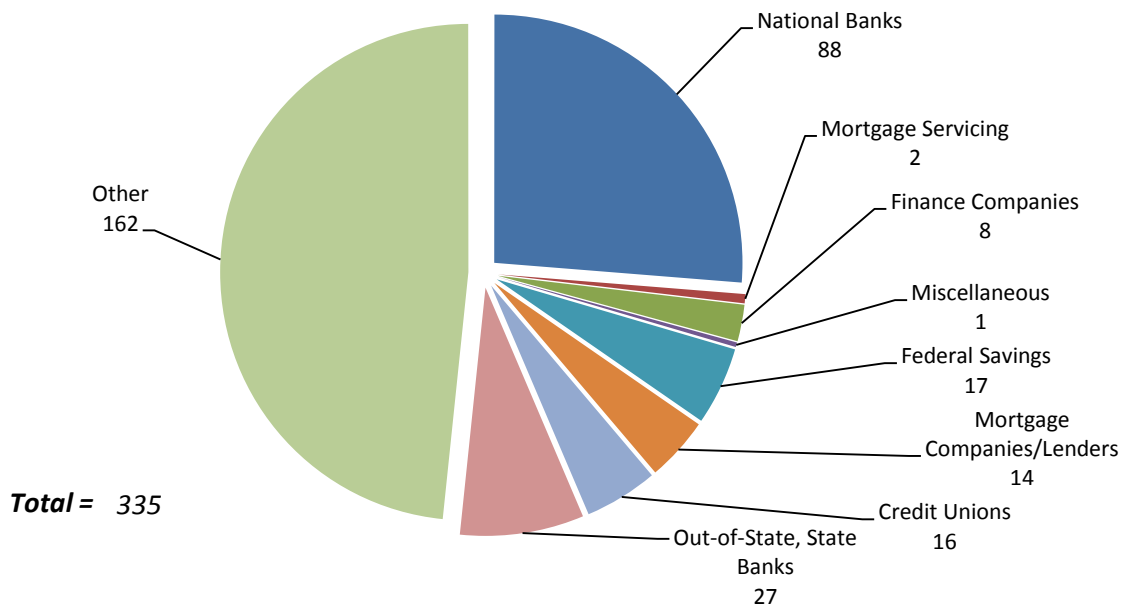


* Activity related to a single state bank. Activity related to consumers inquiring about their funds serviced by one institution.

Money Services Businesses Complaints by Type September 2016 - December 2016



Complaints and Inquiries Against Nonregulated Entities September 2016 - December 2016



On occasion, consumers do not provide the name of the entity they need assistance with. In these situations, the communication is categorized in the "Other" category.

Average Number of Days to Close a Written Complaint

Type	Sept. 2016 – Dec. 2016
State-Chartered Banks	12
Trust	n/a
PCSEA	n/a
PFC/PCC	39
MSB	34

CANS ACTIVITY

January 1, 2012 – January XX, 2017

Entity	Enrolled	Compromised Accounts Reported
Texas State-Chartered Banks	224	1,680
Texas State-Chartered Savings Banks	25	68
Federal Savings Banks	10	197
State Credit Unions	132	1,300
Federal Credit Unions	229	1,162
National Banks	170	542
Out-of-State State-Chartered Banks	11	11
Out-of-State National Banks	6	44
Total	807	5,004

Bank Examination Testing System (BETS) Activity

Number of Candidates Passing Each Phase

	FY 2014	FY 2015	FY 2016	FY 2017
I. General Knowledge	5	8	9	3
II. Loan Analysis	2	2	4	1
III. Panel	2	4	3	1
IV. Test Bank	1	4	2	2
Total FE3	14	19	18	22

Promotions

From FE3 to FE4 (Commissioned Examiner)	2	4	2	2
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Other Divisional Items:

- *Financial Education*
 - January 17, 2017 – Financial Education Coordinator, Ms. Leilani Lim-Villegas, participated in a webinar hosted by the U.S. Small Business Administration. The webinar provided the 75 participants information on saving for retirement. Ms. Lim-Villegas offered statistical information on Texas' rank in regard to savings among all 50 states, best practices, and data on numerous governmental and community initiatives and savings resources available to bankers and the general public.
- *Policy*
 - Supervisory Memorandum 1032 – Policy for Other Real Estate Owned was revised and is applicable to state-chartered trust companies. In this revision, links were added to the forms on the agency's website which are required for holding other real estate. The sample forms were removed from the policy.
- *Website*
 - The Finance Commission website redesign is underway and is currently in the building phase. The creative stage, which includes graphics, fonts, and other presentational details, will follow. The final design will be presented to commission members in the spring of 2017.
 - The Department is in the testing phase of the Department Exchange Portal (DEX) 2.0 and is making final modifications. Regulated entities will be able to upload materials in a fast and easy manner. A folder system has been incorporated to distinguish the various documents provided for examinations.
 - Law & Guidance Manual – In February 2017, the Law & Guidance Manual will be edited in real time and will always reflect the most current version of statutes, rules, and policies. Quarterly updates will no longer be needed with the recent adoption of a new Online Editor feature.



Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

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Memorandum

TO: Finance Commission Members
FROM: Catherine Reyer, General Counsel
DATE: February 1, 2017
RE: Legal Division Update

Litigation

State of Texas v. Myrtlewood Memorial Services d/b/a Harlingen-Combes Memorial Cemetery et al., Cause No. D-1-GN-16-000565, in the 353rd Judicial District Court of Travis County, Texas. This case was filed on February 19, 2016, to seek the appointment of a receiver. On October 26, 2016, the Attorney General's Office filed an amended petition to seek forfeiture of the corporate charter, dissolution of the corporation, an order confirming that the cemetery is no longer under the regulation of the Texas Department of Banking, and termination of the cemetery's perpetual care trust fund. The amended petition asks that the principal of the trust fund remain inviolable, but be placed in a certificate of deposit. The income from the fund would be available for the care of the cemetery. The OAG sent a proposed agreed order to the trustee and the owner of the cemetery on January 20, 2017. Once the parties agree to the order, we hope to present it to the court for approval within the next 30 days.

Texas Department of Banking v. Lamesa Memorial Park, LLC, Cause No. 16-09-19874 in the 106th District Court of Dawson County, Texas. On September 13, 2016, Commissioner Cooper issued two emergency orders: one to cease and desist from cemetery operations and one to cancel Lamesa's permit to hold and administer prepaid funeral benefit contracts and to seize prepaid funeral funds and records. Following additional court filings, Russell Reese, DOB Director of Special Audits was appointed temporary receiver of the perpetual care cemetery. During the receivership, we filed inventories and status reports advising the court regarding the financial condition of the cemetery, the expenses incurred to care for the cemetery, plans for resolution of outstanding creditor accounts, and plans to locate a successor owner of the cemetery, all of which were approved by the court. Following resolution of the outstanding claims and successfully reaching an agreement with Dawson County to accept transfer of ownership of the cemetery, a hearing was held on January 18, 2017. At the conclusion of the hearing, Judge Carter Schildknecht issued an order granting a permanent injunction against the former cemetery owners and terminating the corporate charter and the perpetual care fund. The money in the perpetual care fund was transferred to Dawson County on February 1, 2017. Following payment of all outstanding bills, we expect the receivership to be closed within the next 30 days.

Claim by the Texas Department of Banking against the estate of Felix Trevino Morales, Docket No. 442502, in Probate Court No. 2 of Harris County, Texas. On July 1, 2016, the Department of Banking filed a claim for \$12,545.00 against the estate of Felix Trevino Morales. Mr. Morales owned and operated Trevino & Sons Funeral Home in Houston where he sold prepaid funeral benefits without the necessary permit. The Department was seeking \$12,545.00 in order to return funds to customers who

purchased prepaid funeral benefits from Mr. Trevino when he was not authorized to sell them. Our claim was allowed by the executrix of the estate, but the probate case was dropped from the active docket before it was paid. The case was reinstated on January 12, 2017. We drafted an updated claim for \$11,715 based on information we had received concerning refunds that had been made to purchasers, and have asked the OAG to file our updated claim with the court.

Gifts

No gifts have been received by the Department of Banking since December 1, 2016.

Orders

Since the last Legal Division memo was prepared, the Commissioner issued four orders, three of which are final public orders:

Special Audits

- Order No. 2015-011a, dated 11/2/2016; Second Consent Order, Heartfield-Ritter Funeral Home, Hearne, Texas.
- Order No. 2016-021, dated 12/12/2016; Agreed Order Canceling Permit of Allcorn Funeral & Cremation Care & Related Matters, Allcorn Funeral & Cremation Care, Coleman, Texas.

Bank and Trust

- Order No. 2016-022, dated 12/30/2016; Order Canceling Charter of Family Legacy Trust Company Family Legacy Trust Company, Plano, Texas.

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The Pre Need Corp.

588 N. Main
Giddings, Texas 78942

I have been employed by Phillips & Luckey Funeral Homes and Pre Need Corporation for over 40 years. I have worked my way up through the company and today I own 78% of both companies. In 1985 my father wanted to retire and I took over as manager of the funeral home and started working closer with the Pre Need Corporation and in 1992 I was named President of both corporations.

Some of the duties I have with the Pre Need Corp. are reviewing all new contracts to make sure they have been written properly and matured contracts that all documents are in the matured files. I am very involved in our audits working hard to achieve a 1 rating, I feel a 2 rating is a little disappointing but acceptable. With our accountant we review our investments and make changes when necessary. I also work with our employees so they better understand the proper way to complete a contract.

On the personal side I have lived most of my life in Rockdale, I am married with one child and she works for me. I have served our city as a business person, served on Rockdale City Council and as Mayor, served a number of years with our Chamber of Commerce Board, and a number of different committees and advisory groups. I currently am serving on the Board of Directors with Classic Bank, NA. and as a Deacon in our church.

Wallace Jones
Phillips & Luckey Co., Inc./Pre Need Corp.

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C.

**Department of Savings
and
Mortgage Lending**

C. Texas Department of Savings and Mortgage Lending

1. Industry Status and Departmental Operations – State Savings Bank Activity:

a. Industry Status

The financial data on Texas state thrifts had not been finalized by the FDIC prior to the preparation of this report. A report on the 4th quarter of calendar year 2016 will be presented at the next meeting of the Finance Commission.

As of December 31, 2016, there are 28 state savings banks, all of which are rated a Composite 1 or 2. There are two outstanding formal enforcement actions. The Department continues to monitor various local, state, and national data sources for risks facing the industry and individual savings banks. Economic conditions, cybersecurity, interest rate risk, lending concentrations, and liquidity risk all continue to be areas of focus.

b. Savings Bank Charter and Merger Activity

On September 9, 2016, notice was received of the intent of Sunflower Bank, National Association, Salina, Kansas, to acquire Capital Bank, SSB, El Paso. The merger is intended to occur early in 2017. There is no further information to report at this time.

c. Other Items

Commissioner Jones was re-elected Board Chair of the American Council of State Savings Supervisors (ACSSS) and will serve as the ACSSS representative on the State Liaison Committee (SLC) of the Federal Financial Institution Council (FFIEC). She also continues to serve on the Financial & Banking Information Infrastructure Committee (FBIIC).

2. Discussion of and Possible Vote to Take Action on the Annual Assessments to be Paid by the Texas State Savings Banks.

ANNUAL FEE ASSESSMENT RATES - CURRENT

Current Assessment Schedule* - Effective March 1, 2016

Assets Over	Not Over	Amount	Plus	Over
\$0	\$2 million	\$6,092	0.000000000	\$0
2 million	20 million	6,092	0.000240512	\$2 million
20 million	100 million	10,421	0.000192409	20 million
100 million	200 million	25,813	0.000125061	100 million
200 million	1 billion	38,319	0.000105822	200 million
1 billion	2 billion	122,976	0.000086581	1 billion
2 billion	6 billion	209,557	0.000076960	2 billion
6 billion	20 billion	517,397	0.000065485	6 billion
20 billion	40 billion	1,434,187	0.000049329	20 billion
40 billion	250 billion	2,420,767	0.000038542	40 billion
250 billion		10,514,587	0.000038156	250 billion

* Maintains 50% of the Office of the Comptroller of the Currency's Annual Assessment, OCC 2015-47.

Condition premium, assessed in addition to the regular assessment

CAMEL < 3	0 % of regular assessment
CAMEL = 3	50 % of regular assessment
CAMEL > 3	100 % of regular assessment

ANNUAL FEE ASSESSMENT RATES - NEW

Current Assessment Schedule* - Effective March 1, 2017

Assets Over	Not Over	Amount	Plus	Over
\$0	\$2 million	\$6,165	0.000000000	\$0
2 million	20 million	6,165	0.000243398	\$2 million
20 million	100 million	10,546	0.000194717	20 million
100 million	200 million	26,123	0.000126561	100 million
200 million	1 billion	38,779	0.000107091	200 million
1 billion	2 billion	124,451	0.000087619	1 billion
2 billion	6 billion	212,070	0.000077883	2 billion
6 billion	20 billion	523,602	0.000066270	6 billion
20 billion	40 billion	1,451,382	0.000049920	20 billion
40 billion	250 billion	2,449,782	0.000039004	40 billion
250 billion		10,640,622	0.000038613	250 billion

* Maintains 50% of the Office of the Comptroller of the Currency's Annual Assessment, OCC 2016-43 - adjusting for inflation 1.2% for 2017.

Condition premium, assessed in addition to the regular assessment**

CAMEL < 3	0 % of regular assessment
CAMEL = 3	50 % of regular assessment
CAMEL > 3	100 % of regular assessment

**No change from prior year.

3. Industry Status and Departmental Operations – Mortgage Lending Activity:

a. Residential Mortgage Loan Originators

Current Licensing Population:

License Type As of 01/31/2017	Approved		
	Entity (MU1)	Branch (MU3)	MLO (MU4)
<i>Auxiliary</i>	8	n/a	
<i>CUSO</i>	3	2	
<i>FSC</i>	1	n/a	
<i>Independent Contractor</i>	85	n/a	
<i>Mortgage Company</i>	1,064	502	
<i>Mortgage Banker</i>	384	2,350	
<i>Mortgage Servicer</i>	161	n/a	
Totals	1,706	2,854	22,241

The Department is currently in the “Reinstatement” period of renewals, which runs from January 1 through February 28, and allows those licensees that did not timely renew, the ability to request renewal. If they did not timely renew, their license status went to “Terminated-Failed to Renew.” As of January 31, 2017, the Department had received 370 reinstatement requests. Prior to the reinstatement period, the Department received renewal requests from 20,864 individuals and 4,345 companies and branches. Additionally, between November and December, the renewal period, the Department received 17,365 amendment filings and 1,536 new license requests.

b. Mortgage Examinations

Through the end of the 1st quarter of FY2017, a total of 119 examinations were conducted covering 2,225 individual licensees. The examinations are continuing to identify various degrees of unlicensed/unauthorized activity and the issuance of incomplete conditional qualification/approval letters.

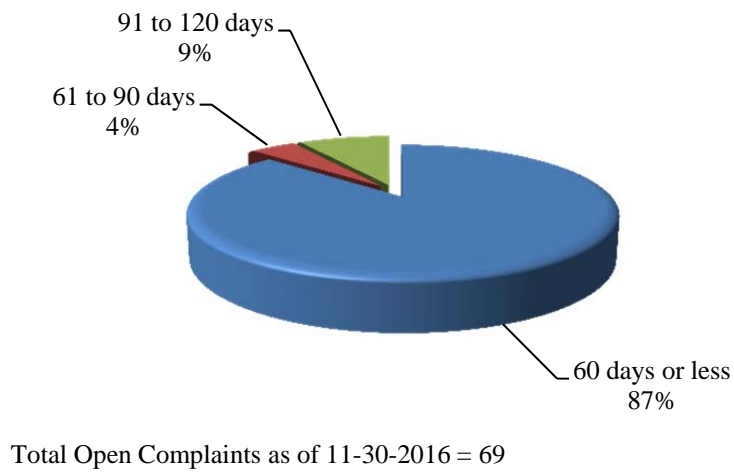
c. Consumer Complaints/Legal Issues

The following charts reflect the consumer complaint information through the end of the 1st quarter of FY2017. The aging of the open complaints is acceptable with none over 120 days.

Loan Servicing complaints continue to be the largest complaint category accounting for 60% of the total number of complaints received in the 1st quarter of FY2017. This represents a 4% increase when compared to the same reporting period in FY2016. The total number of complaints received in the 1st quarter of FY2017 increased 6% when compared to the same period in FY2016.

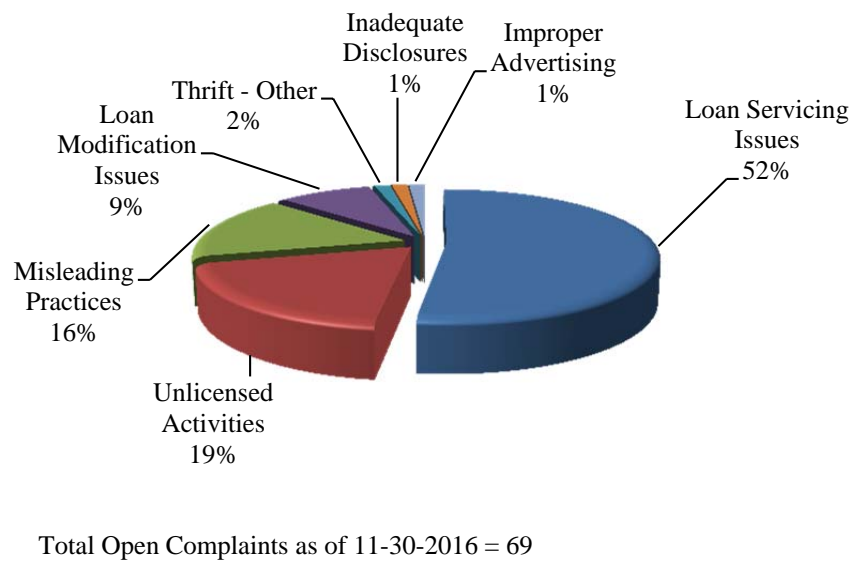
Investigator staffing remains adequate to maintain the complaint aging benchmark of less than 180 days.

Aging of Open Complaints as of 11-30-2016

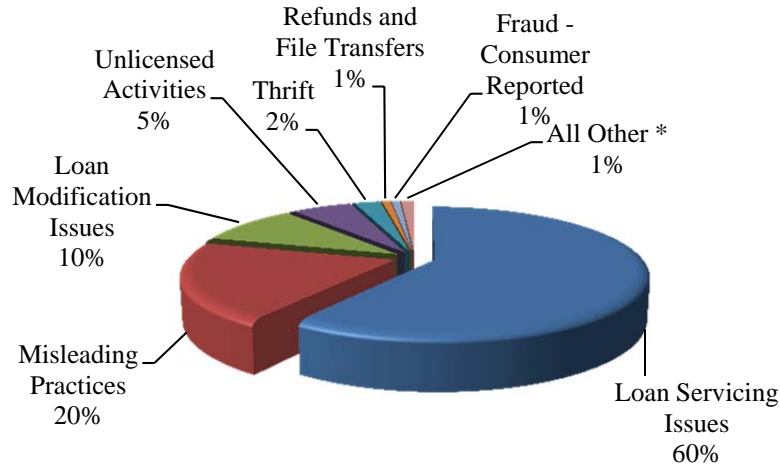


The next two charts show the nature of the complaints remaining open as well as the nature of all complaints received during the 1st quarter of FY2017.

Nature of Open Complaints as of 11-30-2016



Nature of Complaints Received - 1st Quarter FY2017

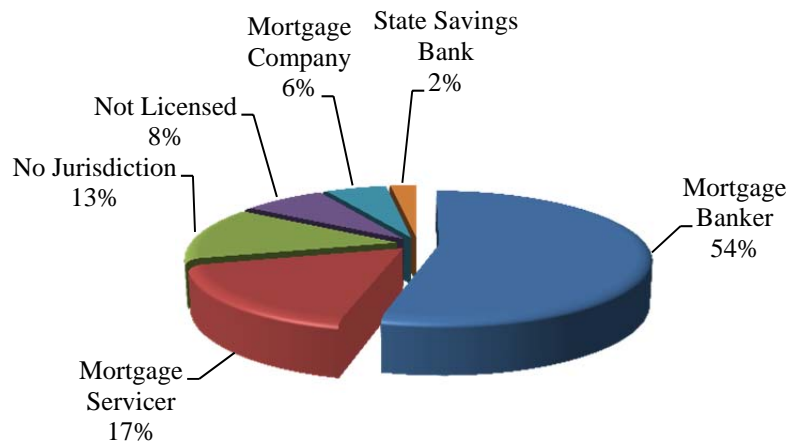


Total Complaints received in Fiscal Year 2017 Year-to-Date = 248

* The "All Other" Category includes: Fraud-Industry Referral, Inadequate Disclosures, and Permissible Charges/Fees

The final chart show the complaints sorted by category type.

Complaints Received by Category Type - 1st Quarter FY2017



Total Complaints Received Year-to-Date FY2017 = 248

d. Other Items

On January 30th and 31st, Commissioner Jones and Director of Licensing, Steven O'Shields, attended Texas Mortgage Bankers Association's Secondary Conference in Austin, Texas, where over 300 industry representatives (or stakeholders) were in attendance. At the meeting

Commissioner Jones and Director O'Shields staffed an information table where industry could ask questions, obtain information, or provide feedback on the Department's requirements and processes.

Actual Performance for Output/Efficiency Measures

Type/Strategy/Measure	2017 Target	2017 Actual	2017 YTD	Percent of Annual Target
Output Measures-Key				
1-1-1 Thrift Safety and Soundness				
1. Number of Examinations Performed				
Quarter 1	22	6	6	27.27%
2-1-1 Mortgage Regulation				
1. Number of Applications Processed				
Quarter 1	7,500	2,027	2,027	27.03%
2. Number of Licensees Examined				
Quarter 1	4,800	2,225	2,225	46.35% *
Four large / mid-size mortgage examinations were completed in the 1st quarter of FY2017 which accounted for 53% of the total number of licensees examined for the period. We anticipate meeting or exceeding this goal for the fiscal year.				
3-1-1 Consumer Responsiveness				
1. Number of Consumer Compliants Completed				
Quarter 1	900	267	267	29.67%

*Varies by 5% or more from target.

4. Fiscal/Operations Activity:

a. Funding Status/Audits/Financial Reporting

Funding Status/Budget – Staff has closed out the 1st quarter of FY2017. The reports can be found elsewhere in the packet.

Audit – The annual risk assessment was performed by Garza/Gonzales. The report is included elsewhere in the packet.

The Department is currently undergoing an audit by the State Auditor's Office (SAO). Fieldwork is underway.

b. Staffing

As of February 1, the Agency was staffed at 55 regular full time employees with 61 FTEs available.

During the months of December and January, three positions were filled: an Attorney position, a Systems Analyst IV, and a Thrift Financial Examiner I.

Currently, there are no job vacancies posted.

2016 Service Awards were given to Director of Licensing & Information Resources Steven O'Shields 5 years; Director of Administration and Finance Antonia Antov 10 years; Supervisory Examiner Susanna Blevins 10 years; and Legal Secretary Cora Peck 10 years.

c. Other Items

None

5. Legal Activities:

SOAH Cases:

There have been no new SOAH decisions since the last report to the Finance Commission in December 2016.

Gift Reporting:

There have been no gifts to report since the last report to the Finance Commission in December 2016.

Litigation:

03/17/2016 Lawsuit -- NO DEVELOPMENT

Cause No. D-1-GN-16-001194; Catherine Sims v. Texas Department of Savings and Mortgage Lending, in the 201st Judicial District Court of Travis County, Texas

In this case, Ms. Sims is contesting the denial of her license, claiming the Agency's decision was not reasonably supported by substantial evidence. The Texas Attorney General's Office is representing the Agency. An Answer was filed on April 7, 2016, and the administrative record was filed on September 9, 2016.

D.

**Office of Consumer
Credit Commissioner**

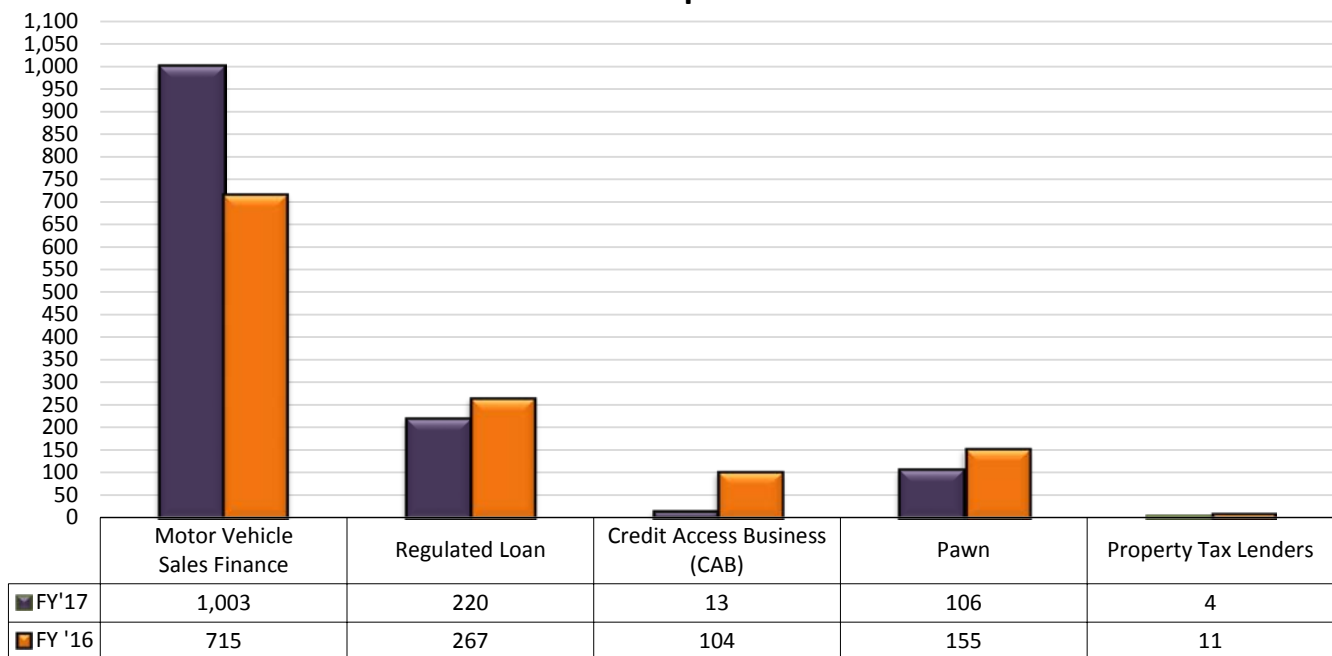


Consumer Protection and Assistance Report

Rudy Aguilar, Director of Consumer Protection

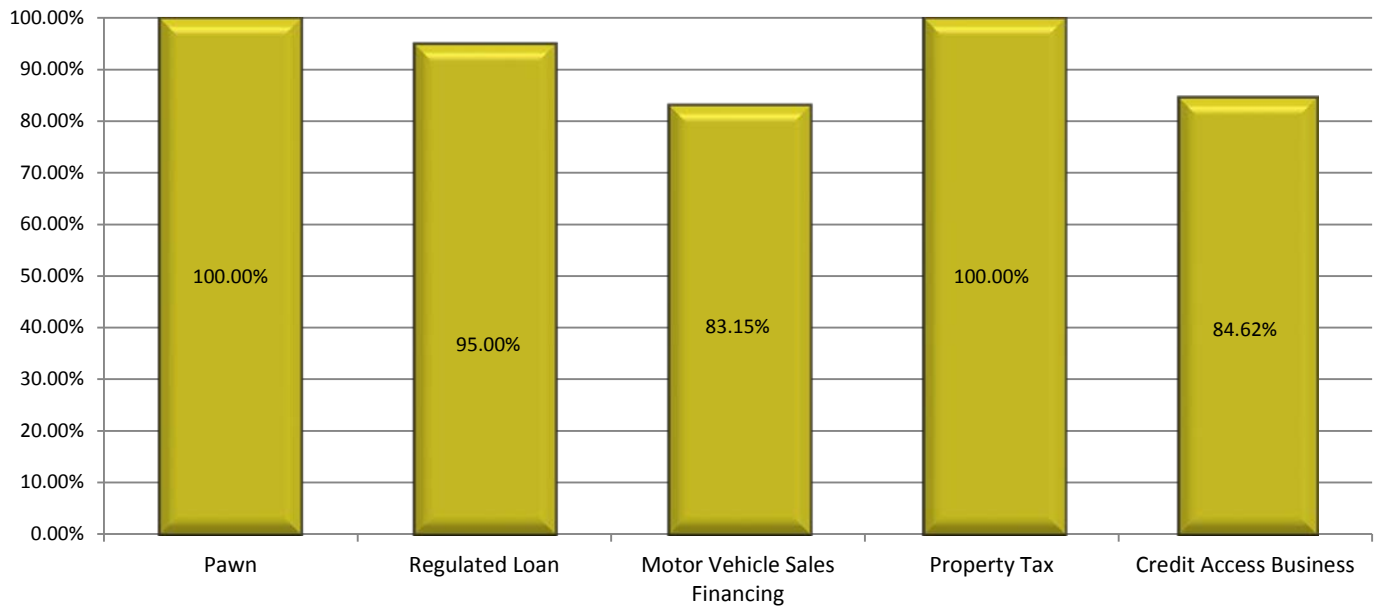
Examinations conducted Year-to-Date in Fiscal Year 2016 (FY '16) and Fiscal Year 2017 (FY '17) are compared in the chart below. For FY '17, the higher number of Motor Vehicle Sales Finance (MVSF) examinations conducted as compared to last fiscal year is due to a focused effort to prioritize follow-up examinations and the scheduling of MVSF enterprise locations early in the fiscal year. The number of examinations conducted in both the Regulated Loan and Pawn areas is comparable to the same time period for FY '16. Property Tax examinations conducted are slightly behind those completed for FY '16. The emphasis on scheduling of enterprise CAB examinations has placed a slight delay in the compiling of completed examinations due in part to the geographic location of registered offices and coordination efforts necessary for these examinations. The field work for several enterprise examinations has been completed and reports are being reviewed. These examinations will bring the lagging examination categories closer to pro rata goals. The aggregate examination completion numbers for all types of licenses is 1,346 which is within one percent of the pro rata goal.

**Examinations Conducted: Sept - Dec
Fiscal Year Comparison**

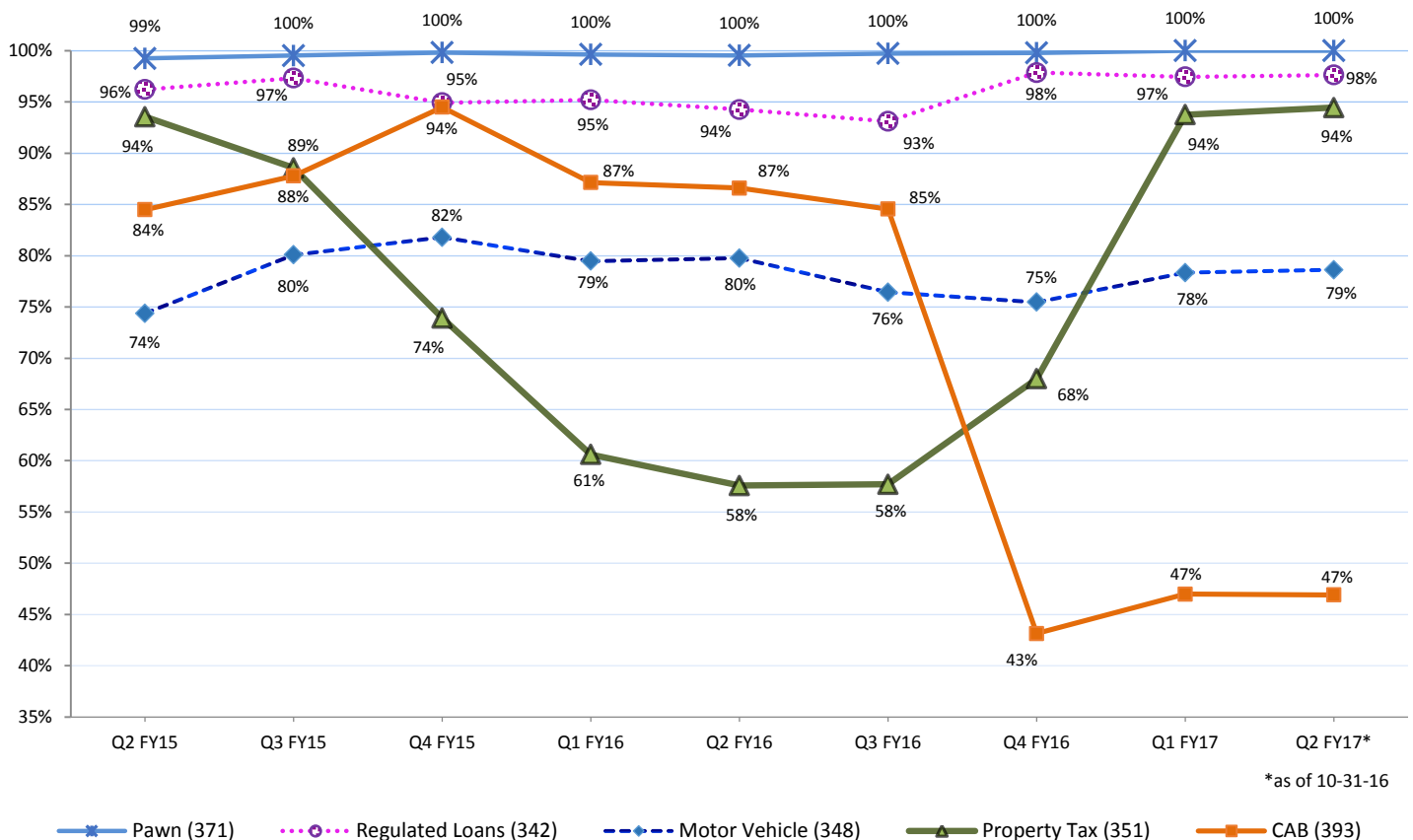


The first chart below notes the acceptable level of compliance for all five examination areas for FY '17. Thus far into the fiscal year, all examination areas are within the acceptable level of compliance. The second chart denotes the acceptable level of compliance on a trailing 12 month basis.

Acceptable Levels of Compliance FY '17 (Sept 2016 - Dec 2016)



Acceptable Compliance Levels - Trailing 12 Months (at quarter end)

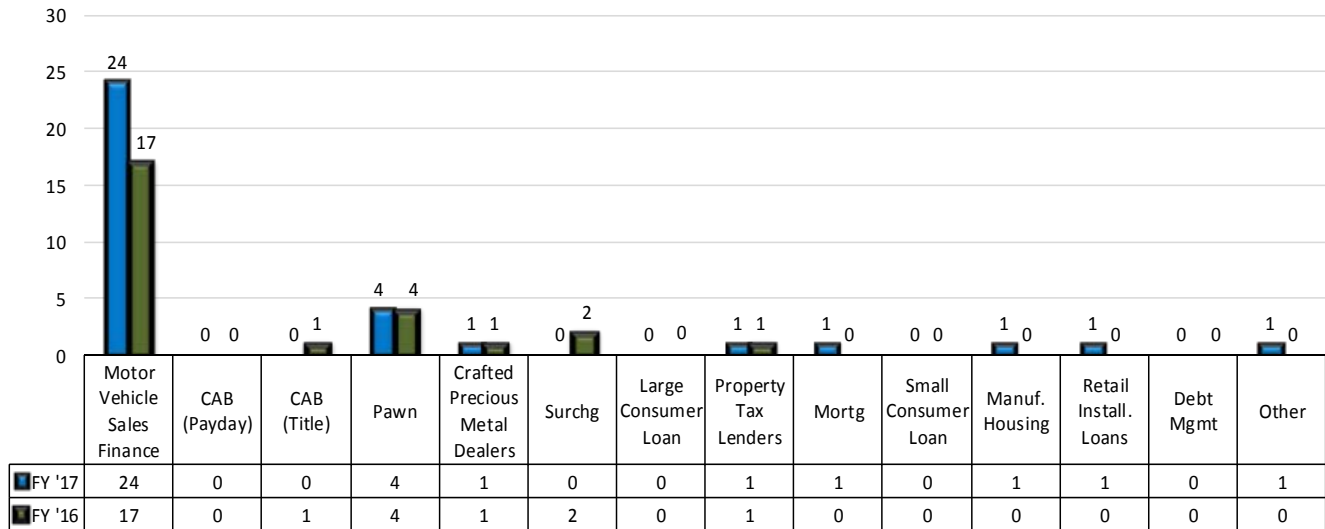


Investigations

Investigations Completed

FY '17 (Sept 2016 - Dec 2016) Total: 34

FY '16 (Sept 2015 - Dec 2015) Total: 26

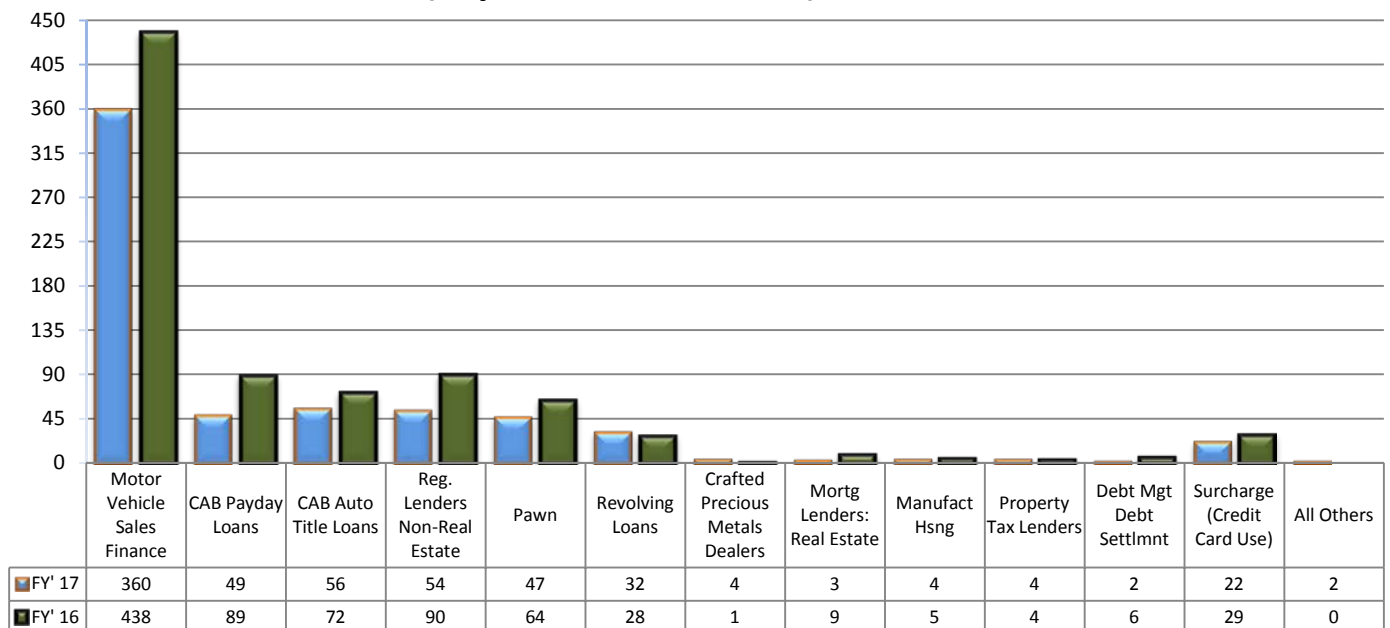


Consumer Assistance

Complaints Processed

FY '17 (Sept 2016 - Dec 2016) Total: 639

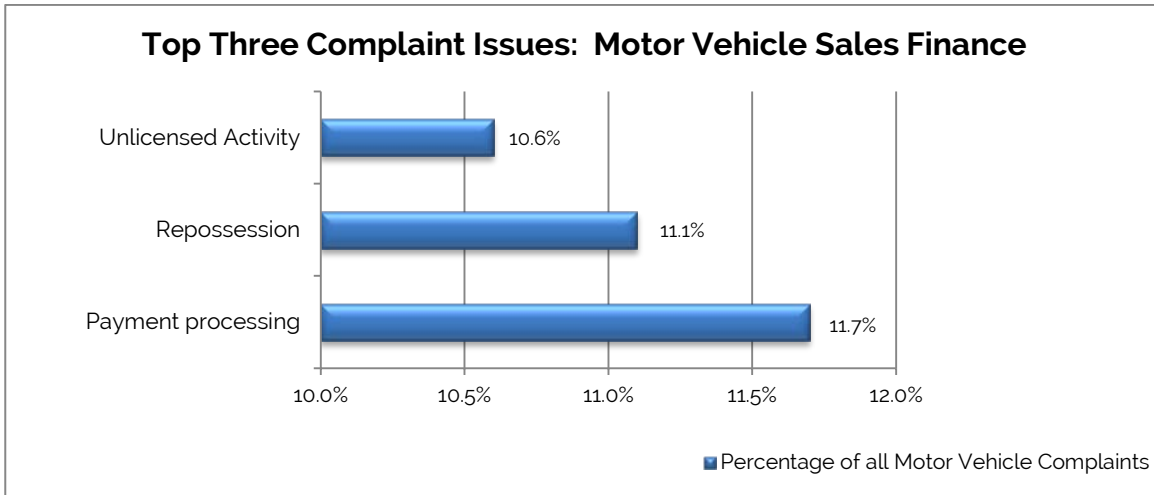
FY '16 (Sept 2015 - Dec 2015) Total: 835



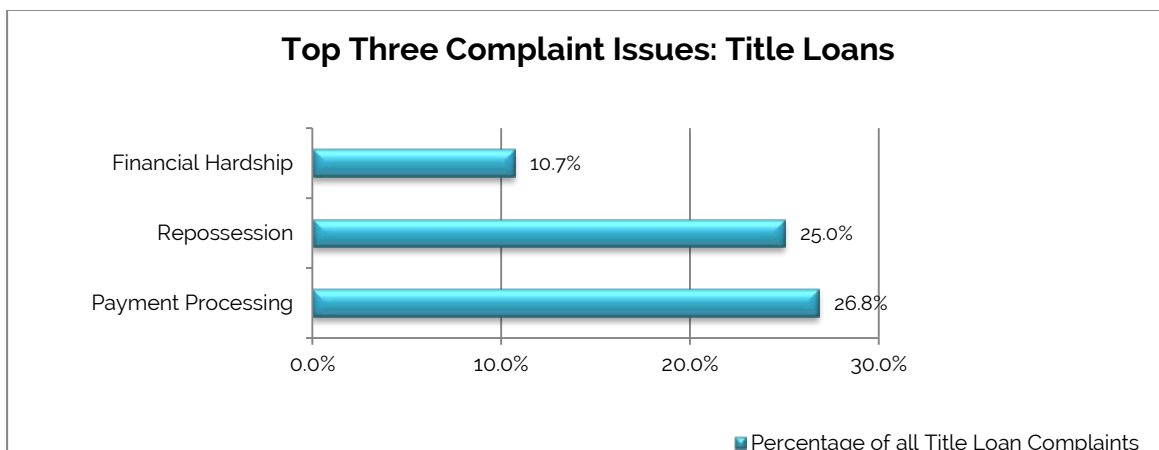
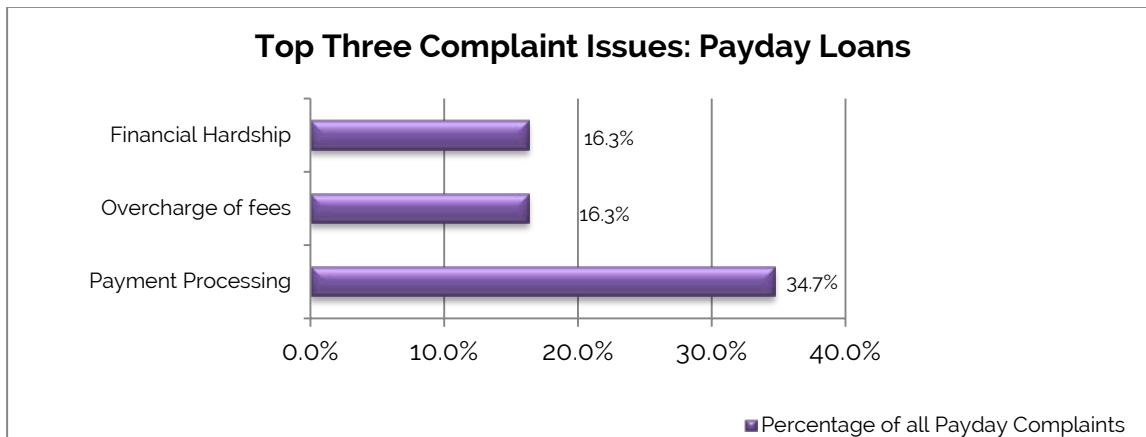
The top four areas of complaints are (1) MVSF, (2) CAB, (3) Regulated Lenders Non-Real Estate, and, (4) Pawn.

MVSF complaints were the largest complaint category at 56.3%. The top three MVSF complaint issues, unlicensed activity, repossessions, payment processing and dispute of account balances are charted below.

Payment processing includes auto drafting before due date, dispute of account balances, payment arrangements not honored, and, payment posting errors.

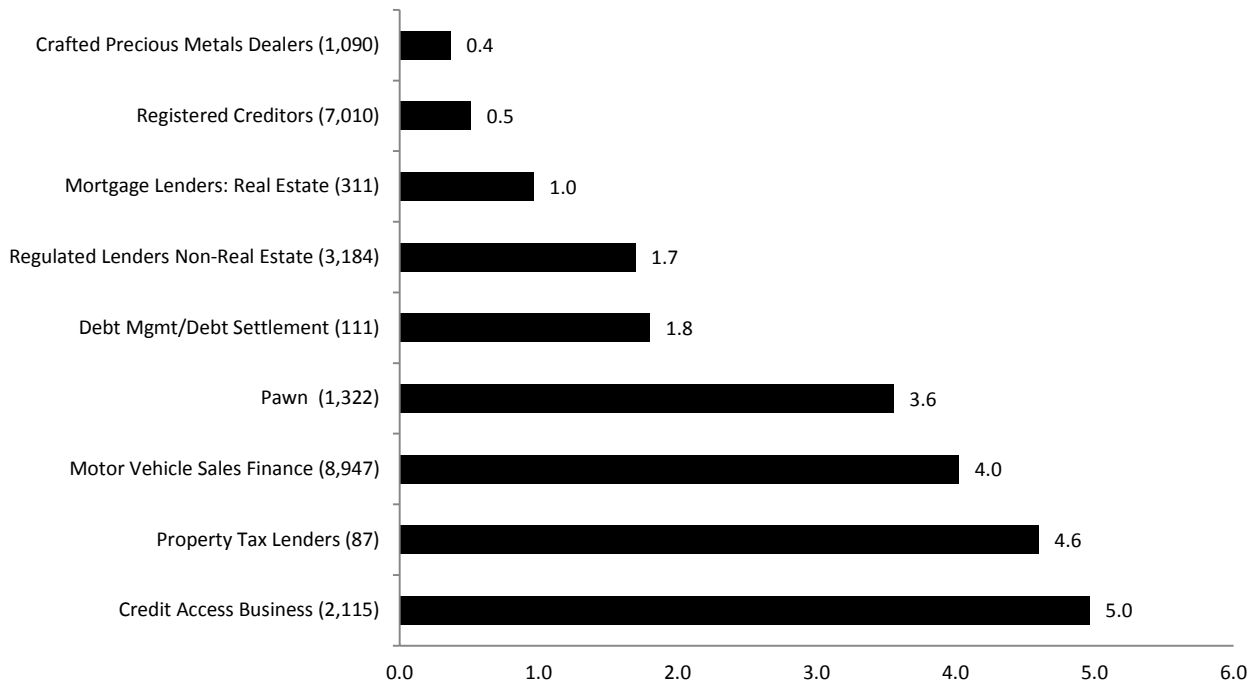


The second largest category of complaints was CAB. Collectively, CAB complaints are 16.4%; separately, these are at 7.7% for payday loans and 8.8% for title loans. The top three complaint issues are illustrated on the next two charts.



A comparison of complaints processed to the number of active license or registrant population is noted on the chart below. The highest ratio involved CAB complaints followed by Property Tax Lending complaints as the second highest. MVSF ratio of complaints to active licenses was third followed by Pawn complaints.

Ratio of Complaints Processed to Total Active License or Registrants* FY '17 (Sept 2016 -December 2016)



■ Complaints per Hundred Licenses

*License-Registrant levels as of 01-04-17

CAB Reporting Update

The 4th quarter and annual CAB submissions were due 1/31/2017. After a review of data for reasonableness, the OCCC will publish statewide and geographic (MSA) reports on our website. The ACE (Annual Report, Complaint, Examination) reporting module is now live and all industries with required reports will file through that system. The first group to use ACE is Debt Management registrants with reports due 2/1/2017. The following overview presents the upcoming due dates for all industry reports throughout the year.





Licensing Report- February 2017

Mirand Zepeda, Manager

Renewals

The renewal period for regulated lenders, credit access businesses and property tax lenders has ended and the department saw higher than expected renewal rates for some categories. Approximately 95% of credit access businesses renewed, a percentage that was substantially higher than projections. Additionally, 98% of regulated lenders and 88% of property tax lenders renewed. The department saw increased usage of licensees utilizing ALECS to complete renewal, evaluating that of those regulated lender, credit access business and property tax licenses renewed, 98% have a linked ALECS account.

Residential mortgage loan originator renewal ended on December 31st with 56% of licensees renewing through NMLS. This renewal rate reflects a higher level of attrition than projected for mortgage loan originators. Staff will be attending the upcoming NMLS conference in Austin in February.

Registration renewal for debt management service providers will end soon and annual reports that are filed in conjunction with renewal will be submitted via ALECS, marking the first annual reports submitted through the online system.

Applications Processing

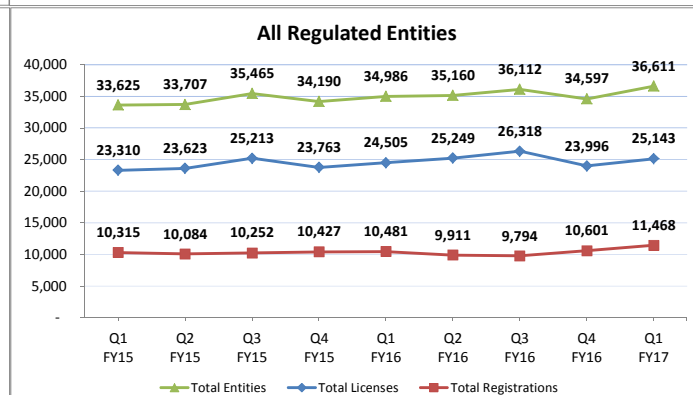
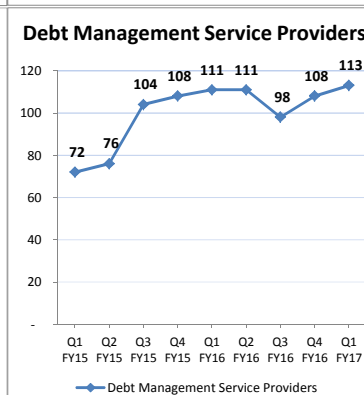
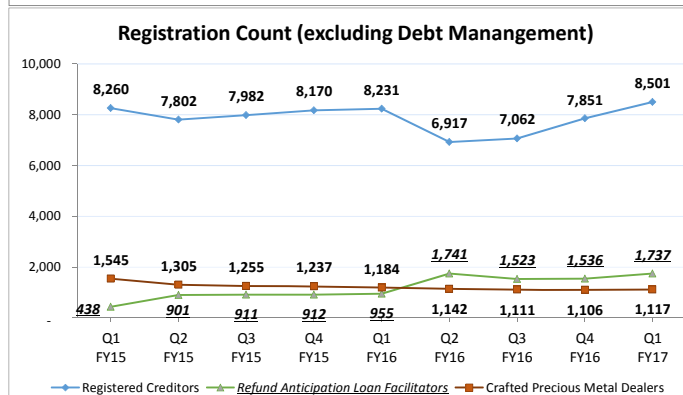
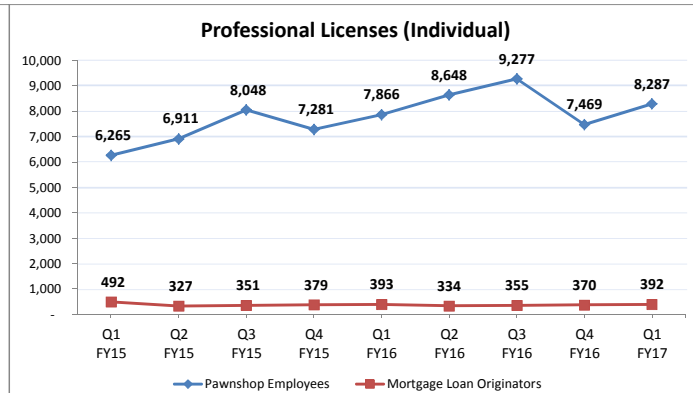
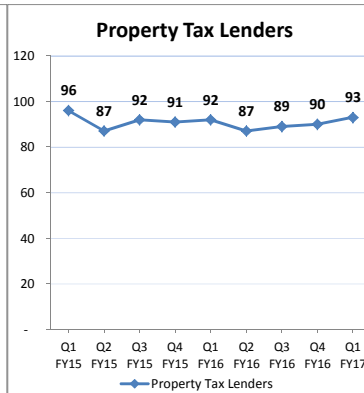
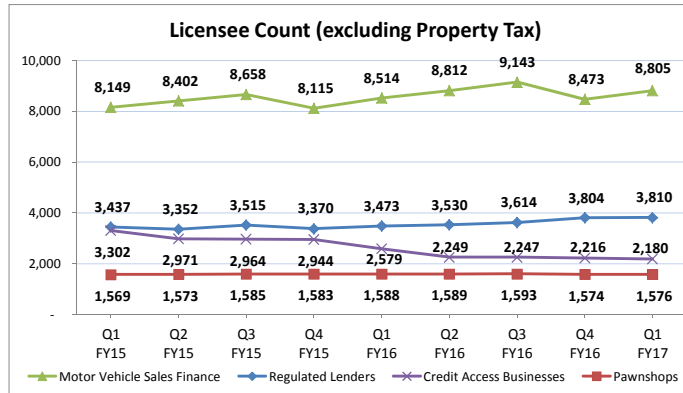
The volume of pending business applications is stable at an acceptable level below 200, which allows the department to not only continue to provide high levels of customer service for applicants, licensees and registrants, but to also tend to critical tasks of file consolidation and record retention. The department continues to monitor incoming application volume and industry trends to improve future projections.

The department recently realigned staffing responsibilities in response to the volume of pending pawn employee applications holding at approximately 300. The department faces challenges encouraging wider use of ALECS for submission of pawn employee applications, but hopes to improve and refine this communication about the benefits and efficiencies through the rest of FY 2017.

Regulated Entity Population Trends

The following charts reflect the number of OCCC regulated entities at the end of each quarter in fiscal years 2015 and 2016 to first quarter FY17 data.

Number of OCCC Regulated Entities Quarterly Comparison of FY 15 & 16 with Current Data





Communications, Human Resources & Administration Report

Juan V. Garcia, Director of Strategic Communications, Administration and Planning

The start of the 85th Texas Legislature began on Tuesday, January 10, 2017 and the Agency has begun reviewing bills filed that affect its operations. A week into the session, Lieutenant Governor Dan Patrick announced Senate committee assignments. The Agency's oversight committee in the Senate is the Business & Commerce Committee, chaired by Senator Kelly Hancock. The House of Representatives had not made any committee announcements at the time this report was submitted. The House Investments and Financial Services Committee is the House oversight committee. Although the Legislature has not set any hearings at this time for the agency's respective committees, the OCCC has begun briefing selected staff on the agency's issue areas.

The agency continues to focus on stakeholder outreach and communication through various channels. During the first quarter of the fiscal year, the Agency made nine live presentations. For this reporting period from December 2016 through January 2017, an additional three live presentations were completed. As with previous presentations, the focus relates to compliance matters and the regulatory role and responsibilities of the agency.

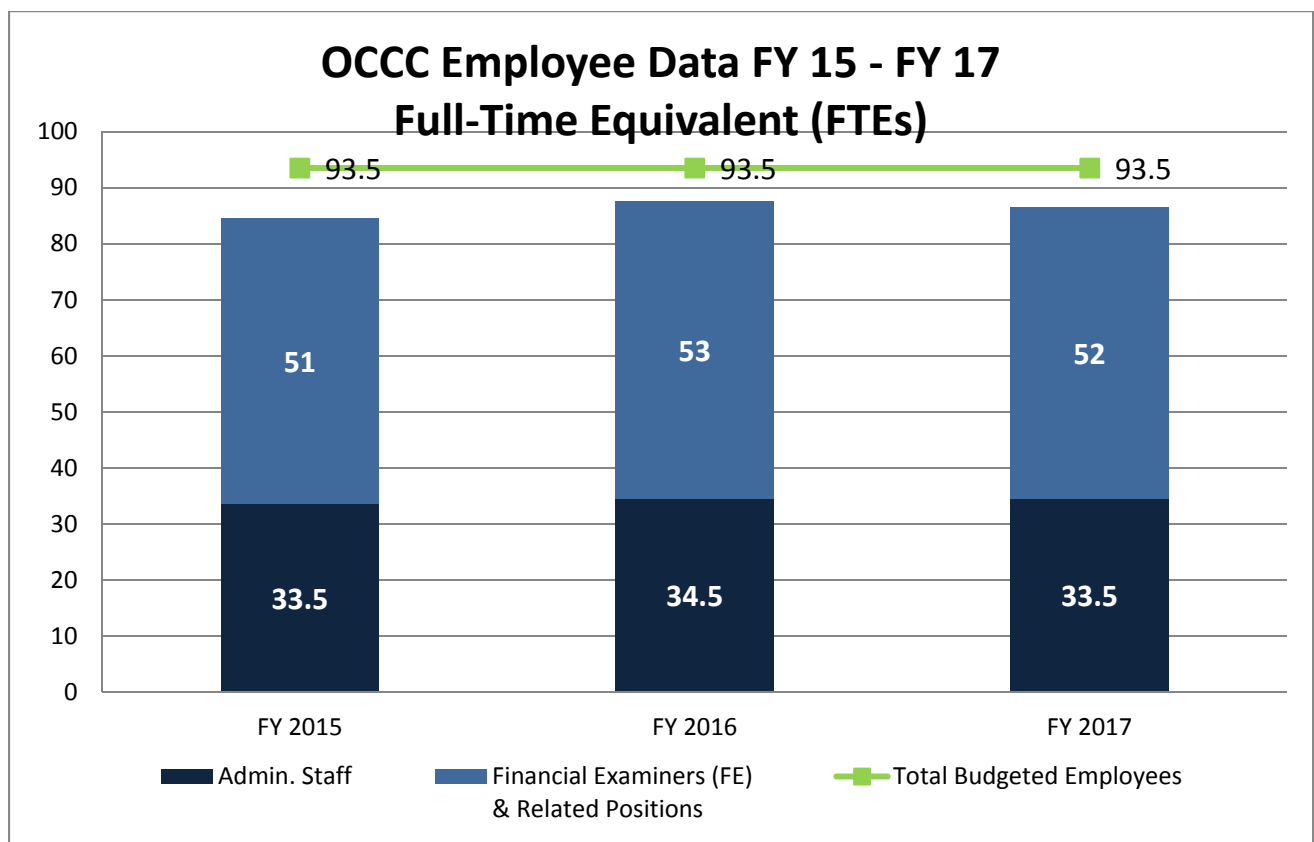
William Purce, Senior Review Examiner, Austin, presented to dealers at the Manufactured Housing Division of the Texas Department of Housing and Consumer Affairs on January 10 in Austin. Huffman Lewis, Financial Examiner, contributed at the Auto Auction Software Seminar held on January 13 in Houston. Additionally, Huffman participated at the Dealer Training for the Texas Department of Motor Vehicles on January 18 in San Antonio.

Human Resources

In this reporting period (December and January), there are six openings: Financial Examiner I (Houston Region), (2) Financial Examiner I (Dallas Region-Fort Worth), (2) Financial Examiner I (San Antonio Region-EL Paso) and (1) Accountant III in Austin. These positions are currently pending on whether to proceed with any further action. The Agency had previously reported the Accountant IV position vacant. This position filled on December 6, 2016.

One employee voluntarily separated from the agency (Financial Examiner II – San Antonio Region) on 12/2/2016. The FY 2017 turnover ratio is currently 2.31%, all within the Financial Examiner series. As of January 31, 2017, the agency has 86.5 FTEs.

FY 17 Vacancies	
Vacancy	Status
Financial Examiner I – Houston	Pending
Financial Examiner I - Dallas-2 positions	Pending
Financial Examiner I – San Antonio-2 positions	Pending
Accountant III - Austin	Pending

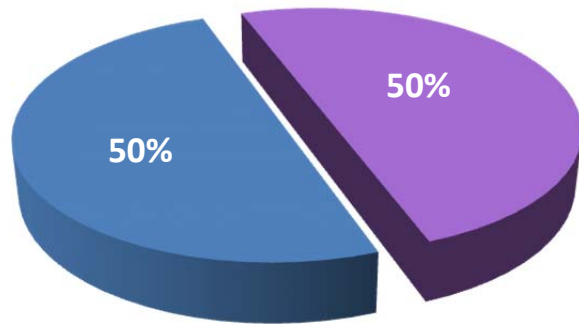


During this same period (December-January), the Agency promoted three individuals. Two Financial Examiners II (Kathy Kline & Chris Buentello) met all requirements and successfully completed their final testing phase and promoted to Financial Examiner III. In addition, Kimberly Billeaud, Legal Assistant III, was promoted to a Legal Assistant IV.

**OCCC Turnover Categories
FY 17- All Employees**

(09/01/16- 1/31/17)

2 total - 1 Dismissal and 1 Voluntary Resignation

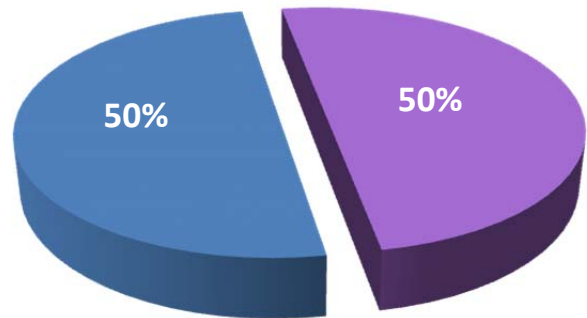


■ Dismissal ■ Voluntary Resignation

**OCCC Turnover Categories
FY 17-Financial Examiners**

(09/01/16-01/31/17)

2 total - 1 Dismissal and 1 Voluntary Resignation



■ Dismissal ■ Voluntary Resignation

Financial Literacy

To date, Consumer Education staff has provided financial education to 61 Texas consumers for FY 2017.

Within the last quarter, the agency has actively sought out speaking opportunities within groups who would benefit from financial education. The department will continue to focus on identifying creative partnerships to reach all individuals in need of financial education.



Accounting & IT Reports

Accounting

The accounting department completed the Annual Non-Financial Report for FY 16. The department also completed W-2's and 1099s that were delivered by the January 31st due date. Accounting is also working on implementing SAO recommendations, as well as addressing various issues that need to be completed within deadlines.

Information Technology

LEGACY MODERNIZATION

The ALECS Complaint, Investigation, and Annual Report modules have been moved into production. Regulated Lenders, Property Tax Lenders and Debt Management & Settlement Providers are now filing 2016 annual reports online through ALECS. Pawnshop filing begins later in the year. Credit Access Businesses will complete the remainder of their 2016 reports in the CAB Reporting database and begin to submit their fiscal reports through ALECS starting with 2017 first quarter reports.

User Acceptance Training continues on the Exam/Exam Scheduling and Legal modules. During requirements gathering a critical component needed to build the scheduling risk assessment tool was not fully considered, which combined with the complexity of the scheduling and exam process has introduced a slight delay to testing. Staff expects to release these modules into production mid-February.

SECURITY

OCCC continues to work toward finalizing a two year roadmap detailing specific improvements to the agency's security posture in accordance with NIST and TAC 202 standards. The agency is currently evaluating an endpoint security suite to enhance the ability to defend against and recover from ransomware and 0 day exploits.

OFFICE OF CONSUMER CREDIT COMMISSIONER

EXECUTIVE SUMMARY

As of November 30, 2016

	FY 2015	FY 2016	FISCAL YEAR 2017				
			1st QTR	2nd QTR	3rd QTR	4th QTR	FYTD
CONSUMER PROTECTION							
Monies Returned to Consumers (000)	8,315	13,657	1,450				1,450
Regulated Lenders Examinations	1,065	891	145				145
Property Tax Lender Examinations	23	25	1				1
Pawnshop Examinations	533	484	74				74
Motor Vehicle Examinations	1,565	2,181	682				682
Credit Access Businesses Examinations	816	707	9				9
CONSUMER ASSISTANCE							
Telephone Complaints Received	1,186	1,177	240				240
Written Complaints Received	1,000	878	244				244
Total Complaints Processed	2,131	2,160	471				471
% of Written Complaints Closed within 90 Calendar Days	82.47%	94.46%	91.45%				
ADMINISTRATIVE ENFORCEMENT ACTIONS							
Originated	472	410	71				71
Finalized	390	459	77				77
LICENSING AND REGISTRATION							
Licenses							
Regulated Loan Licenses	3,370	3,804	3,810				3,810
Pawnshop Licenses	1,583	1,574	1,576				1,576
Pawnshop Employee Licenses	7,281	7,469	8,287				8,287
Commercial MV Sales Fin. Licenses	19	29	33				33
Motor Vehicle Sales Finance Licenses	8,096	8,444	8,772				8,772
Property Tax Loan Licenses	91	90	93				93
NMLS-Mortgage Loan Originators	379	370	392				392
Credit Access Business Licenses	2,944	2,216	2,180				2,180
Registrations							
Registered Creditors	8,170	7,851	8,501				8,501
Crafted Precious Metal Dealers	1,237	1,106	1,117				1,117
Debt Management Service Providers	108	108	113				113
Refund Anticipation Loan Facilitators	912	1,536	1,737				1,737
Applications							
Business -- New	1,832	1,642	377				377
Business -- Change of Ownership	624	259	49				49
Pawnshop Employees -- New	3,010	3,253	945				945
HUMAN RESOURCES DATA							
Field Examiners Staffing	43	45	42				
Total Staffing	86	86.5	86.5				

OCCC Actual Performance for Output/Efficiency Measures Fiscal Year 2017

For Period Ending November 30, 2016

		2017	2017	2017	Percent of Annual Target
Type/Strategy/Measure		Target	Quarter	YTD	
Output Measures-Key					
1-1-1	COMPLAINT RESOLUTION				
	1. # COMPLAINTS CLOSED				
	Quarter 1	2,100	471	471	22.43%
	2. # INVESTIGATIONS CLOSED				
	Quarter 1	87	22	22	25.29%
2-1-1	EXAMINATION AND ENFORCEMENT				
	1. # COMPLIANCE EXAMINATIONS PERFORMED				
	Quarter 1	4,087	911	911	22.29%
2-2-1	LICENSING				
	1. # BUSINESS APPLICATIONS PROCESSED				
	Quarter 1	1,500	377	377	25.13%
	2. # INDIVIDUAL LICENSES PROCESSED				
	Quarter 1	2,750	945	945	34.36%
	The licensing department received more pawn employee applications in Q1, which led to more applications being processed. Staffing adjustments and volume of incoming applications could cause this number to even out in Qs 2, 3 and 4.				
3-1-1	# CONSUMERS RECEIVING FINANCIAL EDUCATION				
	Quarter 1	325		61	18.77%
	Attendance at the 5 financial education workshops conducted in Q1 was lower than anticipated. The financial education department attempts to recruit groups of 20 or more; however the agency is committed to providing resources to all organizations regardless of their program size. The department is actively seeking new collaborations to increase the quantity of workshops or presentations.				



Legal Department Report

Michael Rigby, General Counsel

February 2017

Enforcement Report

Credit Access Business – Reporting Violations

The OCCC has seen a moderate decline in the number of credit access business reporting violations over the last two years. Each quarter, the legal department brings enforcement actions against credit access businesses that do not submit timely and accurate quarterly and annual reports. Credit access businesses were required to file 2016 4th quarter and annual reports with the OCCC by January 31, 2017. For 2014 reporting violations, the OCCC brought an average of 31.25 enforcement actions each quarter. For 2015 reporting violations, the quarterly average was 28.0 enforcement actions. For 2016 reporting violations, the quarterly average was 19.75 enforcement actions, representing a decrease of 36.8% from 2014.

Performance Report

The following table summarizes enforcement actions closed by the OCCC during the last three fiscal years, and the current fiscal year-to-date as of January 31, 2017. These figures reflect enforcement actions that have been fully resolved by formal order, informal resolution, or dismissal. Actions that are still pending are not included in the table.

Enforcement Actions Closed as of January 31, 2017				
	FYTD 2017	FY 2016	FY 2015	FY 2014
Revocation / Suspension Actions				
Regulated Loan License	1	1	27	10
Pawnshop License	1	3	2	1
Pawnshop Employee License	1	2	2	1
Credit Access Business	1	2	1	4
Motor Vehicle Sales Finance License	2	9	4	4
Property Tax Loan License	0	0	0	4
Crafted Precious Metal Dealer	0	0	2	0
Total Revocation / Suspension Actions	6	17	38	24
Injunction Actions				
Regulated Loan License	3	88	1	0

Pawnshop License	14	1	0	0
Pawnshop Employee License	0	0	0	0
Credit Access Business License	31	25	1	4
Motor Vehicle Sales Finance License	10	18	12	8
Property Tax Loan License	0	16	1	2
Crafted Precious Metal Dealer	0	0	3	0
Registered Creditor (Ch. 345)	0	1	0	0
Manufactured Housing (Ch.347)	0	0	0	0
Debt Management Services (Ch.394)	0	1	6	1
Credit Card Surcharge (Ch. 339)	0	7	1	0
Residential Mortgage Loan Originator	0	0	0	2
Total Injunction Actions	58	157	25	17
Administrative Penalty Actions				
Regulated Loan License	0	0	73	121
Pawnshop License	3	40	4	6
Pawnshop Employee License	0	1	4	8
Credit Access Business License	8	97	136	56
Motor Vehicle Sales Finance License	41	129	76	88
Property Tax Loan License	0	3	8	18
Crafted Precious Metal Dealer	0	2	0	1
Total Administrative Penalty Actions	52	272	301	298
Application Denial and Protest Actions				
Regulated Loan License	0	0	0	0
Pawnshop License	0	1	0	0
Pawnshop Employee License	0	7	13	2
Credit Access Business License	0	0	2	0
Motor Vehicle Sales Finance License	1	3	8	0
Property Tax Loan License	0	0	0	0
Residential Mortgage Loan Originator	0	0	1	0
Total App. Denial and Protest Actions	1	11	24	2
Total Enforcement Actions Closed	117	457	388	341

From December 1, 2016 to January 31, 2017, the OCCC:

- issued 35 final orders,
- opened 18 cases in order to assess administrative penalties,
- opened 10 cases in order to issue administrative injunctions,
- issued no assurances of voluntary compliance,
- participated in one contested case hearing, and
- dismissed no contested case hearings.

The OCCC has one hearing scheduled between February 1, 2017 and March 31, 2017.

Litigation

Rowell v. Pettijohn

This case is a challenge to the constitutionality of the credit card surcharge prohibition in Section 339.001 of the Texas Finance Code. The plaintiffs appealed the case to the U.S. Supreme Court on May 31, 2016. The plaintiffs argue that the credit card surcharge prohibition is an unconstitutional violation of free speech and that it is void for vagueness, under the First and Fourteenth Amendments to the U.S. Constitution. The Fifth Circuit Court of Appeals ruled in the OCCC's favor, holding that the law is a price regulation rather than a speech regulation, and that it is not void for vagueness. *Rowell v. Pettijohn*, 816 F.3d 73 (5th Cir. Mar. 2, 2016). This decision affirmed the district court's ruling, which granted the OCCC's motion to dismiss the lawsuit. *Rowell v. Pettijohn*, No. 1:14-cv-00190-LY, 2015 WL 10818660, 2015 U.S. Dist. LEXIS 40739 (W.D. Tex. Feb. 4, 2015).

The U.S. Supreme Court is currently holding the *Rowell* case, but it has agreed to hear a related case challenging New York's credit card surcharge law: *Expressions Hair Design v. Schneiderman*, case no. 15-1391. In that case, the Second Circuit upheld New York's credit card surcharge law. *Expressions Hair Design v. Schneiderman*, 808 F.3d 118 (2d Cir. 2015), reversing 975 F. Supp. 2d 430 (S.D.N.Y. 2013). The parties have filed their briefs in the *Expressions* case, and the Supreme Court heard oral argument on January 10, 2017. At the oral argument, the U.S. Solicitor General argued in support of neither party, stating that the *Expressions* case should be remanded to the court of appeals to clarify the meaning of New York's credit card surcharge law. The OCCC expects that the Supreme Court will hold *Rowell* until it decides *Expressions*.

In addition to *Rowell* and *Expressions*, similar cases have been filed in two other states:

- The Eleventh Circuit struck down Florida's credit card surcharge law. *Dana's R.R. Supply v. Att'y Gen.*, 807 F.3d 1235 (11th Cir. 2015), reversing no. 4:14-cv-00134-RH-CAS (N.D. Fla. Sept. 2, 2014). The State of Florida appealed the case to the U.S. Supreme Court on June 6, 2016.
- A federal district court struck down California's credit card surcharge law. *Italian Colors Rest. v. Harris*, 99 F. Supp. 3d 1199 (E.D. Cal. 2015). The State of California has appealed this case to the Ninth Circuit, and the parties have filed their briefs on appeal.

The full style of the *Rowell* case is *Lynn Rowell d/b/a Beaumont Greenery, MPC Data and Communications, Inc., Micah Cooksey, NXT Properties, Inc., Mark Harken, Montgomery Chandler, Inc., Paula Cook, Townsley Designs, LLC, and Shonda Townsley v. Leslie L. Pettijohn, in her official capacity as Commissioner of the Office of Consumer Credit Commissioner of the State of Texas*. The U.S. Supreme Court's case number is 15-1455, the Fifth Circuit's case number is 15-50168, and the district court's case number is 1:14-cv-00190-LY. The OCCC is being represented by three divisions of the Office of the Attorney General: the Office of Solicitor General; the General Litigation Division; and the Financial Litigation, Tax, and Charitable Trusts Division.

Huntco Pawn Holdings, LLC v. U.S. Department of Defense

Huntco Pawn Holdings and the National Pawnbrokers Association have sued the U.S. Department of Defense (DOD), to stop DOD's enforcement of its recently amended Military Lending Act Rule against pawnshops. The plaintiffs filed their original complaint on July 12, 2016. In their complaint, the plaintiffs argue that when DOD adopted the rule, it did not comply with the federal Administrative Procedure Act and the Regulatory Flexibility Act. The district court ruled in DOD's favor, dismissing the lawsuit on October 12, 2016. The plaintiffs appealed the case to the D.C. Circuit Court of Appeals on October 21. The case is currently pending in the D.C. Circuit with case number 16-5304. The plaintiffs' brief is due on February 22, and DOD's brief is due on March 24.

PHH Corporation v. Consumer Financial Protection Bureau

This case is an appeal of a penalty assessed by the federal Consumer Financial Protection Bureau (CFPB) against PHH Corporation for violating the Real Estate Settlement Procedures Act (RESPA). On October 11, 2016, the D.C. Circuit Court of Appeals invalidated the CFPB's order, holding that the alleged actions took place outside the applicable statute of limitations, and that the CFPB violated due process requirements by reversing a previous interpretation of the U.S. Department of Housing and Urban Development. *PHH Corp. v. Consumer Fin. Prot. Bureau*, 839 F.3d 1 (D.C. Cir. 2016). The court also invalidated the provision of federal law stating that the CFPB director may be removed only "for cause." According to the court, this provision deprives the President of removal authority in violation of Article II of the U.S. Constitution. The court held that the CFPB director serves at the will of the President. The court explained that this remedy "will not affect the ongoing operations of the CFPB."

On November 18, 2016, the CFPB filed a petition for rehearing en banc with the D.C. Circuit (that is, a request for all the judges on the D.C. Circuit to rehear the case). PHH filed a response on December 22 and a supplemental response on January 27. The case is currently pending in the D.C. Circuit with case number 15-1177.

Advisory Bulletins

From December 1, 2016 to January 31, 2017, the OCCC did not issue any new advisory bulletins. On January 5, the OCCC revised Bulletin No. 16-6, which summarizes requirements of the Department of Defense's Military Lending Act Rule for pawnshops. The OCCC revised the bulletin to provide an updated reference to amended recordkeeping requirements that went into effect on January 1.

Interpretation Requests

From December 1, 2016 to January 31, 2017, the OCCC did not receive any requests for official interpretations. There were no pending interpretation requests as of January 31, 2017.

Public Information Requests

From December 1, 2016 to January 31, 2017, the OCCC received 27 requests for information under the Texas Public Information Act, with no referrals to the Office of the Attorney General.

Gifts Received by the OCCC

From December 1, 2016 to January 31, 2017, the OCCC did not receive any gifts.

OCCC Rule Schedule

February 17, 2017

Rule Item/Purpose	Proposal Date	Adoption Date
<p>Property Tax Lenders - Rule Review 7 TAC, Part 5, Chapter 89</p> <p>To conduct standard 4-year review under Tex. Gov't Code, §2001.039; to update rules for property tax lenders with conforming and clarifying changes recently adopted in other regulated areas; to provide clarification; and to make technical corrections</p>	06/16/17	