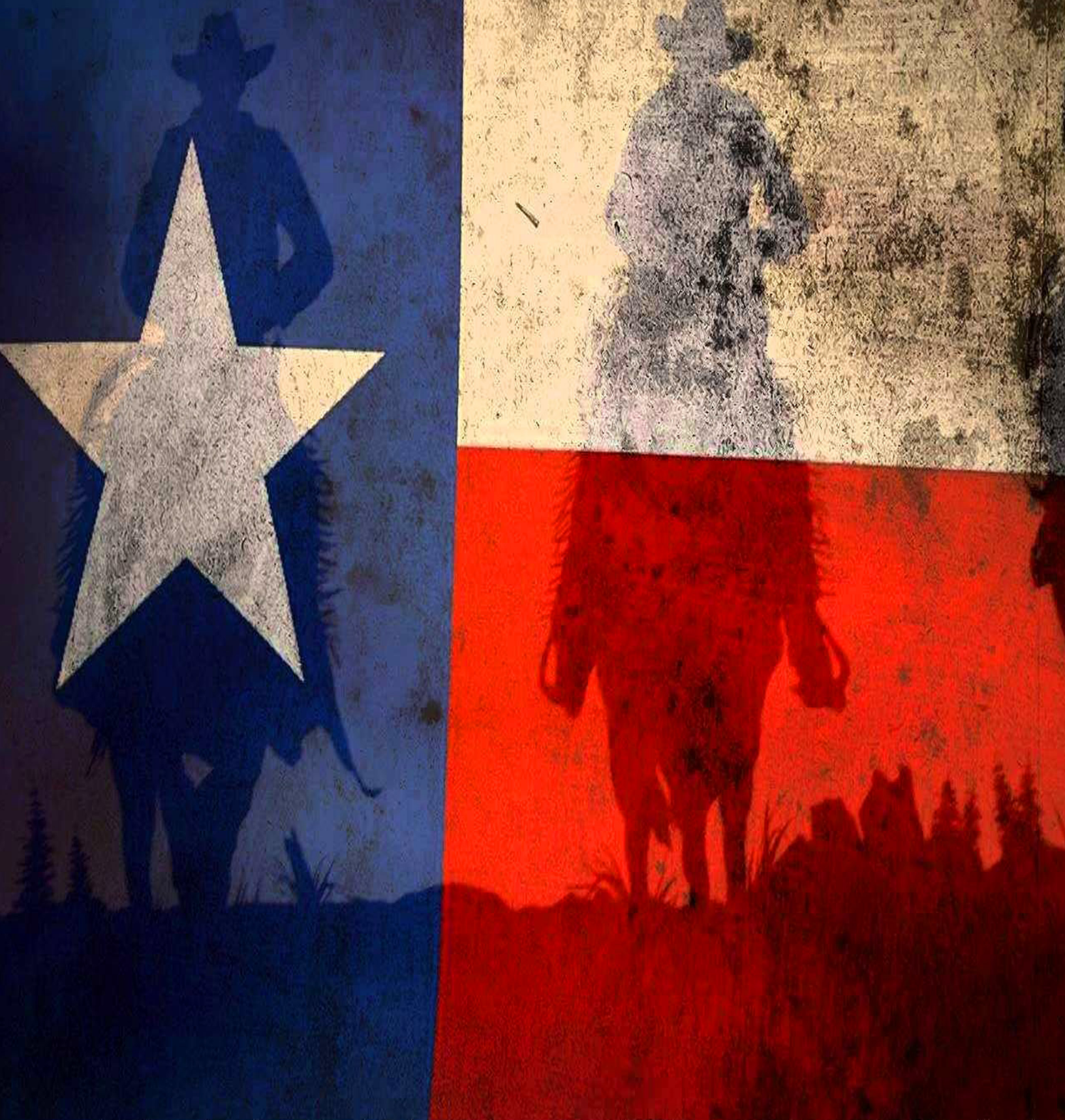

Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner

October 2018



Commissioner's Comments



"New vulnerabilities are discovered daily, making it more important than ever to be alert against potential cybersecurity risks."

October is National Cybersecurity Awareness Month, an occasion we use each year to raise awareness regarding the importance of cybersecurity and the need for our Texas financial institutions to remain vigilant in securing critical infrastructure and customer data.

Cybersecurity is everyone's responsibility. No one group (private or government) can address this threat alone. It requires everyone working together, sharing information and best practices. At the Texas Department of Banking, we are attempting to do our part. We have 11 IT Specialists dedicated to evaluating cyber and IT risks. We recently entered into an agreement with the Conference of State Bank Supervisors (CSBS) that will result in our financial examiners receiving extensive cybersecurity training by the end of 2019. We believe that this training will be of significant benefit to all our institutions and licensees.

Cybersecurity is a never-ending battle. New vulnerabilities are discovered daily, making it more important than ever to be alert against potential cyber risks. I urge all our financial institutions and licensees to continue to focus your attention on this issue to guard against being the next victim of a cyberattack. The costs are simply too high to do otherwise.

Regulatory Relief

On the regulatory burden front, the most significant piece of legislation since the passage of Dodd-Frank was signed into law this May – the Economic Growth, Regulatory Relief and Con-

sumer Protection Act (SB 2155). It has been stated that this bill has something in it for everyone. State bank regulators, through CSBS, supported the bill. We also realize that much more common-sense regulatory relief legislation needs to be passed. An article with further details on SB 2155 is included within this report.

Federal regulators have already started rolling out plans to provide regulatory relief, including proposals to exempt certain institutions from heightened stress test requirements, lifting the threshold for banks designated as "systemically important," and reducing some of the reporting requirements under the Home Mortgage Disclosure Act. State banking regulators through CSBS will be doing our part.

The Department

Longtime Deputy Commissioner Robert "Bob" Bacon retired on August 31. The rarest of individuals – Bob served the Department of Banking in numerous capacities for a remarkable 36 years. There are many fond memories we will cherish. Bob helped establish and perpetuate our "Tough but Fair" philosophy, and Texas is a better place due to Bob's service.

We hope you enjoy the latest edition of the Texas Bank Report.

Charles G. Cooper
Banking Commissioner



SATURDAY NIGHT LIVE

Longtime Deputy Commissioner Bacon Retires

by Gordon Anderson

The film *Jaws* was released in 1975, setting the standard for Hollywood summer blockbusters for years to come. That same year *Saturday Night Live* first appeared on NBC (George Carlin was the first host), while Jimmy Hoffa just disappeared.

And in 1975, Robert L. “Bob” Bacon first joined the Texas Department of Banking. My, how time flies.

Bacon’s tenure at the Department ended August 31, his last day before retiring, completing a 36-year career which saw him rise through the ranks ultimately to become Deputy Commissioner in 2006.

Bacon joined the Department as an examiner in 1975 but left in 1981 to become the president of a local community bank. After rejoining the Department in 1988, he quickly established himself as one of the leading bank examiners in the regulatory field. He continued to advance through the state regulatory system over the next several years, eventually serving as Director of Strategic Support for the Department and later as Director of Bank and Trust Supervision.

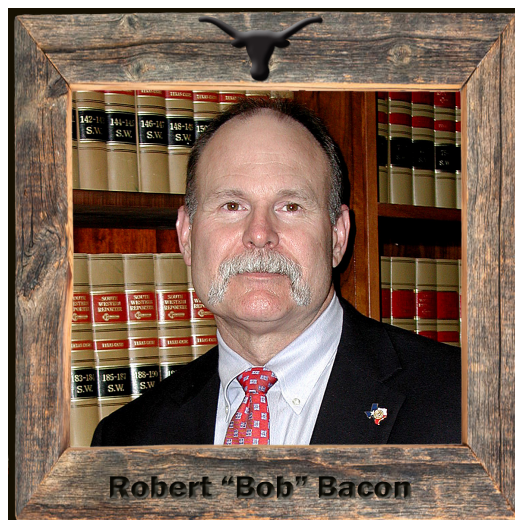
As Deputy Commissioner, Bacon was primarily responsible for overseeing the regulation and supervision of Texas state-chartered banks (\$257.8 billion in assets), trust companies (\$104.1 billion in fiduciary assets), foreign bank agencies and representative offices of foreign bank agencies (\$66.3 billion in assets), and data processing centers.

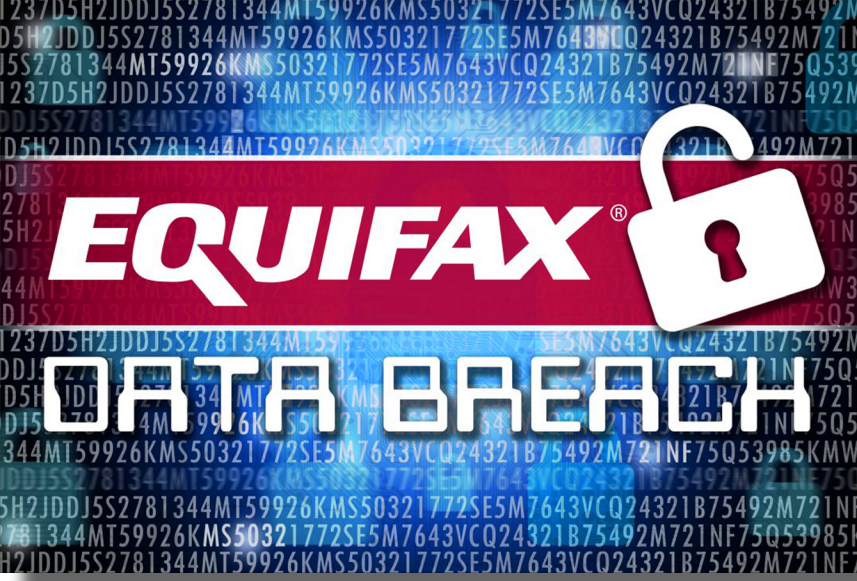
Bacon, a native of Austin, graduated from The University of Texas at Austin in 1975 with a Bachelor of Business Administration in Finance. He is a 2004 graduate (Class XXII) of

the Texas Governor’s Executive Development Program and served on numerous committees for the Conference of State Bank Supervisors (CSBS).

“For nearly four decades, Bob Bacon played a key role in cultivating the Department’s national reputation as a fair and innovative banking regulatory agency,” noted Commissioner Charles G. Cooper. “His unwavering dedication to excellence and strong leadership skills are only two of the many reasons he has been such a valuable member of our executive team. We wish him a long and happy retirement.”

Talk about a blockbuster. Bacon will be a very hard act to follow.





"Because federal banking regulators seemed unwilling or unable to follow up on this massive data breach..."

States Respond to the Equifax Data Breach

by Everette Jobe

Equifax Inc., one of the country's three major credit reporting agencies, disclosed on September 7, 2017, that criminal hackers exploited an unpatched, U.S. website application vulnerability in May 2017 to gain access to the personal information of an estimated 146 million U.S. consumers. Data accessed through this cybercrime event included individual customer names, Social Security numbers, birth dates, addresses, and related personally identifiable information.

Because federal banking regulators seemed unwilling or unable to follow up on this massive data breach, Commissioner Charles G. Cooper, working through the Conference of State Bank Supervisors, solicited other states to participate in an examination of Equifax as a third-party service provider to banks. As a result, an examination team composed of state financial regulators from Alabama, California, Georgia, Maine, Massachusetts, New York, North Carolina, and Texas commenced a multi-state examination of the company in November 2017 to evaluate

the company's information security and cybersecurity controls. Phillip Hinkle, the Department's Director of IT Security Examinations, served as the lead examiner.

As a result of the examination, the Equifax Board of Directors signed a Consent Order (Order) issued by the participating states on June 27, 2018.



"After the breach was announced, my state counterparts and I believed strongly that a targeted regulatory response was required," Commissioner Cooper said in a press release. "This demonstrates the flexibility and responsiveness of the state financial regulatory system as a viable regulatory structure. The examination team focused on Equifax's ability to protect customer data responsibly rather than on monetary fines. My thanks to all the state regulators that participated in this action."

The order subjects Equifax to periodic reporting to the multi-state regulatory agencies regarding remediation efforts. Subsequent on-site regulatory reviews are planned to validate actions reported by the company.

Although the Order did not include any financial penalties, it does require Equifax to remediate the deficiencies and unsafe practices that contributed to the breach. A copy of the Order is available on the Department's [website](#).

Sunset Review Process

by Wendy Rodriguez



The Department began the Sunset review process in fiscal year 2018. But what exactly does that mean?

Sunset is the regular assessment (typically every 12 years) of the continuing need for a state agency or program to exist. Standard legislative oversight is concerned with agency compliance with legislative policies. However, Sunset is more concerned with the basic question: Does the agency's functions continue to be needed?

The Sunset process works by setting an automatic termination date on which an agency will be abolished unless a bill is passed to continue it. Sunset for the Department of Banking is September 2019.

Sunset Process and Timeline

September 2017	Agency submits Self-Evaluation Report (SER) to the Sunset Advisory Commission staff to review.
October 2017 to April 2018	Sunset staff conducts their on-site evaluation and analysis of the agency to evaluate the need for, performance of, and improvements to the agency under review.
April 2018	The Sunset Staff Report issues a report of their review. The Sunset Advisory Commission Staff Report on a typical agency must include a recommendation to abolish or continue the agency. Beyond continuation, Sunset reviews also focus on identifying areas of weakness in an agency's operations and recommending specific solutions for improvement through changes in law and management directives to an agency's leadership. The commission may also consider combining functions of two or more agencies to streamline state government.
May 2018 August 2018	The Sunset Advisory Commission conducts public hearings to take testimony on the report and the agency overall. In August, the Sunset Advisory Commission meets to vote on the recommendations and changes for the full Legislature.
January 2019 to May 2019	86 th Legislature considers the Sunset bill for the Department.

For more details on the process, visit the [Texas Sunset Advisory Commission](#) website.



Department Accreditation

by Wendy Rodriguez

The [Conference of State Bank Supervisors](#) (CSBS) Accreditation Program, established in 1984, recognizes and enhances excellence in state regulation. The process involves a comprehensive review of several elements and principles that assure the ability of a given banking department to discharge its responsibilities. As of March 2018, 46 state banking departments have achieved accreditation.

Included among these is the Texas Department of Banking, which has maintained its accreditation standing since it was initially accredited in 1993. Maintaining accreditation for bank supervisory functions through CSBS is a performance measure for the Department.

But achieving accreditation is only the beginning. The Department, as it does every five years, is currently undergoing the CSBS reaccreditation process. A CSBS review team will perform their on-site review of the agency's operations October 16-18, 2018, an important step in this months-long process.

If you are unfamiliar with the process, it

may help to think of it as an examination like those received by our state-chartered banks.

Accreditation involves an in-depth review of an agency's policies, procedures, and operations to determine if it meets the standards set forth by the CSBS Performance Standards Committee. A state seeking its five-year reaccreditation must complete a self-evaluation questionnaire. A banking department seeking reaccreditation is asked to answer a series of questions and rate itself against the corresponding standard. To support its answers and ratings, the appropriate documentation must be provided to CSBS.

During an assessment and review of a banking department, the assigned review team evaluates critical aspects of the banking department's operations, including administration and finances, personnel and training, bank examination policies and procedures, bank examination capabilities, and bank supervision and legislation.

Upon completing their assessment, the review team will draft a report and make

a recommendation to the Performance Standards Committee regarding reaccreditation of the Department.

Why is Accreditation Important?

Accreditation is important not only as an assessment of the competency of the Department, but also to establish credibility with other state and federal bank regulatory agencies. Accreditation allows the federal bank regulatory authorities to accept the Department's reports of examination under an alternating examination process, which in turn greatly reduces regulatory burden to supervised banks and bank holding companies.

In accordance with Section 349 of the Riegle Community Development and Regulatory Improvement Act of 1994, the Federal Financial Institutions Examination Council (FFIEC) issues guidelines that establish standards for determining the acceptability of state banking authority reports of examination under Section 10(d)(3) of the Federal Deposit Insurance Act. As established in the FDIC policy, CSBS accreditation is one of the factors that is considered for accepting reports.

The Corporate Activities Division Now Accepts Wire Transfers for Filing Fees

by Dan Frasier

A long sought-after feature has been added to the Department's online application filing portal Corporate Application Filing Entry (CAFE). Beginning August 20, 2018, an applicant filing an application through CAFE may submit the applicable filing fee to the Department by wire transfer instead of sending a check.

Division staff hopes this enhanced

payment feature proves as beneficial to applicants as earlier enhancements. Once such feature previously added permits groups of users within the same organization to view and upload additional documents to filings submitted by other users.

The CAFE portal is user-friendly and is easily accessible from the Department's website at www.dob.texas.gov. You may

access the portal by selecting *Entity Log In* at the top of any webpage on the Department's website.

The Corporate Activities Division welcomes any suggestions to help ensure CAFE remains user-friendly while meeting the needs of application filers. You may contact the Division at (512) 475-1342.



Thinking about Converting to a State Bank Charter?

Four Reasons Why You Should

by Gordon Anderson

"...nationally-chartered banks that elected to convert to a state charter; six institutions have made such a move in just the last 12 months ... Assessments charged to state banks are less than those charged to national banks of comparable size."

Did you know that more than half of all banks doing business in Texas are state-chartered — and not nationally-chartered — financial institutions? In all, that's 237 banks with assets totaling nearly \$258 billion.

More than a few of these banks were initially nationally-chartered banks that elected to convert to a state charter; four institutions have made such a move in just the last 12 months.

While no two banks operate under the same conditions, below are four excellent reasons why a bank might elect to make the conversion:

1. Regulatory Accessibility and Responsiveness

All applications to charter a Texas state bank, along with most major administrative decisions, are made by the Texas Banking Commissioner. It is much easier for Texas bankers to establish a face-to-face working relationship with the Banking Commissioner and senior staff in Austin than with a federal regulator in Washington, D.C.

Not only does the staff of the Texas Department of Banking have a better understanding of your community's

economic environment than folks way off in Washington, it is significantly easier to establish a personal, face-to-face working relationship with the Department's leadership. That is a benefit worth considering.

2. Parity

The Texas constitution provides state-chartered banks the same rights and privileges that are extended to national banks that call the state home. In addition, the Texas Finance Code contains a "super parity" provision.

This provision creates the framework for a state bank chartered in Texas, upon application, to conduct any of the activities allowed by any other state or federally-insured financial institution in the country.

3. Modern Corporate Governance

According to Governor Greg Abbott's website, Chief Executive magazine in May named Texas the "Best State for Business" for the 14th year in a row.

Sustained success like this is no accident, and the responsive nature of state-chartered banks has helped contribute to this track record.

How?

This is due in part to the fact the Texas Finance Code has some of the most modern governance and regulatory statutes in the nation, providing increased flexibility in many areas of banking operations: organization requirements, merger authority, subsidiary authority, and others. Ask the Department how this can work to your financial institution's advantage as a state-chartered bank.

4. Lower Costs

Let's face it: Everything comes down to the bottom line, and lower costs help add to it. Assessments charged to state banks are less than those charged to national banks of comparable size. Additionally, the Texas Department of Banking continually monitors expenditures and assessments, reducing assessments when fiscally possible.

Want to know more about the benefits of converting to a Texas state-chartered bank and what steps your bank will need to take to accomplish this? Information on these and other topics may be found on the Department's [Chartering a Texas State Bank](http://www.dob.texas.gov) webpage.



Top Five Ways Cyber Criminals Can Access Your Data (and More)

With apologies to David Letterman – not only are we copying his “Top Ten” list idea, we’re also short-changing him by five – here is the Department’s top five list of ways criminals can access your bank’s data and resources:

Ransomware

Ransomware, as everyone should know by now, involves the unauthorized third-party encryption of a database, giving the cybercriminal total control of an infected computer or network. The criminal then holds the data “hostage” until a ransom is paid, after which a key to unlock the data may (or may not) be provided.

More than 200 variations of ransomware are currently known to exist, and law enforcement officials say that literally dozens more are developed every month. For what it’s worth, the FBI strongly suggests victims do not make any ransom payment, as it only encourages further criminal behavior while at the same time helping to fund it.

Phishing

Phishing occurs when a cybercriminal acquires sensitive information via an email (computer usernames and passwords, credit card details, Social Security numbers, etc.), by enticing someone to enter his or her personal information into a fake website or email address. This is a particularly obnoxious crime, given that

it lures computer users to unintentionally facilitating the criminal activity themselves.

It’s important for bankers and their contract security professionals to conduct periodic social engineering tests to educate staff and reduce the chances of an employee unwittingly opening an infected email or attachment.

Wire Fraud



As if losing large amounts of sensitive data to a phishing hack isn’t bad enough, cybercriminals can add insult to injury by using your customers’ compromised email accounts to originate fraudulent wire transfer requests or other types of money transfers.

How thoughtful.

Interconnected Devices

In addition to its Internet connection, your PC, HVAC and refrigerator can also be connected to a network of other computers, one or more printers, and a

by Gordon Anderson

host of peripherals. Even most photocopiers are now connected to a network. And no bank can exist without a series of high-tech security cameras, also likely to be connected to a network.

The problem with all this connectivity is that formerly innocuous pieces of equipment – your printer, for example – are now vulnerable to compromise. A sophisticated hacker could gain access to your network via the device’s Internet Protocol (IP) address and view potentially sensitive information. And you thought you had enough to worry about.

Printed Documents

You probably don’t think about it in these terms, but the plain, everyday piece of paper – something that’s been around since the Han Dynasty – is another security risk in need of greater attention. This decidedly low-tech product, just as much as the most advanced smartphone or tablet, can also contain sensitive information yet can be just as difficult to secure. After all, who can honestly say they’ve never lost a piece of paper?

Worse, it’s extremely hard to determine just when a specific piece of paper went missing in the first place. Always guard confidential paper documents with as much care as you would your most sensitive electronic files.

Texas Cybercrime Act Addresses Latest Set of Online Threats

by Gordon Anderson

The Texas Cybercrime Act (Act), which took effect September 1, 2017 and passed during the 85th Regular Legislative Session, creates new language outlawing specific online activities related to a new generation of computer-based crimes.

Filed as [HB 9](#), the new legislation makes it a criminal offense to intentionally interrupt or suspend access to a computer system or network without proper authorization; alter or tamper with data being transmitted across a computer system or network without a legitimate business purpose, including the intentional installation of ransomware onto a computer, computer network, or system; or decrypt encrypted private information through deception and without a legitimate business purpose.

The Act attempts to close perceived loopholes in Chapter 33 of the Texas Penal Code (Code) by updating state law to reflect current technologies. The Code previously focused on cybercrimes carried out primarily through direct computer access; however, many cybercrimes today are committed using malware, ransomware, or other indirect means that often lead computer users to unintentionally facilitating the criminal activity themselves.

Penalties for violations under the Act depend on the severity of the crime and range from a Class A misdemeanor to a first-degree felony involving fines and imprisonment.

Implementation of HB 9 comes against the backdrop of a rapid increase nationally in cybercrimes and a growing sophistication among criminals in the methods used to

commit them. Cybersecurity Ventures, an information security research firm, estimates that costs incurred due to ransomware events in 2017 alone exceeded \$5 billion.

In addition to the productivity and any data lost resulting from a ransomware event, the financial impact also includes the disruption to an institution's day to day business activities, any necessary forensic investigations, and the restoration and/or possible deletion of hostage data. An even greater expense, long term, may be the damage done to an institution's reputation.



FBI: Tips for Dealing with the Ransomware Threat

Prevention Efforts

- Make sure employees are aware of ransomware and their critical roles in protecting the organization's data;
- Patch operating system, software, and firmware on digital devices (which may be made easier through a centralized patch management system);

- Ensure anti-virus and anti-malware solutions are set to automatically update and conduct regular scans;
- Manage the use of privileged accounts—no users should be assigned administrative access unless absolutely needed, and only use administrator accounts when necessary;
- Configure access controls, including file, directory, and network share permissions appropriately.

If users only need to read specific information, they don't need write-access to those files or directories;

- Disable macro scripts from office files transmitted over email; and
- Implement software restriction policies or other controls to prevent programs from executing from common ransomware locations (e.g., temporary folders supporting popular Internet

browsers and compression/decompression programs).

Business Continuity Efforts

- Back up data regularly and verify the integrity of those backups regularly; and
- Secure your backups. Make sure they aren't connected to the computers and networks they are backing up.



What's in a (domain) name? **Security!**

Why banks are considering the dot-bank domain name to combat cybercrime

by Gordon Anderson

One look at last year's flurry of headlines regarding the FCC's "Net Neutrality" rule and it's plain to see that Americans take their Internet access seriously.

And it's about a lot more than just social media.

Consumers purchase billions of dollars' worth of goods and services on the Internet each year, and this trend shows no signs of slowing down. The online marketing research firm Adobe Analytics, for example, reports that shoppers spent a whopping \$3.4 billion on online purchases this past Cyber Monday alone.

Financial institutions are also feeling the impact of e-commerce. Customers increasingly expect the ability to view account balances and recent transactions, download bank statements, transfer funds, and pay bills on their computer or smart phone.

With this freedom, however, comes inherent risk. Sensitive personal and financial information may be vulnerable to progressively sophisticated cybercrimes, such as phishing, malware, credit card redirection, and Denial of Service attacks.

Until a few years ago, banks had extremely limited options regarding their TLD names. Dot-com – the domain name most often associated with commercial entities – was basically the choice when registering a name for a bank's web address. That changed in 2014 when the governing body for Internet domain names approved a new one specifically for banks, savings associations, and related entities: the dot-bank TLD.

But can a dot-bank domain name really help prevent cybercrimes before they occur?

The answer is an emphatic yes. For starters, the domain extension is available exclusively to financial institutions.

Only verified banks and savings associations (chartered and supervised by a state or national government regulatory agency), banking trade associations, certain financial services providers, and government regulators of chartered and supervised banks are eligible to register the dot-bank TLD extension.



Moving Beyond Dot-Com

Now, some banks are learning that their best line of defense against cybercrimes may reside in their website's domain name. Specifically, the name to the right of the "dot," referred to as the top-level domain (TLD) name.

Strict Eligibility, Security Requirements

fTLD Registry Services (fLTD), the financial industry coalition that applied for the dot-bank TLD name, also contracted with Internet security provider Symantec to ensure that registrations are made only on behalf of organizations that meet the rigorous eligibility requirements.

Because eligibility for the dot-bank TLD is extremely limited and granted only after an applicant has been vetted by Symantec, it should be much more difficult for cybercriminals to establish a spoofed bank website/ email address using a dot-bank extension. The hope is that customers will be suspicious of any website with an address that looks similar to that of their bank but lacks the dot-bank extension.

Eligible organizations must employ email authentication technologies that can help block phishing and spoofing emails, among a host of other requirements. They must also implement domain name system security extensions, technologies that help ensure visitors are directed to your institution's Internet site and

not a fraudulent one.

There are, of course, many factors a bank must consider before applying to register a new domain name using the dot-bank extension.

Some Creativity May Be Required

For example, there are several common or generic subdomain names – the name to the left of the “dot” – that have been reserved by fTLD and may not be immediately available as is. These include “community,” “state,” “heritage,” “citizens,” and “farmers,” to name just a few.

This means that, at the very least, you may have to rethink your bank's name and how it may best be abbreviated or used creatively in a new subdomain name, should it be necessary. But it's also possible that a total rebranding of the bank, with a completely new name, may be required (or even desired).

Finally, there is a cost associated with registering a dot-bank domain name; according to a recent Federal Reserve newsletter, registration fees can reach as high as \$2,000 annually. There will also be additional costs related to the

need to thoroughly test the new web address to ensure a smooth transition.

Nevertheless, many financial institutions may still consider making the change, regardless of the expenses involved, to take advantage of the TLD name's improved security. These costs are no doubt significant, but they will likely pale in comparison to any losses caused by a devastating cybercrime.

And that's a fact you can dot-bank on.

For More Information:

Visit the [.BANK](#) website for information on getting the process started, the fTLD name selection policy, a series of success stories, and more.



REGULATORY RELIEF



Regulatory Relief Becomes Law - S. 2155

by Chris Bell

President Trump signed the Economic Growth, Regulatory Relief, and Consumer Protection Act into law in May 2018. Hailed as the most significant regulatory relief legislation since the 2008 financial crisis and the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), the new law garnered bipartisan support in both houses of Congress. While a significant hike in the asset threshold for “systemically important financial institutions” (i.e., banks with assets from \$50 billion to \$250 billion), is getting the most attention, the new law contains many

provisions that affect Texas banks. The following select provisions may impact your business going forward:

Qualified Mortgage (QM) Status

Section 101 grants QM status for loans held in portfolio by banks with assets of \$10 billion or less that meet certain consumer protection requirements (e.g., no negative amortization and compliance with prepayment limitations).

Capital Simplification

Section 201 requires federal banking

agencies to develop a specified Community Bank Leveraging Ratio (the ratio of a bank’s equity capital to its consolidated assets). Under this section, qualified community banks (less than \$10 billion in assets) can use this new ratio in lieu of the current minimum leverage and risk-based capital requirements. This should simplify the capital calculation for most community banks. Most notably, the federal banking agencies must consult with state banking agencies in carrying out this section.

Section 207 raises the asset threshold of the Federal Reserve’s Small Bank Holding Company Policy Statement

from \$1 billion to \$3 billion, making capital formation easier for banks under the revised level.

Volcker Rule

Section 203 exempts banks having less than \$10 billion of assets and total trading assets and liabilities of 5 percent or less of total assets from the Volcker Rule, a Dodd-Frank provision that banned proprietary trading by commercial banks and limited investments in hedge and equity funds.

New Exam Schedule

Section 210 extends the examination cycle from 12 to 18 months for banks with less than \$3 billion of assets. Previously, only banks with less than \$1 billion qualified for the extended examination cycle.

Shortened Call Report

Section 205 requires federal banking regulators to establish a short form call report for banks with assets of \$5 billion or less to file in lieu of first and third quarterly reports of condition.

Home Mortgage Disclosure Act (HMDA) Relief

Section 104 exempts banks that originate less than 500 closed-end mortgage loans or less than 500 open-end lines of credit in each of the two preceding calendar years from added HMDA requirements mandated by the Dodd-Frank. The exemption only applies to institutions in full compliance with the Community Reinvestment Act.

Escrow Exemption, Appraisal Easing, and Waiting Period

Section 108 amends the Truth in Lending Act to exempt banks with assets of \$10 billion or less and that originate 1,000 or fewer mortgage loans from escrow requirements.

Section 103 exempts mortgages of \$400,000 or less in rural areas from appraisal requirements if the originator is unable to find a state-certified or state-licensed appraiser to perform an appraisal after a good faith effort to do so. This exemption from appraisal requirements generally does not transfer when, outside of bankruptcy, a loan is assigned or sold to another bank who holds the loan in portfolio, or through a Merger & Acquisition.

Section 109 removes the three-day waiting period required for the combined TILA/RESPA mortgage disclosure if a lender makes a second offer of credit with a lower rate.

Reciprocal Deposits

Under Section 202, reciprocal deposits less than \$5 billion or equal to 20

percent of the total liabilities of the agent institutions are no longer brokered deposits. The result will likely be lower deposit insurance premiums for well-capitalized banks belonging to networks like Promontory Interfinancial Network's CDARS program.

Capital Treatment of HVCRE

Section 214 eases capital rules for certain high-volatility commercial real estate (HVCRE) loans by defining which HVCRE loans are subject to higher capital standards. Under the law, a loan does not qualify as a HVCRE if development or construction is complete and cash flow is sufficient to support the debt service and operating expenses to the satisfaction of the lender.

If you have any questions or concerns, you may contact the Texas Department of Banking's Legal Division via [email](#).



Bank and Trust Supervision Promotions

The Department is pleased to announce the promotion of three highly qualified field examiners. Travis Graham and Michelle Hodge were each promoted to Review Examiner positions, effective February 2018 and March 2018, respectively. In addition, Ruth Norris was promoted to Chief IT Security Examiner in Houston, effective June 2018.

Travis Graham **Michelle Hodge** **Review Examiners**

Travis Graham received his BBA in Finance from Texas A&M University and has worked for the Texas Department of Banking for 15 years. He has served as a field examiner in both the Houston and San Antonio Regional Offices and passed the commissioning process in February 2009. Within the Department, Travis has also worked as a Corporate Analyst for the Corporate Division processing bank applications and notices. He is a 2015 Honors graduate of the Graduate School of Banking in Colorado.

Michelle Hodge received her BBA in Management from Texas Tech University. She began employment with the Texas Department of Banking in May 2008 in the San Antonio Regional Office as an assistant commercial bank examiner. In January 2013, Michelle transferred to the Houston Regional Office and passed the commissioning process in March 2013. She is a 2017 graduate of the Graduate School of Banking in Colorado.

As Review Examiners stationed in the Austin Headquarters Office, Travis and Michelle perform report review functions of commercial, trust, and information technology examinations. They also provide recommendations and work with the Department's four Regional Directors to determine corrective actions for problem institutions. Additionally, they will perform other supervisory and research duties as needed and serve as a leader, mentor, and supervisor to less experienced examiners.

Ruth Norris, CISA **Chief IT Security Examiner**

Ruth Norris received her BBA in Finance and Banking and Financial Institutions from Sam Houston State University. Ruth began her career with the Department in February 2006. Over the last ten years, she has concentrated on ensuring that the Department's licensed entities have effective information technology and security programs in place.

As Chief IT Security Examiner, Ruth serves as the primary contact for IT Security Specialists field examiners and supervises IT personnel stationed across the state. She is responsible for ensuring all supervised entities are regularly examined to accurately assess their IT and cyber security posture, as well as drafting supervisory strategies and plans for corrective actions to address detected risks or weaknesses. Additionally, Ruth serves as an instructor for IT related courses.

Announcements

On June 28, 2018, Governor Greg Abbott appointed Cliff McCauley and reappointed Will Lucas and Vince E. Puente, Sr. to the Finance Commission of Texas for terms set to expire on February 1, 2024.



Banking Executive

George Cliff McCauley
Frost Bank
San Antonio, Texas



Savings Executive

William M. (Will) Lucas
Shelby Savings Bank
Center, Texas



Public Member

Vince E. Puente, Sr.
Southwest Office Systems, Inc.
Fort Worth, Texas

Peoples Bank in the Classroom

Financial Literacy Bringing the Goods to Lubbock Schoolchildren

by Gordon Anderson

Lubbock, long known as a leading producer of cotton, quarterbacks, and songwriters, may soon lead the state in another, more important commodity: the financially literate.

For more than a decade, Peoples Bank has been heavily involved in Lubbock area schools promoting financial education, first on economic basics with a certain emphasis on charity, then more recently with a specific focus on financial literacy for students from elementary school all the way to adult education classes.

According to Chelsea Salazar, Senior Vice President and Marketing Director with Peoples Bank, it's a curriculum that keeps her and a cast of nearly a dozen coworkers busy but professionally satisfied.

"I think everyone at Peoples cares deeply about our community and wants to be involved, whether that's serving on a school board or with a local nonprofit, or being a volunteer at their children's school," Salazar notes. "And in serving, we all agree there is a real need for an educational program on subjects like personal finances, savings, and banking in general."

Texas bankers have for years been stepping out of their world and into that of

school classrooms to provide instruction in personal finance. The standards school children are expected to meet with respect to economics and personal finance have since been codified in the Texas Education Agency's "Texas Essential Skills and Knowledge" requirements, better known as TEKS, for children as young as third graders (*see examples below*).

But what launched Salazar and Peoples Bank into a full-fledged financial literacy initiative was [Title 7, Chapter 15 of the Texas Administrative Code](#), which became effective in November 2008. Specifically, the rule gave the green light to the Texas Department of Banking and community banks across the state to partner on the "Center of Monetary Education for Texans" (COMET) – a financial education program in the form of actual in-school banks receiving deposits, dispensing withdrawals, and in some cases, lending money.

It was at that point that Peoples Bank jumped in with both feet.

Bank staff currently works with teachers and administrators at seven elementary schools, two high schools, and one Pre-Kindergarten/Kindergarten class, in addition to three adult education classes. However, things initially got off

to a slow start.

"Yes, we did participate in the COMET program for a while and operated an in-school bank inside one elementary school," she recalls. "It was something very simple; it was set up almost like a lemonade stand. But we were also paying a teller to sit there for long periods of time, often with little to do. It just didn't



Andy Turner, President at 34th Street Branch, Roscoe Wilson Elementary at Lubbock ISD

make sense for us.” However, it was from that effort that Peoples’ current financial literacy classroom instruction format evolved, which Salazar describes as “a little bit off the shelf, and a little created in-house.”

“Each class presentation is a case-by-case situation, depending on the grade being taught,” she says. “For example, will I be working with the same second graders I worked with last year, when they were first graders? It’s very important we work closely with teachers.” Salazar points out that teachers help determine and direct topic selection, focusing on those most appropriate for meeting the state TEKS requirements or when the class begins work on a related unit.

Is it a challenge to create a financial literacy program for early education students? “Actually, it’s much easier working with young children than with older students because you have to keep it simple,” Salazar says. “We begin by asking, ‘what does a bank do? What can you do with money: you can save it, spend it, or donate it, right?’” She also uses this time to help students learn to identify different coins and bills, information for which students are tested.

To accomplish all this, she developed a most unique concept.

“What I do is hold a mock garage sale in class, using items I find at the Dollar Store or just have around the bank,” she explains. “I’ll set the pricing, and then ask students to serve as either cashier or shopper. That way they learn the concept of counting change back; it’s very interactive, so it keeps their attention. They also learn the concept of spending, saving and donating. Are they going to spend their entire \$10, or just part of it and save the rest? We go through multiple scenarios like that.”

For older students, bank staff will drill down a little deeper, discussing the impor-



Renessa Knowles, Mortgage Department Manager and SVP, Frenship High School at Frenship ISD

tance of creating financial goals, establishing credit, and defining and explaining a mortgage loan, for example. But regardless of the grade level and topic, Chelsea and coworkers are having a definite impact.

“Financial literacy in early education can be challenging, yet it is extremely important because it creates an authentic experience for students,” says Victoria Mahan, instructional coach for children pre-kindergarten through fifth grade in the neighboring Frenship Independent School District.

Mahan describes this experience as making a connection to students’ previous knowledge, further helping them retain the information while strengthening their vocabulary. It also supports students’ transition from concrete thinking to abstract thinking, which is important for the development of the critical thinking skills they will need as they move forward in life.

“These lessons are also important as our society moves away from dealing with cash,” she adds. “Many children this age have little understanding of what a bank does, and most have probably never even seen the inside of a bank.”

According to Mahan, teachers place a tremendous value on the partnership schools have with Peoples Bank.

“Teachers love the financial literacy classes; they are very appreciative of what Peoples Bank is doing,” she reports. “They help staff meet our state requirements while tak-

ing away some of the teachers’ work load. Having someone come into the class with a resource like this is great.” But the highlight for at least one group of teachers and students comes in the form of every kid’s dream school day: The field trip.

Crestview Elementary is right across the street from a Peoples Bank branch, Mahan says, so students can just walk across the street, get a tour of the bank, and meet staff from the different departments. Salazar then explains what banks do and the importance of saving. “Every campus wishes they could go on a field trip like this!”

But are the students getting the message?

“I can always tell by the questions if the students are paying attention or not, and if they’re ‘getting’ the message,” Salazar says. “I always let students actually handle the bills and coins if I feel I’m losing them and their attention is wandering. On the other hand, every class always has at least one kid who is really passionate about money. And we get lots of thank-you letters from students; it’s always great to read them.”

Bottom line: Would Salazar recommend banks in other markets get involved in financial literacy classes in their local schools?

“Absolutely. Financial literacy is such an important concept, especially for early education students,” she states. It doesn’t take a huge financial investment to accomplish so much good, as she points out, and it’s a very inexpensive way to meet the needs of the community and school districts.

“And yes, it may eventually help develop customers and it does earn the bank CRA points, but that’s not a primary focus,” Salazar concludes. “Financial literacy is crucial to community banks like ours. We are helping build the community... and it may sound a little cliché, but we’re also helping build the future.”

And that's a commodity you can't put a price on.

By working closely with school teachers, Peoples Bank aligns its financial literacy classes with the appropriate state standards and course units. The selected examples below illustrate what the State of Texas expects students to know and understand regarding personal finances as outlined in current TEKS standards:

§113.14. Social Studies, Grade 3, Beginning with School Year 2011-2012:

(6) Economics. The student understands the purposes of earning, spending, saving, and donating money. The student is expected to:

- (A) identify ways of earning, spending, saving, and donating money; and
- (B) create a simple budget that allocates money for spending, saving, and donating.

§113.49. Personal Financial Literacy (One-Half Credit), Adopted 2016.

(a) General requirements. This course is recommended for students in Grades 10-12.

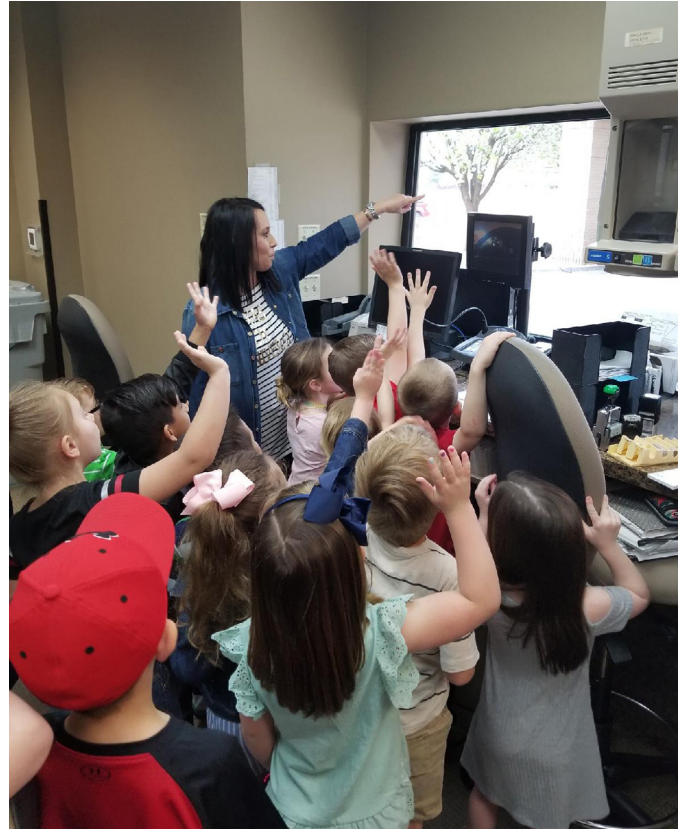
(6) Saving and investing. The student understands the implementation of a saving and investing plan. The student is expected to:

- (A) discuss the role of financial institutions and markets in saving and investing;
- (B) demonstrate the impact of compound growth over time;
- (C) evaluate the costs and benefits of various savings options such as bank savings accounts, certificates of deposit, and money market mutual funds; and
- (D) evaluate risk and return of various investment options, including stocks,

bonds, and mutual funds.

(8) Credit and borrowing. The student understands the use of credit to make purchases. The student is expected to:

- (A) compare and contrast sources of credit such as banks, merchants, peer-to-peer, payday loans, and title loans;
- (B) compare and contrast types of credit, including revolving and installment credit, and collateralized loans versus unsecured credit; and



Chelsea Salazar , Marketing Director and SVP at Peoples Bank 82nd Street Branch, LakeRidge United Methodist Church, Kindergarten

(C) evaluate the impact of credit decisions on monthly budget, income statement, and net worth statement.

Profile: Peoples Bank, Lubbock

- Locally owned, community bank with eight branches and a mortgage department.
- Established in 1999; purchased

Lorenzo State Bank at Lorenzo, operating under a state banking charter granted in 1968.

- Vision Statement: Peoples Bank strives to be the best company our employees ever work for, the best bank our customers ever do business with, and the best investment our shareholders ever make.
- Voted 10th Best Bank to Work for in 2017 by *American Banker*
- Founded on the principle that if our schools do well, our communities do well. And if our communities do well, our bank will do well.
 - Currently the public depository for 4 out of 5 rural locations where Peoples Bank has branches as well as for two other nearby school districts.
 - Sponsor of stadium and gymnasium scoreboards, ag shows, and other school curricular activities.
 - Three officers have served as school board members at various times over the last 19 years.

Texas Jump\$tart Coalition Promoting Youth Financial Education

by Gordon Anderson



The Jump\$tart Coalition for Personal Financial Literacy is a 501 (c)(3) nonprofit organization based in Washington, D.C., with the purpose of uniting organizations committed to advancing financial literacy among preschool through college age youth.

Launched in 1995, the coalition brings together more than 150 partner organizations from the business, financial, nonprofit, academic, and government sectors nationwide. The Jump\$tart Coalition also includes a network of 51 affiliated state coalitions, including one representing Texas.

The coalition has since 2009 hosted an annual National Educator Conference, a three-day seminar packed with multiple breakout sessions providing research and development findings from university experts and financial leaders across the country, school curriculum standards, advocacy groups, youth psychology discussions, trending technology, an exhibit hall, and author guest speakers with passions in finance and youth.

At the state level, Texas Jump\$tart connects diverse financial education champions who work together to prepare Texas youth for lifelong financial success. The coalition goals include raising public awareness of youth financial education, promoting financial education efforts in Texas, and serving as a resource for all Texans

interested in financial education.

The Texas coalition was created in 2003 and remained active until 2008. The coalition went dormant thereafter but maintained its tax-exempt status managed by the founding Treasurer, Bill Marley. In 2015, the coalition was reactivated thanks to the initiative of Kellie Haayer, an elementary school teacher from Houston.

In response to the lack of youth knowledge about finances she observed in her district, Haayer began to reach out to



financial literacy experts throughout the state to re-energize the Jump\$tart initiative. In 2016, a board of directors was established to provide direction and a statewide perspective to the newly-reorganized effort.

With a strong group of financial education experts, and supported by a newly designed website, Texas Jump\$tart toured the state in 2017, hosting membership roundup meetings and inviting bankers and members of the community to join the effort.

The first membership meeting was

held in Austin in September 2017 and featured Texas Banking Commissioner Charles G. Cooper as the keynote speaker. A second meeting was hosted the following month at the Houston branch of the Federal Reserve Bank of Dallas.

Most recently, a teacher strand workshop was included as part of the agenda during the annual Texas Financial Literacy Summit held July 24-25 in Farmers Branch, hosted jointly by the Texas Bankers Association (TBA) and the Independent Bankers Association of Texas (IBAT).

Texas Jump\$tart is excited to share its plans as the coalition continues to build both its membership base and networks, with future membership meetings tentatively scheduled in the San Antonio and the Dallas/Ft. Worth areas.

The Texas Department of Banking encourages bankers to participate in these Jump\$tart meetings, the national conference, and upcoming events to collaborate efforts and better understand the needs of youth financial literacy in our communities.

Visit the [Texas Jump\\$tart](http://www.texasjumpstart.org) website for a calendar of events and membership information. For more information about financial education issues and opportunities in Texas, please visit the Department's [webpage](#) dedicated to this effort.

Financial Highlights

TABLE I
Quarterly Balance Sheet and Operating Performance Ratios
for Texas State-Chartered Commercial Banks 6/30/18 Through 6/30/17

ACCOUNT DESCRIPTIONS (IN MILLIONS OF \$)	6/30/18	3/31/18	12/31/17	9/30/17	6/30/17
Number of State-Chartered Banks	237	238	240	240	240
Total Assets of State-Chartered Banks	257,764	255,637	259,417	257,066	253,873
Number of Out-of-State, State-Chartered Banks Operating in Texas	39	39	39	38	31
Total Texas Assets of Out-of-State, State-Chartered Banks Operating in Texas	65,436	65,436	65,436	62,549	62,492
Subtotal	323,200	321,073	324,853	319,615	316,365
Less: Out-of-State Branch Assets/Deposits	50,904	50,904	50,904	50,904	50,569
**Total State Banks Operating in Texas	374,104	371,977	375,757	370,519	366,934
BALANCE SHEET (Tx. State-Chartered Banks)					
Interest-Bearing Balances	13,382	17,417	15,903	16,871	14,121
Federal Funds Sold	854	1,003	752	642	665
Trading Accounts	286	200	222	192	198
Securities Held-To-Maturity	14,050	14,070	16,251	16,060	16,629
Securities Available-for-Sale	46,893	46,838	46,061	45,555	46,351
Total Securities	60,943	60,908	62,312	61,615	62,980
Total Loans	160,973	156,439	159,305	157,646	156,205
Total Earning Assets	236,152	235,767	238,272	236,774	233,971
Premises and Fixed Assets	3,763	3,709	3,740	3,646	3,636
Total Assets	257,764	255,637	259,417	257,066	253,873
Demand Deposits	30,633	30,305	30,589	28,879	29,279
MMDAs	115,996	116,844	118,641	118,327	115,224
Other Savings Deposits	24,237	24,565	24,551	23,387	22,700
Total Time Deposits	29,638	29,394	29,607	30,053	30,522
Brokered Deposits	3,816	3,581	3,689	3,483	3,473
Total Deposits	209,549	210,430	212,733	209,380	206,106
Federal Funds Purchased	2,355	2,483	2,640	2,498	2,562
Other Borrowed Funds	12,045	9,543	10,280	11,807	11,916
Total Liabilities	226,634	225,111	228,335	226,364	223,755
Total Equity Capital	31,131	30,527	31,082	30,702	30,118
Loan Valuation Reserves	1,801	1,839	1,851	1,876	1,863
Total Primary Capital	32,932	32,366	32,933	32,578	31,981
Past Due Loans > 90 Days	171	191	195	147	152
Total Nonaccrual Loans	844	967	1,106	1,116	1,128
Total Other Real Estate	219	196	209	235	259
Total Charge-Offs	190	97	387	296	197
Total Recoveries	65	29	116	86	62
Net Charge-Offs	125	68	271	210	135
INCOME STATEMENT					
Total Interest Income	4,743	2,306	8,695	6,487	4,228
Total Interest Expense	503	226	705	516	323
Net Interest Income	4,240	2,080	7,990	5,971	3,905
Total Noninterest Income	1,488	725	3,181	2,413	1,610
Loan Provisions	105	72	316	254	155
Salary and Employee Benefits	1,930	957	3,714	2,797	1,852
Premises and Fixed Assets Expenses (Net)	393	196	783	589	391
All Other Noninterest Expenses	1,071	530	2,214	1,660	1,068
Total Overhead Expenses	3,394	1,683	6,711	5,046	3,311
Securities Gains (Losses)	-2	-4	-3	1	3
Net Extraordinary Items	0	0	0	0	0
Net Income	1,877	892	2,965	2,324	1,552
Cash Dividends	965	344	1,840	1,218	831
RATIO ANALYSIS					
Loan/Deposit	76.82%	74.34%	74.88%	75.29%	75.79%
Securities/Total Assets	23.64%	23.83%	24.02%	23.97%	24.81%
Total Loans/Total Assets	62.45%	61.20%	61.41%	61.33%	61.53%
Loan Provisions/Total Loans	0.13%	0.18%	0.20%	0.21%	0.20%
LVR/Total Loans	1.12%	1.18%	1.16%	1.19%	1.19%
Net Charge-Offs/Total Loans	0.08%	0.04%	0.17%	0.13%	0.09%
Nonperforming+ORE/Total Assets	0.48%	0.53%	0.58%	0.58%	0.61%
Nonperforming+ORE/Primary Capital	3.75%	4.18%	4.59%	4.60%	4.81%
Net Interest Margin	3.59%	3.53%	3.35%	3.35%	3.34%
Gross Yield	4.83%	4.74%	4.58%	4.60%	4.60%
Return on Assets	1.46%	1.40%	1.14%	1.20%	1.22%
Return on Equity	12.06%	11.69%	9.54%	10.07%	10.31%
Overhead Exp/TA	2.63%	2.63%	2.59%	2.61%	2.61%
Equity/Total Assets	12.08%	11.94%	11.98%	11.94%	11.86%
Primary Capital/Total Assets+LVR	12.69%	12.57%	12.61%	12.58%	12.51%

*Unrealized gains/losses are already included in equity capital figures.

**Total State Banks Operating in Texas includes branches of out-of-state, state-chartered banks.

Data was derived from the FDIC website.

Financial Highlights

TABLE II
Comparative Statement of Condition
Commerical Banks Domiciled in Texas
June 30, 2018 and June 30, 2017

ACCOUNT DESCRIPTIONS (In Millions of \$)	6/30/2018		6/30/2018		6/30/2018		6/30/2017	
	STATE CHARTERED	% TA	NATIONAL CHARTERED	% TA	ALL BANKS	% TA	ALL BANKS	% TA
Number of banks	237	% TA	182	% TA	419	% TA	424	% TA
BALANCE SHEET								
Interest-Bearing Balances	13,382	5.2%	9,622	7.0%	23,004	5.8%	22,360	5.9%
Federal Funds Sold	854	0.3%	3,841	2.8%	4,695	1.2%	8,679	2.3%
Trading Accounts	286	0.1%	27	0.0%	313	0.1%	230	0.1%
Securities Held-To-Maturity	14,050	5.5%	2,727	2.0%	16,777	4.2%	19,205	5.0%
Securities Available-For-Sale	46,893	18.2%	21,508	15.5%	68,401	17.3%	67,700	17.7%
Total Securities	60,943	23.6%	24,262	17.5%	85,205	21.5%	86,937	22.8%
Total Loans	160,973	62.4%	93,256	67.4%	254,229	64.2%	236,591	62.0%
Total Earning Assets	236,152	91.6%	130,981	94.6%	367,133	92.7%	354,567	92.9%
Premises & Equipment	3,763	1.5%	1,652	1.2%	5,415	1.4%	5,255	1.4%
TOTAL ASSETS	257,764	100.0%	138,409	100.0%	396,173	100.0%	381,489	100.0%
Demand Deposits	30,633	11.9%	17,741	12.8%	48,374	12.2%	47,193	12.4%
MMDAs	115,996	45.0%	54,864	39.6%	170,860	43.1%	165,149	43.3%
Other Savings Deposits	24,237	9.4%	16,297	11.8%	40,534	10.2%	37,727	9.9%
Total Time Deposits	29,638	11.5%	19,559	14.1%	49,197	12.4%	48,235	12.6%
Brokered Deposits	3,816	1.5%	5,561	4.0%	9,377	2.4%	7,453	2.0%
Total Deposits	209,549	81.3%	114,424	82.7%	323,973	81.8%	312,837	82.0%
Fed Funds Purchased	2,355	0.9%	1,567	1.1%	3,922	1.0%	3,945	1.0%
Other Borrowed Funds	12,045	4.7%	6,527	4.7%	18,572	4.7%	16,435	4.3%
TOTAL LIABILITIES	226,634	87.9%	123,627	89.3%	350,261	88.4%	337,434	88.5%
Equity Capital	31,131	12.1%	14,781	10.7%	45,912	11.6%	44,055	11.5%
Allowance for Loan/Lease Losses	1,801	0.7%	1,023	0.7%	2,824	0.7%	2,824	0.7%
Total Primary Capital	32,932	12.8%	15,804	11.4%	48,736	12.3%	46,879	12.3%
Past due >90 Days	171		110		281		244	
Nonaccrual	844		567		1,411		1,753	
Total Other Real Estate	219		98		317		357	
Total Charge-Offs	190		117		307		288	
Total Recoveries	65		23		88		91	
INCOME STATEMENT								
Total Interest Income	4,743	100.0%	2,676	100.0%	7,419	100.0%	6,495	100.0%
Total Interest Expense	503	10.6%	334	12.5%	837	11.3%	520	8.0%
Net Interest Income	4,240	89.4%	2,342	87.5%	6,582	88.7%	5,975	92.0%
Total Noninterest Income	1,488	31.4%	848	31.7%	2,336	31.5%	2,708	41.7%
Loan Provisions	105	2.2%	131	4.9%	236	3.2%	239	3.7%
Salary & Employee Benefits	1,930	40.7%	1,104	41.3%	3,034	40.9%	2,865	44.1%
Premises & Fixed Assets (Net)	393	8.3%	227	8.5%	620	8.4%	607	9.3%
All Other Noninterest Expenses	1,071	22.6%	615	23.0%	1,686	22.7%	1,640	25.3%
Total Overhead Expenses	3,394	71.6%	1,946	72.7%	5,340	72.0%	5,112	78.7%
Securities Gains(losses)	(2)	0.0%	0	0.0%	(2)	0.0%	12	0.2%
Net Extraordinary Items	0	0.0%	0	0.0%	0	0.0%	0	0.0%
NET INCOME	1,877	39.6%	932	34.8%	2,809	37.9%	2,522	38.8%
Cash Dividends	965		330		1,295		1,134	
Average ROA	1.46%		1.35%		1.42%		1.32%	
Average ROE	12.06%		12.61%		12.24%		11.45%	
Average TA (\$ Millions)	1,088		760		946		900	
Average Leverage	12.08%		10.68%		11.59%		11.55%	
Dividends/Net Income	51.41%		35.41%		46.10%		44.96%	

*Unrealized gains/losses are already included in equity capital figures.

Table includes only banks domiciled in Texas. Branches of out-of-state banks are not included.

Data was derived from the FDIC website.