AGENCY STRATEGIC PLAN

FOR FISCAL YEARS 2013 - 2017

BY THE

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Finance Commission of Texas

Commission Member	End of Term	Hometown
William J. (Bill) White, Chairman	February 1, 2016	Georgetown, Texas
Susan H. Burton	February 1, 2016	Addison, Texas
Darby Byrd	February 1, 2018	Orange, Texas
Victor E. Leal	February 1, 2018	Amarillo, Texas
Stacy G. London, CMC	February 1, 2014	Houston, Texas
Cindy F. Lyons	February 1, 2016	El Paso, Texas
Lori B. McCool	February 1, 2014	Boerne, Texas
Jonathan B. Newton	February 1, 2016	Houston, Texas
Larry Patton	February 1, 2014	El Paso, Texas
Paul Plunket	February 1, 2014	Dallas, Texas
Hilliard J. (Jay) Shands III	February 1, 2018	Lufkin, Texas

Submitted June 22, 2012

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Signed: Douglas B Foster

Douglas B. Foster
Savings and Mortgage Lending Commissioner

Approved: William White

William J. White
Chairman, Finance Commission

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STATEWIDE VISION, MISSION AND PHILOSOPHY

VISION

Over the last several years, families across this nation have tightened their belts to live within their means, and Texas followed suit. Unlike people in Washington, D.C., here in Texas we believe government should function no differently than the families and employers it serves. As we begin this next round in our strategic planning process, we must continue to critically examine the role of the state government by identifying the core programs and activities necessary for the long-term economic health of our state, while eliminating outdated and inefficient functions. We must continue to adhere to the priorities that have made Texas a national economic leader:

- ensuring the economic competitiveness of our state by adhering to principles of fiscal discipline, setting clear budget priorities, living within our means and limiting the growth of government;

- investing in critical water, energy and transportation infrastructure needs to meet the demands of our rapidly growing state;

- ensuring excellence and accountability in public schools and institutions of higher education as we invest in the future of this state and make sure Texans are prepared to compete in the global marketplace;

- defending Texans by safeguarding our neighborhoods and protecting our international border; and

- increasing transparency and efficiency at all levels of government to guard against waste, fraud and abuse, ensuring that Texas taxpayers keep more of their hard-earned money to keep our economy and our families strong.

I am confident we can address the priorities of our citizens with the limited government principles and responsible governance they demand. I know you share my commitment to ensuring that this state continues to shine as a bright star for opportunity and prosperity for all Texans. I appreciate your dedication to excellence in public service and look forward to working with all of you as we continue charting a strong course for our great state."

Rick Perry, Governor

MISSION

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high . . .we are not here to achieve inconsequential things!

PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles.

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.

- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.

- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.

- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.

- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.

- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse and providing efficient and honest government.

- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

RELEVANT STATEWIDE GOALS AND BENCHMARKS

The following statewide priority goals and related benchmarks are particularly relevant and provide guidance to the Texas Savings and Mortgage Lending Department in establishing its goals and objectives:

PRIORITY GOAL: ECONOMIC DEVELOPMENT

To provide an attractive economic climate for current and emerging industries and market Texas as premier business expansion and tourist destination that fosters economic opportunity, job creation, and capital investment by:

- Promoting a favorable and fair system to fund necessary state services;
- Addressing transportation needs;
- Maintaining economic competitiveness as a key priority in setting State policy; and
- Developing a well-trained, educated, and productive workforce.

BENCHMARKS

- Texas unemployment rate
- Median household income
- Per capita gross state product
- Number of new small businesses created

GOAL: REGULATORY

To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and
- Reducing the regulatory burden on people and business.

BENCHMARKS

- Percentage of state professional licensee population with no documented violations
- Percentage of new professional licensees as compared to the existing population
- Percentage of documented complaints to professional licensing agencies resolved within six months
- Percentage of individuals given a test for professional licensure who received a passing score
- Percentage of new and renewed professional licenses issued via Internet
- Percentage of state financial institutions and credit providers rated “safe and sound” and/or in compliance with state requirements
- Percentage increase in utilization of the state business portal

GOAL: GENERAL GOVERNMENT

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations.

BENCHMARKS

- Total state spending per capita
- Percentage change in state spending, adjusted for population and inflation
- Number of state employees per 10,000 population
- Number of state services accessible by Internet
- Total savings realized in state spending by making reports/documents/processes available on the Internet and accepting information in electronic format

AGENCY MISSION AND PHILOSOPHY

MISSION

The Department of Savings and Mortgage Lending's mission is to ensure the safety and soundness of state chartered savings institutions in Texas and provide consumer protection for citizens acquiring mortgage loan products through residential mortgage loan originators, and utilizing the services of mortgage servicing companies. The Department seeks to promote and enhance the savings bank charter, residential mortgage loan originators', and mortgage servicers' operations to provide the credit necessary to support the residential housing and real estate finance needs of an expanding Texas economy.

PHILOSOPHY

The Texas Department of Savings and Mortgage Lending is fundamentally committed to the comprehensive regulation of the state's savings institutions, mortgage loan originators, and mortgage servicers to protect the financial interests of depositors, creditors, and borrowers. The Department will act in accordance with the highest standards of ethics and integrity, and will at all times remain accessible and responsive to the public, the industry, other government agencies, and public officials. The Department will strive to recruit and retain qualified professional staff who share its philosophy and are highly motivated to carry out its mission.

The Department strives to realize this philosophy in achieving its mission by applying the following attitudes and characteristics in the performance of its duties and responsibilities, and in all of its dealings:

- Fairness
- Ethical Conduct
- Professionalism
- Responsiveness
- Quality
- Equal Opportunity
- Flexibility
- Openness

The Department will aggressively enforce the state's statutes, rules and regulations to promote public confidence, protect consumers, and provide a healthy mortgage lending environment to meet the credit needs of Texans and maintain a safe and sound thrift system.

Legend of Acronyms

AARMR - American Association of Residential Mortgage Regulators
ACSSS - American Council of State Savings Supervisors
ALLL - Allowance for Loan and Lease Losses
AOCI - Accumulated Other Comprehensive Income
APR - Annual Percentage Rate
CFPB - Consumer Financial Protection Bureau
CRA - Community Reinvestment Act
CRE - Commercial Real Estate
CSBS - Conference of State Bank Supervisors
DOJ - Department of Justice
ECOA - Equal Credit Opportunity Act
EDM - Early Detection Model
FASB - Financial Accounting Standards Board
FDIC - Federal Deposit Insurance Corporation
FFIEC - Federal Financial Institutions Examination Council
FHA - Federal Housing Administration
FHLB - Federal Home Loan Bank
Fannie - Federal National Mortgage Loan Association (FNMA)
Freddie - Federal Home Loan Mortgage Corporation (FHLMC)
FRB - Federal Reserve Bank
FTE - Full Time Equivalent Employee
GAAP - Generally Accepted Accounting Principles
GAO - Government Accountability Office
GDP - Gross Domestic Product
GSE - Government Sponsored Enterprises
HUD - Department of Housing and Urban Development
JFRC - Joint Financial Regulatory Commission
MIAC - Mortgage Industry Advisory Committee
MLR - Material Loss Review
MMC - Multistate Mortgage Committee
MSA - Metropolitan Statistical Area
NCUA - National Credit Union Administration
NMLS – Nationwide Mortgage Licensing System
OCC - Office of Comptroller of Currency
OCI - Other Comprehensive Income
QM - Qualified Mortgage
QRM - Qualified Residential Mortgage
RMLO - Residential Mortgage Loan Originator
SAFE Act - Texas Secure and Fair Enforcement for Mortgage Licensing Act
SDSI - Self-Directed and Semi-Independent
SIFI - Systemically Important Financial Institutions
SML - Department of Savings and Mortgage Lending
SMSA - Standard Metropolitan Statistical Area
SRR - State Regulatory Registry
TARP - Trouble Asset Relief Program
TILA - Truth in Lending Act
UBPR - Uniform Bank Performance Report

EXTERNAL / INTERNAL ASSESSMENT

AGENCY OVERVIEW

The Department of Savings and Mortgage Lending has two key areas of regulatory responsibility: the chartering, regulation and supervision of the state's thrift industry; and the licensing/registration and regulation of the state's mortgage industry. These two areas of responsibility cover the vast majority of residential mortgage lending in Texas.

GOVERNING LEGISLATION

Article 16, Section 16(a) of the Texas Constitution of 1876 provides that, "The Legislature shall by general law, authorize the incorporation of state banks and savings and loan associations, and shall provide a system of State supervision, regulation and control of such bodies which will adequately protect and secure the depositors and creditors thereof."

The 58th and 73rd Legislatures, respectively, enacted the Texas Savings and Loan Act (Subtitle B. Savings and Loan Associations) and the Texas Savings Bank Act (Subtitle C. Savings Banks, Finance Code, Vernon's Texas Codes Annotated) for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes.

The 76th Legislature enacted the Mortgage Broker License Act (Subtitle E. Other Financial Businesses, Chapter 156) for licensing and regulation of first lien residential mortgage brokers and loan officers doing business in Texas. The statute, as amended by the 80th Legislature, applies to all residential mortgages regardless of lien position. The statute prescribes requirements for licensing and inspecting licensees, and processing consumer complaints.

The 78th Legislature enacted the Mortgage Banker Registration Act (Subtitle E. Other Financial Businesses, Chapter 157) for registering mortgage bankers conducting business in Texas and providing their borrowers with notice of the process for filing consumer complaints.

The 81st Legislature enacted the Texas SAFE Act and other significant modifications to Chapters 156 and 157. Compliance with the federal mandates addressed by this legislation expanded the field of individuals subject to residential mortgage licensing by eliminating the de minimus level of originations, and eliminating the exemptions for individuals employed by mortgage bankers under Chapter 157, governmental entities, independent third party processors and underwriters. A final determination by the CFPB for determining the compliance of the Texas SAFE Act has been postponed to no earlier than December 31, 2012.

The 82nd Legislature enacted Senate Bill 17 creating Chapter 158 which calls for the registration of non-depository third party residential mortgage loan servicers. This legislation resulted from an increasing level of concerns over mortgage servicing complaints and issues with foreclosure around the country. The statute authorizes the Department to require registrants to carry a bond or equivalent, notify serviced clients of their ability to file a complaint and to investigate any such complaints. The Department is not authorized to initiate examinations of servicing registrants but may participate in multistate examinations.

SDSI

The 81st Legislature gave the Department self-directed and semi-independent (SDSI) status as a financial regulatory agency. Some of the main characteristics of the agency under the SDSI status that differ from prior years are: a) the agency is accountable to its stakeholders and operates as a business, while oversight agencies such as Legislative Budget Board, Governor's Office of Budget and Planning, and Comptroller of Public Accounts are relieved from budget and appropriation control oversight responsibilities and associated costs; and b) the agency is removed from the cost of state government (appropriations) and as a result the state's budget is reduced.

Although the Department is no longer subject to certain state requirements, the Department opted to continue operating as normal with minimal changes. A sample of continued compliance and reporting include:

- Following the State Payroll, Travel, Purchasing and Procurement rules and standards for all Department expenditures;
- Submitting quarterly Department financial statements, including budget variance analysis, to the Finance Commission for review and approval;
- Calculating and maintaining data for performance measures, which is submitted quarterly to the Commission;
- Coordinating with other state agencies as business needs arise; and
- Maintaining funds within Texas Treasury Safekeeping Trust Company.

The Department continues to be a self-funding, self-leveling state agency, with no impact on the state budget (Finance Code §13.008(a)), that sets fees and assessments paid by the regulated industries to cover the agency's direct and indirect operating costs.

For thrifts, assessments are evaluated and adjusted, if necessary, quarterly to ensure that revenue collections are sufficient to cover costs associated with regulation. Changes imposed by the SAFE Act changed the Department's two year staggered renewal mortgage originator license to a one year license with a December 31 renewal date for all licensees. As a result, beginning in fiscal year 2010, fees are set annually for each calendar year in alignment with expected industry size and authorized budget. This approach allows for adjustments in revenue collections to be able to respond to changes in industry size and condition, increased operating efficiency, and allows for better budgeting and forecasting.

The Department has exercised its SDSI status judiciously. Thrift assessments raised in 2009 as the nation faced the upheaval of an extraordinary financial crisis were lowered back to historical levels in 2011. Further, effective November 1, 2011, the renewal fees for residential mortgage loan originators (RMLOs) and their sponsoring entities were decreased by approximately 17% and at $250 and $175 respectively are significantly below the statutory cap of $375 and place the Department's fee structure among the least expensive states in the nation.

The Legislature has always been very supportive of our regulatory needs. The continued support and the added flexibility attained through SDSI status are vital as we face challenges in the regulated industries.

OVERSIGHT

The Finance Commission of Texas is the supervisory and oversight body for the Department, as well as the Texas Department of Banking, and Office of Consumer Credit Commissioner. The Finance Commission consists of an eleven member board appointed by the governor with members serving six year staggered terms. The Finance Commission is comprised of two banking executives, a savings executive, a consumer credit executive, a mortgage industry representative, and five individuals from the general public.

The three agencies under the Finance Commission are encouraged to share resources and personnel; efficiencies have been attained among the agencies through interagency contract and cooperation.

SUNSET REVIEW

The Finance Commission and the agencies over which it has jurisdiction (Department of Banking, Department of Savings and Mortgage Lending, and Office of Consumer Credit Commissioner) were reviewed by the 77th Legislature and their existence was continued until September 1, 2013. The Department was due for review by the 83rd Legislature; however as a result of the passage of Senate Bill 652 during the 82nd Legislature, the Department's Sunset review was deferred until September 1, 2015.

EXTERNAL FACTORS

ECONOMIC CONDITIONS

Overall as the 12th largest economy in the world, Texas is expected to continue to lead the nation in a modest recovery. For the period 2000 to 2010 Texas was the only one of the 10 largest states to register in the top 10 states for GDP growth. The stability of the housing market in the past decade is a glaring difference between Texas and other states that have had much longer and more severe recessionary pressures. The diverse Texas economy provided further relative stabilization as unemployment dropped to 7.8% for December 2011, down from 8.1% in November 2011. The Texas unemployment rate has been at or below the national rate for 60 consecutive months. A more accurate reflection of the health of Texas employment than unemployment would be job creation. Over the last several years Texas has experienced a significant influx of unemployed individuals relocating in hopes of securing jobs. Between December 2010 and December 2011, Texas gained 204,500 jobs. By December 2011, Texas employers replaced all 433,400 jobs shed during the recession as our economy rebounded more quickly than the nation as a whole, and continues to add jobs. Nationally, through January 2012, only 36% of recession hit jobs have been recovered.

Another indicator that the state's economy has been comparatively healthy was the U.S. Census Bureau report that Texas added more people (421,000) than any other state for the two years of 2010 to 2011. Although Texas only has 8% of the nation's population, the state added nearly 19% of the nation's population growth for the year. The three largest employment areas adding jobs in Texas were professional, scientific; hospitals; and management sectors.

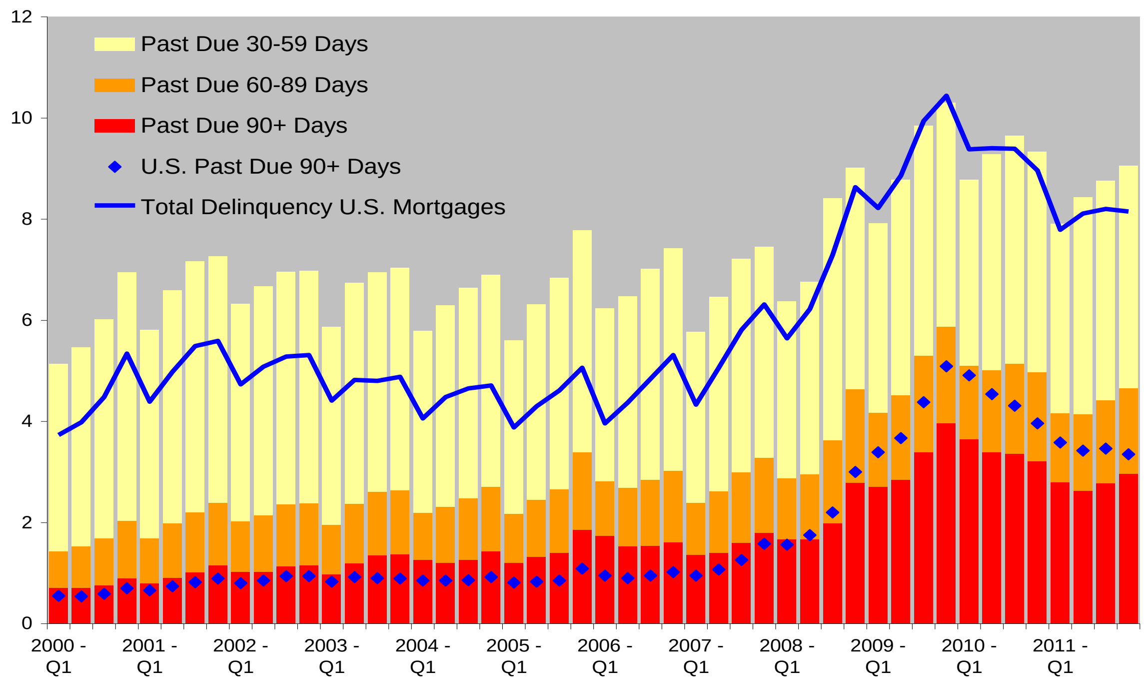
The consumer confidence level in Texas continues to be strong as compared to the nation. The nation's consumer confidence index slightly increased from April 2011 to April 2012, rising from 66.0 to 69.2. This was a 4.8% increase in the index. While during the same time period the consumer confidence index, for the region in which Texas is included, significantly increased, going from 69.5 to 91.2, a 31.2% increase.

Consumer spending is the most common engine driving recovery from recessionary cycles. However the level of household debt going into this last downturn has left many households still focused on debt reduction four years later. In March 2012 consumer borrowing rose for the seventh straight month and at the largest single month rate in over a decade. The recent increases are pushing levels back towards the all-time high reached in July 2008. At the same time the average household savings rate has fallen from 5.3% in 2010 to 3.8% in March 2012.

The Texas economy and its future financial development remain vulnerable to the credit quality weakness of its citizens. The overall national average credit score has remained unchanged from two years ago while over this same period Texas has experienced an average statewide credit score increase of three points. Experian's Second Annual State of Credit survey of over a 100 metropolitan areas across all fifty states listed the ten American Cities with the lowest average credit scores. Four of the worst ten credit score cities are in Texas and include Harlingen 686, Corpus Christi 702, Tyler 710, and El Paso 710. The Texas city with the highest average credit score of 742 was Austin. The highest city score in the nation was Wausau, WI at 789.

Experian’s national index still ranks Texas last in state average credit scores. As a region Texas, Arkansas, Louisiana, and Oklahoma; rank last of all regions in late payments and second to last in the amount of available credit in use. These figures could haves huge implications to the availability and affordability of credit to Texans.

The following chart tracks late payments on mortgages for Texas on the bar graphs and the national averages in both the solid and dotted lines. Although Texas has not experienced the same relative volumes of foreclosures the percentage of loan past due continued its historic trend of running worse than the nation.



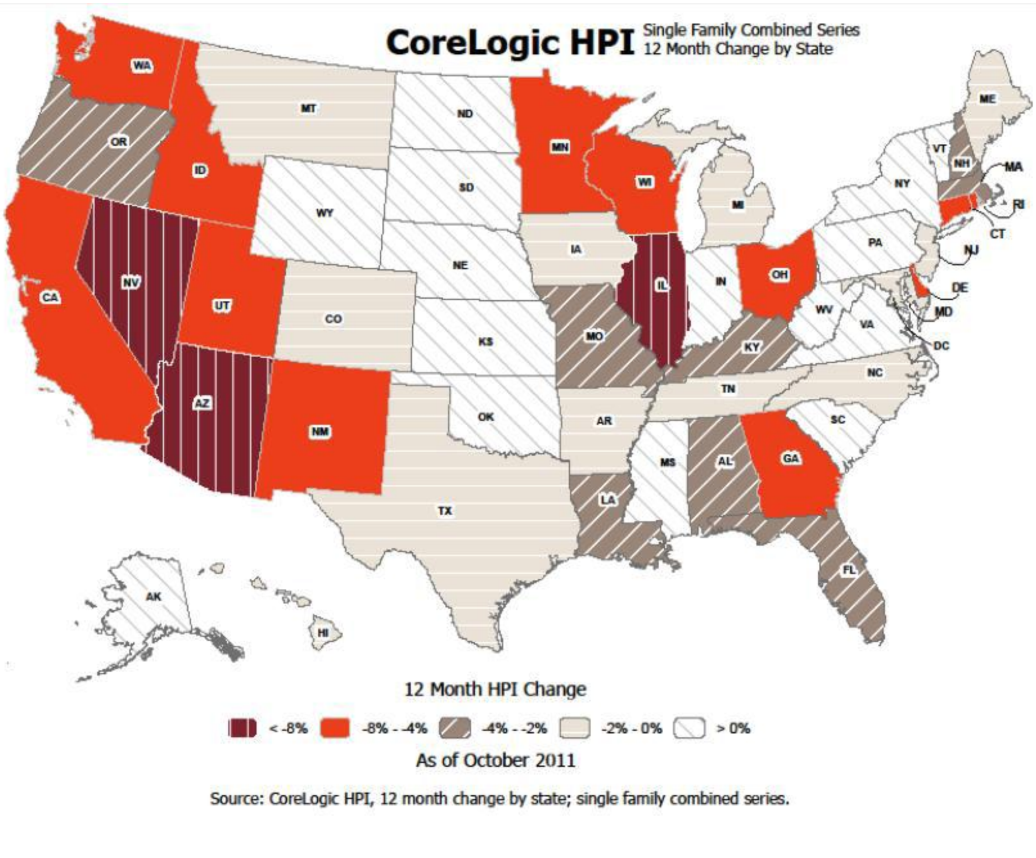
Source: Mortgage Bankers Association / Haver Analytics

The long period of time with historically low market interest rates has put pressure on interest margins and bank profits, particularly for shorter term or adjustable rate investments. Varying timing scenarios almost all point to an eventual rising rate environment. There is no easy monetary policy answer to deal with the simultaneous recessionary and inflationary pressures that the nation faces today and programs such as the Federal Reserves' "Operation Twist" and the planned "Sterilized Bond Buying" program serve to only exacerbate this issue further down the road.

HOUSING CONDITIONS

The Texas real estate market has generally avoided steeply declining property values, having skipped the housing market bubble experienced in other states. In 2011, Texas Metropolitan Statistical Areas (MSA) saw a 1% increase in the volume of home sales and a 7% decrease in total real estate listings. Additionally, Texas Multiple Listing Service homes had a median price of $148,700 and an average price of $195,000 in 2011. Although residential home construction has slowed significantly during the last three years, monthly data from the Federal Reserve Bank of Dallas shows a 12.29% increase in the number of residential housing permits applied for in the state in 2011. Despite new home construction falling by 60% from the peak, Texas nevertheless leads the country in new home permits, and the Houston and Dallas metro areas have ranked one and two nationally.

National home prices peaked in 2007 at 67% above their 2000 level, roughly double the 37% increase for Texas home prices over the same time. For California and Florida that increase was 138% and the subsequent decline has been 36% and 42% respectively. The chart below reflects decline for Texas of less than 2% over the past 12 months which is also true for the expanded seven year timeframe just discussed.



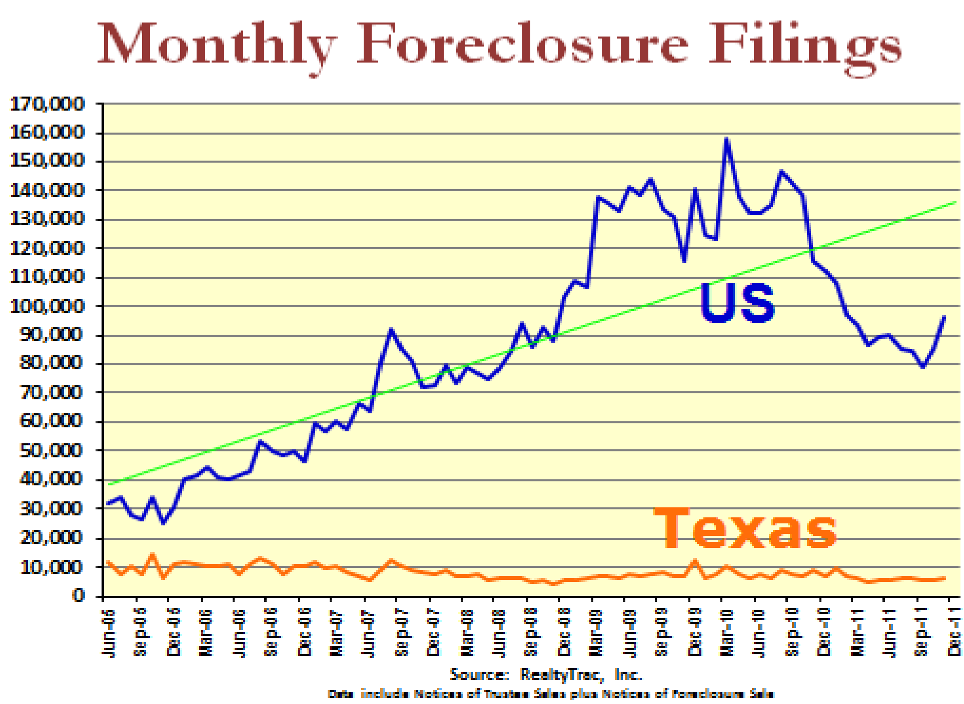
Source: CoreLogic HPI, 12 month change by state; single family combined series.

Not experiencing an inflated bubble in property values, unemployment numbers more favorable than most of the country and restrictive home equity loan to value ratios have all provided stability in the state's residential real estate market. The institutions that stuck to lending in Texas are faring better, although mortgage origination volumes have declined.

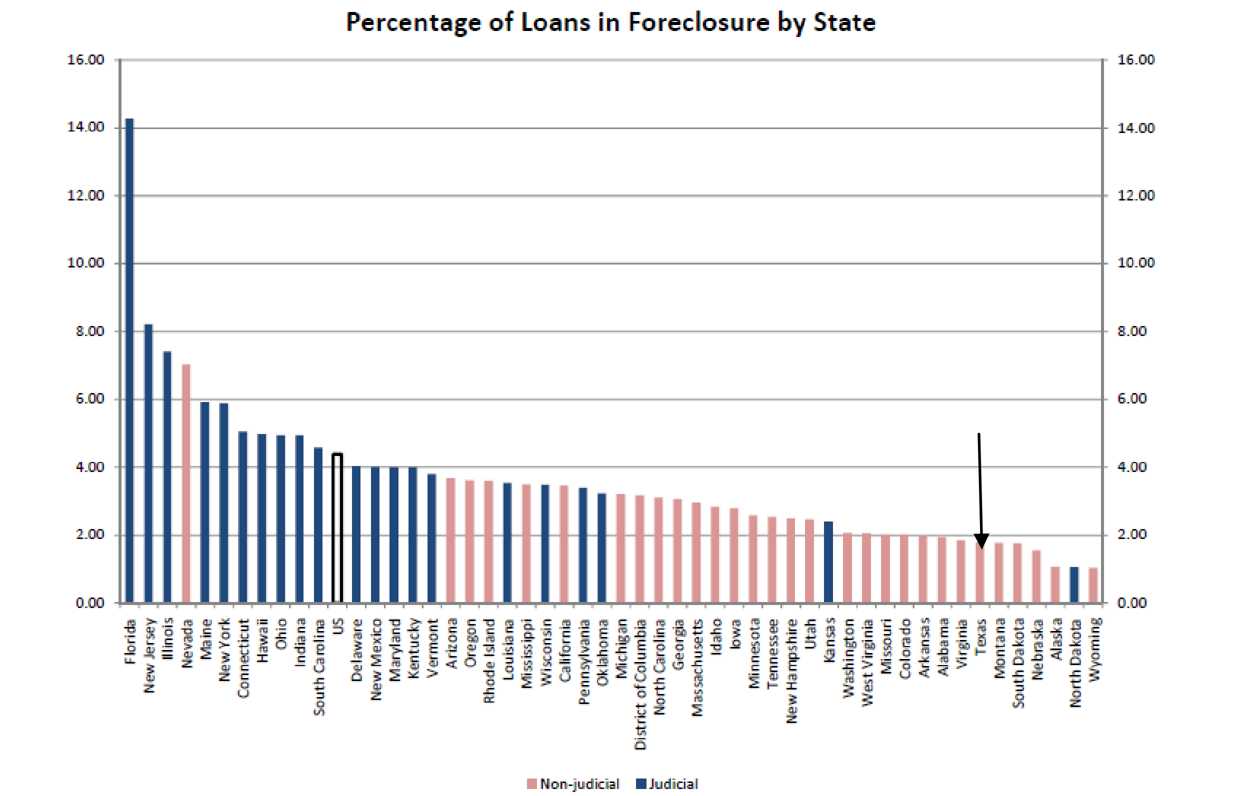
Stricter lending standards and the anticipation of federal QM and QRM standards for underwriting requirements for larger down payments have reduced the numbers of eligible borrowers. This has been a significant contributor to an environment where stable or declining home prices and record low interest rates have not resulted in an influx of new borrowers. Some who do meet the current underwriting standards no longer view homeownership as a wise investment. According to the Census Bureau, the proportion of the nation's households that own homes is at 65.1%, its lowest level since 1996. First-time homebuyers usually account for half of all sales. Over the past year, first time buyers accounted for only about a third. In 2002 the median down payment for a single family home in nine major U.S. cities was 4%, according to real estate website Zillow.com. Today it is 22%.

FORECLOSURE

Historical trends have persisted throughout the housing driven recession that the primary causes of foreclosure are loss of income, health, or marital status. Income loss, as indicated by unemployment rates, remains the most significant predictor of foreclosure. In a stable housing market like Texas individual borrowers who experience any of the above difficulties still have the option of selling their home unlike many around the country who find they owe more on their home than it is worth.



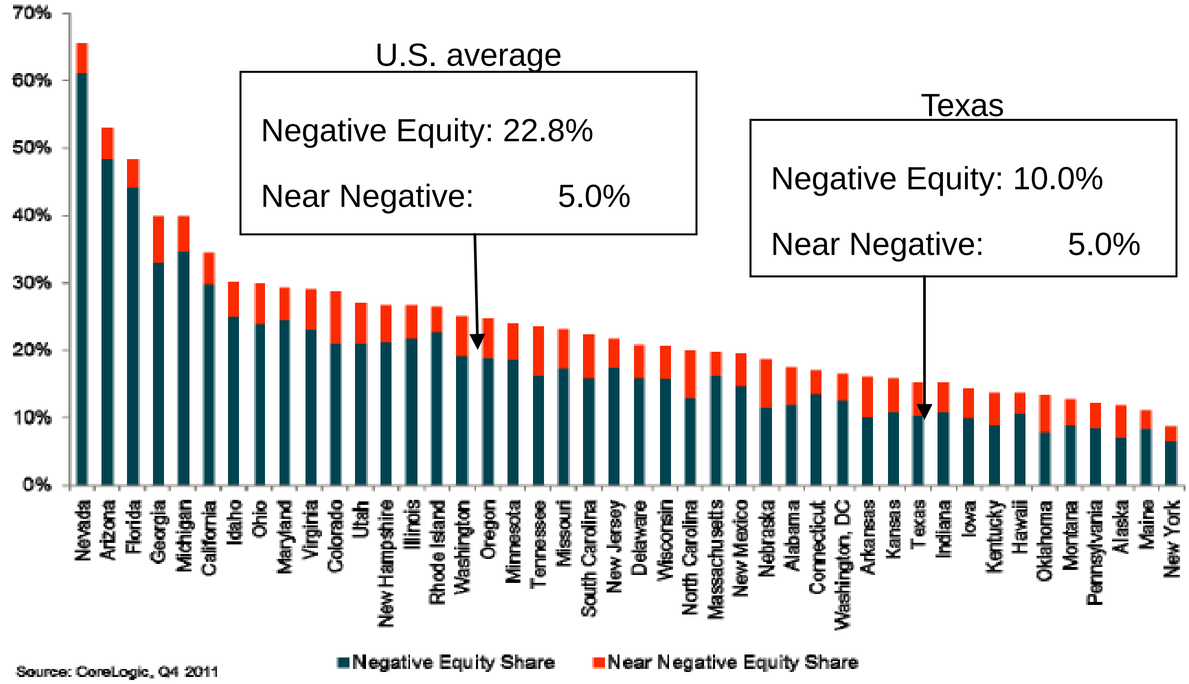
In January 2012, the Texas foreclosure rate was one in every 1,098 mortgages. This was substantially better than Nevada's one in 198, California's one in 265, Arizona's one in 325 and Florida's one in 363. Put another way a homeowner in Nevada is five times more likely to be in the process of foreclosure than a homeowner in Texas.



The 3rd Quarter of 2011 OCC Mortgage Metrics report captured 62% of all residential mortgage loans serviced in the country. The number of new foreclosures increased by 21.1% during the quarter as servicers lifted voluntary foreclosure moratoria implemented in late 2010 and exhausted alternatives to foreclosure for the large inventory of seriously delinquent mortgages working through the loss mitigation process. The increase in new foreclosures and the increase in average time required to complete foreclosures sales has resulted in the number of foreclosures in process increasing to 4.1% of the overall portfolio at the end of the third quarter of 2011. Servicers continued to emphasize alternatives to foreclosure during the third quarter, initiating more than two-and-a-half times as many new home retention actions.

Another key factor to foreclosures and the health of the Texas residential real estate market is the number of home owners with negative or near negative equity in their homes. As reflected in the next chart Texas continues to fare well in comparison, with only ten states reflecting better equity positions.

Figure 1 - Negative Equity Concentrated Mostly in Sand States
Q4 2011 Negative Equity Share



Laurie Goodman, Senior Managing Director at Amherst Securities Group LP is quoted in Money Magazine's January/February 2012 as "warning of a potential housing 'death spiral.' On top of the 2.5 million homes that have already fallen to foreclosure since the bubble burst, another 4.5 million mortgage holders have given up paying and are likely to lose their homes. Millions more are underwater. All told, Goodman warns that more than 10 million of the nation's 55 million mortgage holders could default by 2018." The proposed and implemented solutions of forgiving borrower debt on average of 25% and lowering rates to make monthly payments affordable have proven no less effective.

Since the beginning of 2008, servicers have modified 2,258,026 mortgages through the end of the second quarter of 2011. At the end of the third quarter of 2011, 50.8% of those modifications remained current or had been paid off. Another 8.8% were 30 to 59 days delinquent, and 17.8% were seriously delinquent. Eleven percent were in the process of foreclosure and 5.8% had completed the foreclosure process.

In the 2012 State of the Union address, President Obama spoke of a mortgage refinance plan he would like to see implemented. Borrowers with standard loans that are not from government sponsored enterprises and with credit scores above 580 could qualify. The Federal Housing Administration would operate the non-GSE part of the program, and the refinancing process also would be streamlined for GSE borrowers who are current in their loans. The President also proposed encouraging borrowers who refinanced their mortgages to take on shorter term loans and direct the savings to rebuilding equity in their homes. As an incentive, the federal government would pay the closing costs associated with refinancing. The cost of the refinance proposal would be offset by the latest iteration of the administration's bank tax proposal, which Congress has rejected twice before.

MORTGAGE FRAUD

Since 2004, mortgage fraud has become higher profile nationally and within Texas. Texas is in a vulnerable position with mortgage loan activity among the highest in the country. The 2nd quarter of 2011 Annual Mortgage Fraud Risk Report prepared by Interthinx, Agoura Hills, CA. ranks Texas 22nd on their Mortgage Fraud Index.

This represents an increase from the 2010 ranking; however, the map below which reflects hot spots for mortgage fraud indicates the issues in Texas are concentrated in the Dallas/Fort Worth Metroplex. Despite the higher activity in Dallas/Fort Worth area no Texas cities are listed in the Mortgage Fraud Index Top 20 MSAs

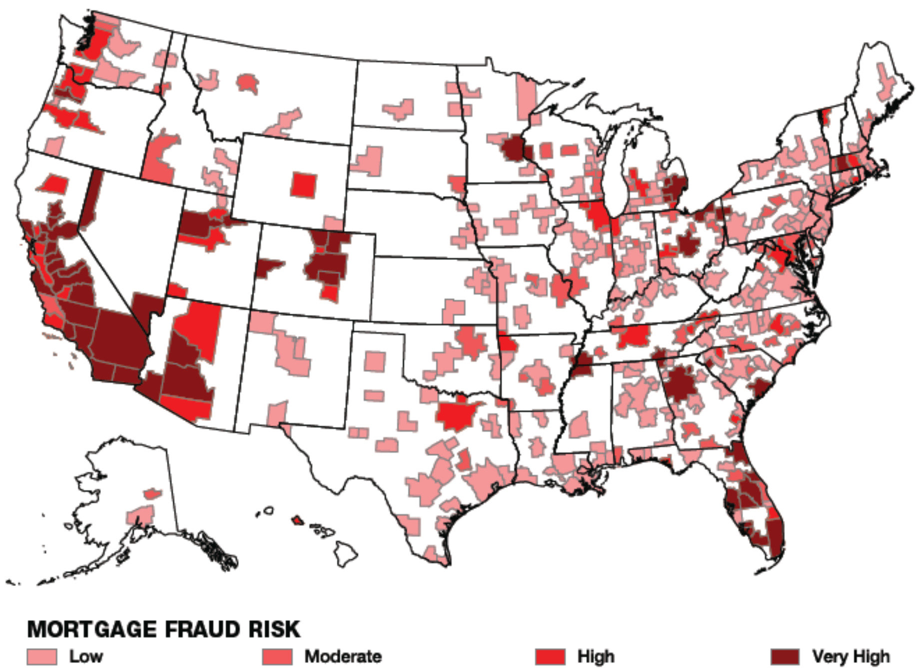


Figure 1: Mortgage Fraud Risk in Q2 2011 by Metropolitan Statistical Area (MSA)

FEDERAL AND NATIONAL ISSUES CONCERNING MORTGAGE INDUSTRY

MORTGAGE SERVICING

There has been significant regulatory and industry effort to develop and adopt industry best practices in response to deficiencies in the mortgage servicing and foreclosure activity. Some of the best practices that are being sought may include:

- Measures to ensure that staff members handling loss mitigation and loan modification requests routinely communicate and coordinate with staff members processing foreclosures on the borrowers' properties;
- Deadlines for responding to requests for loan modifications and other communications from borrowers as well as deadlines for making final decisions on loan modification requests; deadlines must be at least as responsive as the timelines under Home Affordable Modification Program (HAMP);
- An easily accessible and reliable single point of contact established for each borrower throughout the loan modification and foreclosure processes that is clearly identified to the borrower;
- A requirement that each single point of contact have access to data necessary to provide borrowers with timely, accurate, and complete information about the status of their loan modification requests and foreclosure cases;
- Procedures and controls to ensure that, before a foreclosure sale occurs, a final decision regarding a borrower's loan modification request (either on a trial or permanent basis) is communicated in writing to the borrower within a reasonable period and explains the reasons why the borrower did not qualify for the trial or permanent modification;
- Policies and procedures to ensure that payments are credited promptly; that payments, including partial payments to the extent permissible under the terms of applicable legal instruments, are applied to scheduled principal, interest, and escrow before fees, and that any misapplication of borrowers' funds is corrected promptly;
- Policies and procedures to ensure that timely information about foreclosure prevention options is sent to borrowers in the event of delinquencies or defaults, including plain language notices about loan modifications and foreclosures;
- Policies and procedures to ensure that servicers properly maintain and track documents related to foreclosures and loan modifications, so that borrowers are not required to resubmit the same documents already provided, and that borrowers are notified promptly of the need for additional information; and
- Policies and procedures to consider loan modifications or other foreclosure prevention activities with respect to junior lien loans, and to factor the risks associated with such junior lien loans into loan loss reserving practices.

The CFPB will continue to draft rules to fully implement those sections of the Dodd-Frank Act covering mortgage servicing. In early 2012 the CFPB outlined the first steps to revamp the monthly billing statements sent to homeowners. The initial draft of the new mortgage billing statement requires the following items, as applicable: principal loan amount, interest rate, date the interest rate may next reset or adjust, and a description of any late payment fee or penalty. The new mortgage billing statement also includes information on housing counselors and contact information for the servicer. The CFPB also plans to address the practice of "forced placed insurance" whereby it would prohibit servicers from charging for new insurance unless there is a reasonable belief that the homeowners have fallen behind on their payments. It also plans to allow consumers to find their own replacement insurance, rather than rely on the more expensive option from the servicer.

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)

Section 1026 of the Dodd-Frank Act defines the scope of coverage of the CFPB's authority. On July 21, 2011 the CFPB assumed exclusive rulemaking and examination authority for the following existing consumer financial regulations and laws:

- Alternative Mortgage Transaction Parity Act
- Community Reinvestment Act
- Consumer Leasing Act
- Electronic Funds Transfer Act
- Equal Credit Opportunity Act
- Fair Credit Billing Act
- Fair Credit Reporting Act
- Fair Debt Collection Practices Act
- Federal Deposit Insurance Act, subsections 43(c)-43(f)(12)
- Graham-Leach-Bliley Act, sections 503-509
- Home Mortgage Disclosure Act
- Home Ownership and Equity Protection Act
- Real Estate Settlement Procedures Act
- SAFE Mortgage Licensing Act
- Truth-in-Lending Act
- Truth-in-Savings Act
- Omnibus Appropriations Act, section 626
- Interstate land Sales Full Disclosure Act

Qualified Mortgages (QM) and Qualified Residential Mortgages (QRM)
The Dodd-Frank Act introduced Qualified Mortgages and Qualified Residential Mortgages to the mortgage lending markets. The primary focus of QM is ability to repay and for QRM it is a vested interest both through borrower down payment of 20% and loan seller retention of 5%. While the implementing rules remain under development the oversight authority for QM rests solely with the CFPB; six different federal agencies are involved with QRM rules.

QM focuses on the origination of the loan and provides a safe harbor to TILA's enhanced ability to repay provision. Lenders could be fined a million dollars a day for knowingly originating a loan violating the enhanced Regulation Z. This potential legal risk will drive many lenders to originating only QM loans. A QM loan cannot have negative amortization, interest only, or balloon payment or a term exceeding 30 years. Loans made that do not conform to QM standards must consider and verify eight underwriting factors. All of these factors whether qualifying or not are expected to make mortgages more expensive for the borrower either through additional underwriting to qualify or additional risk for not qualifying.

QRM applies primarily to the mortgage lenders and after the originated loan moves into the secondary market. The impact to borrowers comes in the form that this lender retention of risk can be exempted if the loans are deemed high-quality. In the original proposals this has meant a 20% or greater down payment from the borrower. Otherwise, for all non-QRM loans that are securitized and sold the loan seller must continue to hold 5% of those packages. More importantly Fannie Mae and Freddie Mac will not buy any non-QRM loans. It is unclear how that 5% risk retention will be applied horizontally – where the originator would hold all the exposure to first loss; or vertically – where the originator would hold a portion of all classes in the security.

QM vs. QRM

	Qualified Mortgage	Qualified Residential Mortgage
If A Loan Doesn't Qualify…	• It can't have a prepayment penalty, even with a fixed rate • It's not presumed to meet "ability to repay" standard • Borrower can use violation of that standard to fight foreclosure	• Lender must retain 5% of the credit risk if loan is securitized
What It Takes	• No negative amortization or deferred principal repayment, no balloon payment* • Verified, documented sources for repayment ability • Underwritten assuming loan is fully amortizing over term (including principal, interest taxes, insurance and special assessments) • Points and fees no more than 3%* • Maximum 30-year term*	• Maximum debt-to-income of 28% for housing debt and 36% for total debt • No 60 day delinquency in previous 3 years • Maximum loan-to-value of 80% for home purchase, 75% for refis, 70% for cash-out refis
*Some exceptions apply		Source: Center for Responsible Lending

LOAN OFFICER COMPENSATION

In April 2011, a Federal Reserve Board rule amending Regulation Z became effective regulating the compensation of mortgage loan originators. The stated purpose of the new rule was to protect consumers from unfair or abusive compensation practices by mortgage loan originators. The rule prohibits three compensation practices: compensation based on loan terms, steering consumer to a loan not in the consumer's interest for greater compensation, and receiving compensation from both the creditor and consumer. The CFPB assumed authority over Regulation Z in July 2011. It is currently unknown whether the CFPB will decide to implement changes to the rule in 2012, but the Bureau has made some indications that it would be releasing guidance on the compensation issue sometime during 2012.

NMLS MORTGAGE CALL AND ANNUAL REPORTS

Mortgage call reports have significantly increased the detail of information required to be tracked and reported compared to the previous state requirements. These reports also create a significant burden on licensees for data collection as the reporting format is dissimilar to any other existing reporting requirement. These requirements have been in place one year, and there is still a significant level of reporting errors and failures to file. At this time it is unclear what level of information will be provided to the regulators as well as what information, even on an aggregate basis, will be available to the public as no reports have been developed.

TRUTH IN LENDING ACT (TILA) AND REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

Various reforms to both TILA and RESPA are underway as described below. Furthermore, there are new timing requirements of when the Good Faith Estimate must be provided as well as an expansion of who must receive a Good Faith Estimate.

Consolidated Lending Disclosures - Section 1098 of the Dodd-Frank Act, amended Section 4(a) of RESPA and Section 105(b) of TILA to require the CFPB develop a single form that integrates the consumer disclosures required under each Act. In November of 2011, the CFPB released new versions of the Truth In Lending disclosure form and the HUD-1 Settlement Statement. By the end of 2011, the CFPB released two model forms, which combined the TIL disclosure and HUD-1 form. As of February 2012, the CFPB was conducting the final round of testing on a "Loan Estimate" form and a "Settlement Disclosure" form. After this phase, the CFPB will begin writing the proposed rules for these disclosures. The CFPB is required to propose rules for public comment regarding these combined disclosures by July 21, 2012.

***Ability to Repay* -** Section 1411 of the Dodd-Frank Act addresses the problems created by the widespread use of stated income loans, or more commonly known as "liar loans." Section 1411 prohibits making a residential mortgage loan without determining that the applicant has "a reasonable ability to repay the loan." The following seven factors must be considered at a minimum: (1) credit history; (2) current income; (3) expected income the consumer is reasonably assured of receiving; (4) current obligations; (5) debt-to-income ratio or the residual income the consumer will have after paying nonmortgage debt and mortgage related obligations; (6) employment status; (7) other financial resources other than the consumer's equity in the dwelling or real property that secures repayment of the loan. Lenders may be exempted from these requirements if they make only "qualified" mortgage loans.

In the Spring of 2011, the FRB issued proposed "ability to repay" rules under Regulation Z, which requires creditors to determine a consumer's ability to repay a mortgage before making a loan and establish minimum mortgage underwriting standards. The revisions to the regulation, which implements TILA are being made pursuant to the Dodd-Frank Act. Consistent with the Dodd-Frank Act, the proposal would apply the ability to repay requirement to all consumer purpose mortgages. Pursuant to the act, the proposal would provide four options for complying with the ability to repay requirement.

High Cost Mortgage - Dodd-Frank made several amendments to TILA. Specifically, more loans are now considered "high cost" because the APR which triggers high cost rules was lowered to 6.5% for most first lien mortgages and 8.5% for junior lien mortgages, on principal dwellings. Similarly, the amount of points and fees charged which trigger high cost rules were also lowered. One of the new consequences of the "high cost" designation is that balloon payments are limited to no more than twice the average of earlier scheduled payments.

GOVERNMENT SPONSORED ENTERPRISES (GSES)

Over the years, many attempts have been made to address the risk exposure, capital adequacy, and accountability of the GSEs, all without success. The current regulatory and financial reform efforts seem to ignore the government housing finance system despite combined losses for Fannie and Freddie of just over $200 billion since the 2008 receivership and further financial assistance has been requested.

The November 11, 2011 Wall Street Journal article *Risk Rises for Housing Agency* states the FHA now backs about one third of all new mortgages originated for purchase, up from approximately 5% in 2006. A study of FHA modification efforts revealed that 39% of the 180,700 FHA modifications completed in 2009 re-defaulted within 12 months as did more than 30% of the nearly 282,000 modifications completed in 2010. A study, conducted by Joseph Gyourko a real estate and finance professor at the University of Pennsylvania's Wharton School, estimates that the FHA faces around $50 billion in losses in the coming years. At the end of 2011 more than half of all homes with FHA loans were worth less than the outstanding debt. The FHA's reserve accounts are projected by the Obama administration to run out of money in 2013, and the agency has indefinite budget authority to draw on funds from the Treasury Department without a congressional appropriation. Premiums for FHA loan guarantees were increased in 2011 and again in 2012.

TEXAS INITIATIVES AND CONDITIONS RELATING TO MORTGAGE INDUSTRY

MORTGAGE SERVICING

Effective September 1, 2011, Texas Senate Bill 17 provided regulatory authority to the Department over residential mortgage loan servicers. The Department may conduct an investigation of complaints filed against a registered residential mortgage loan servicer and take action if the investigation determines that a violation of federal or state law has occurred. The Department may also participate in multistate servicer examinations scheduled by the CSBS Multi-State Mortgage Committee in accordance with the CSBS protocol.

ATTORNEY GENERALS' MORTGAGE SERVICING SETTLEMENT

In February 2012, the Department entered into a multistate attorney generals' mortgage servicing settlement with the top five servicers in the nation. As part of the settlement, the Department will receive $500,000 for the enhancement of supervision or home owner relief. It has been determined the total sum will be turned over to the Financial Education Endowment Fund administered by the Finance Commission of Texas. The goal of this fund is to improve financial literacy among Texas citizens through educational opportunities.

MORTGAGE ACCREDITATION

The CSBS/AARMR Mortgage Accreditation Program involves a comprehensive review of the critical elements that assure the ability of a state mortgage agency to discharge its responsibilities through an investigation of its administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers. In setting high standards, CSBS is supporting public interest by identifying highly competent state mortgage agencies to strengthen the capabilities of all state regulators. The Department started the accreditation process in late 2010 with an onsite portion of the accreditation being completed in February 2011. The Department received its accreditation in June 2011 and was the ninth state mortgage agency to receive its accreditation. As of January 31, 2012, there have been 12 state mortgage agencies that have been accredited. With this accreditation the Department is presumed to be compliant with the requirements of 12 CFR, 1008, Regulation H, specifically §1008.113. This should allow the Department to forego a compliance review by the CFPB regarding the Texas SAFE Act.

MORTGAGE INDUSTRY ADVISORY COMMITTEE

The Mortgage Industry Advisory Committee (MIAC) was established by Texas Finance Code, Chapter 156. Their powers and duties include: advising the Commissioner with respect to rules, procedures, form and content of applications and other documents required by the Department, and interpretation, implementation and enforcement of issues relating to the mortgage industry.

Of the committee's six members appointed by the Commissioner, three are licensed RMLO's under Texas Finance Code, Chapter 156, Residential Mortgage Loan Company and Residential Mortgage Loan Originator Licensing and Registration Act, and three are licensed RMLO's under Texas Finance Code, Chapter 157, Mortgage Banker Registration and Residential Mortgage Loan Originator License Act. Further, one RMLO out of each group must hold an active license with the Texas Real Estate Commission. Members are to be actively engaged in the mortgage industry and serve for staggered three year terms. The Commissioner may remove members for failure to discharge their responsibility or if it is determined they did not have the qualifications required at the time of appointment. The committee must meet at least twice each year and serves without compensation. Prior to proposing mortgage industry related rules to the Finance Commission for publication or adoption, the Commissioner meets with the MIAC, considering their comments and recommendations, and reporting the results of such deliberations to the Finance Committee. A record vote is taken on issues as needed and the Commissioner informs the Finance Commission of the results. MIAC recorded votes are only a recommendation and do not supersede the rulemaking authority of the Finance Commission.

MORTGAGE ORIGINATOR DEMOGRAPHICS

The level of mortgage broker licensees peaked at just under 30,000 during 2005; however, the credit crunch and near evaporation of warehouse lending lines caused significant realignments in the primary conduits of mortgage products away from wholesale to retail outlets. This result can be measured in Texas by reviewing the decline in the number of mortgage brokers as shown in the following chart.

Mortgage Licensee Population

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
FSA/FSC									2,344	2,308	561	567
MBC									1,722	1,743	1,209	972
MB-LO	8,365	11,451	14,857	22,694	26,685	27,820	24,162	24,420	18,309	12,539	8,986	8.690
BKC					354	379	414	431	394	376	335	338
BKC-LO											4,549	8,577

FSA/FSC – Financial Service Agent and Company; MBC – Mortgage Broker Company; MB-LO – Mortgage Broker Loan Officer; BKC – Mortgage Banker Company; BK-LO – Mortgage Banker Loan Officer (license requirement went into effect FY10)

As of February 29, 2012 the population of residential mortgage loan originators totaled 3,340. In 2010 individual loan officers employed by mortgage bankers were required to be licensed for the first time. Mortgage banker residential mortgage loan originators totaled 7,936 as of February 29, 2012 and represent approximately 71% of all individual licensees as of that date. Additionally as of that date, the number of entities licensed was 1,448.

The SAFE Act expanded the definition of those subject to licensing to include independent third party loan processor and underwriters, certain bona fide non-profits (but not their individual employees) and credit union subsidiary mortgage originators.

Other notable items relating to Texas' mortgage licensing include:

- For the first six months of fiscal year 2012 the Department received a weekly average of 111 applications and 824 license amendments.
- As of February 29, 2012, 65.3% of the companies licensed in Texas only operated in Texas whereas the remaining 34.7% operated in more than one state. The national average is 80% of companies operate in only one state.

- At the end of the 2nd quarter of fiscal year 2012, of the companies licensed in Texas 40.2% only had one licensed residential mortgage loan originator.
- As of the end of the 2nd quarter of fiscal year 2012, 54.4% of the Texas licensed residential mortgage loan originators only worked in Texas; the remaining 45.6% operated in multiple states. This along with the company demographic mentioned above both speak to the attractiveness of the Texas market from out of state originators as the national average for individuals having a license in only one state is 73%.

MORTGAGE EXAMINATION PROGRAM

Examinations for fiscal year 2011 showed an improving trend with 91% of licensees generally complying with state and federal statutes and regulations, as compared to the historical compliance levels of 80%. It is anticipated that the level of compliance will continue to improve as licensees become more familiar with recent state and federal statute changes.

Significant strides have been made since fiscal year 2003 in addressing examination enforcement of noncompliance. In an audit conducted by the State Auditor's Office in March 2007 it was recommended that the timeframe between the examinations be reduced from the approximate average of 55 months at the time. The Department prioritizes return examinations based on an entity's overall compliance rating. As of December 31, 2011, the overall average time between examinations was approximately 30 months. The program has been further enhanced by continually reviewing examination policies and procedures, and intensifying the training program to ensure consistent examination results, timely and effective reporting, and prompt corrective or enforcement action to address concerns.

RMLOs sponsored by mortgage bankers have had a significant impact on the Department – they are new to licensing and represent 71% of total RMLO population. Due to the decline in other licensee categories as well as the concentrated nature of these licensees among fewer sponsoring entities, hiring additional examination staff has not been necessary. If, however, the need to add staff arises, the SDSI status of the agency will allow for quick action. The average number of RMLOs per mortgage banker is 26; this compares much more favorably in terms of necessary Department examination resources as compared to three average licensees per mortgage company. Examinations of individuals are reported per entity where common compliance programs, policies and procedure or software can be evaluated in a unified approach, which allows greater efficiency as RMLO numbers increase.

Unlicensed activity among mortgage bankers has been significant. The Department has concentrated examination efforts on the largest mortgage banker operations since initiating examinations in October 2010. As a result, the overwhelming majority has already been examined and all licensees are expected to be examined prior to December 31, 2012. These completed examination reports have found that 46% contained some level of unlicensed activity. This level of non-compliance is unacceptable, but is expected to improve significantly.

The Department believes that the examination and enforcement programs are the most effective ways of identifying and changing the business practices of abusive mortgage originators or removing them from the industry. The chart below shows the overall improvement in compliance by licensees in the examination results in fiscal year 2011 as compared to historical data since the inception of examination authority. Information gathered through examinations has resulted in significantly more enforcement orders against mortgage originators. These enforcement actions are designed to correct areas of abuse and serve as a foundation for restitution to affected consumers.

Mortgage Examination Compliance Ratings

(*Percentages exclude "Not Rated" examinations. A "Not Rated" examination is assigned to licensees who have not originated loans in the prior 24 months.)*

	# Exams	Rated "1"	%	Rated "2"	%	Rated "3"	%	Rated "4"	%	Rated "5"	%
Historical Exam Ratings			**14%**		**31%**		**35%**		**17%**		**3%**
Fiscal Year 2011 9/1/10 – 8/31/11	440	129	**29%**	173	**39%**	101	**23%**	35	**8%**	2	**<1%**

MULTISTATE EXAMINATIONS

The Nationwide Cooperative Protocol and Agreement for Mortgage Supervision (Agreement) outlined a basic framework for the coordination and supervision of multistate mortgage entities. The initiative established the MMC which is comprised of ten state regulatory officials appointed by the CSBS and the AARMR as the oversight body with the following agreed goals: (a) protect consumers; (b) ensure the safety and soundness of multistate mortgage entities; (c) identify and prevent mortgage fraud; (d) supervise and examine in a seamless, flexible and risk focused manner; (e) minimize regulatory burden and expense; and (f) foster consistency, coordination and communication among state regulators. The MMC is charged with implementing, directing processes, selection of examination targets and coordinating multistate examinations. In addition, the MMC is responsible for the development of uniform examination processes and the modernization of traditional examination approaches for achieving more effective supervision.

The Department signed the Agreement for mortgage supervision in a joint examination capacity. Joint examination states are those states with the ability to protect confidential supervisory information received from other states and therefore can participate to the fullest extent in multistate examinations and enforcement actions. Mortgage examiners from the Department have participated in a total of four multistate examinations through the end of fiscal year 2011. The Department anticipates continued participation in additional multistate examinations.

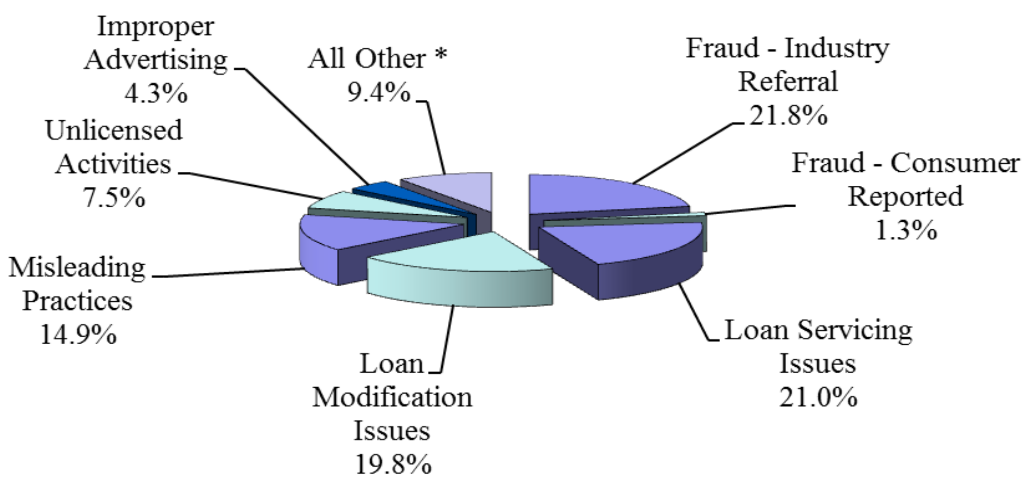
CONSUMER PROTECTION AND COMPLAINT RESOLUTION

Fraud related complaints represented 32% and 23% of complaints received in fiscal years 2010 and 2011, respectively. While fraud complaints have been the highest percentage of complaints received over the past two fiscal years, 95% of them have been referrals from other state agencies or the industry and are associated with loans that were originated anywhere from four to seven years ago. These referrals are reviewed upon receipt and appropriate action is taken. If the individual(s) referenced in the complaint is not under the Department's regulatory authority but there is sufficient information to support the fraud claim, the Department will refer the complaint to the Texas Attorney General's Office or other state or federal law enforcement agencies. Consumer reported fraud complaints represented 1.3% of all complaints received in fiscal year 2011. Fraud complaints frequently arise when mortgage originators engage in cooperative activities with real estate brokers, appraisers, contractors, or investors. These cases are complex and complicated, often requiring interagency cooperation to achieve enforcement. In 2005, the Department initiated an interagency fraud working group consisting of investigators from the Department, Texas Department of Insurance (title company oversight), Texas Real Estate Commission (real estate brokers and sales persons), Texas Appraiser Licensing and Certification

Board (appraiser oversight), Office of the Attorney General, and, if needed, other federal authorities. The 80th Legislature passed H.B. 716, formally creating the Texas Mortgage Fraud Task Force. Joint investigations and increased authority to share information with the Texas Real Estate Commission, Texas Securities Board, Texas Department of Insurance, Federal Trade Commission, FNMA, HUD, and related agencies may improve the overall effectiveness of all agencies. Addressing mortgage fraud is a Department priority. The Department devotes considerable resources to combating fraud and cooperating with federal and state law enforcement agencies independently or through the Mortgage Fraud Task Force.

Nature of Complaints Received - Fiscal Year 2011

(Complaints Received 09/01/10 to 08/31/11)



Total complaints received in Fiscal Year 2011 = 671

* The "All Other" category includes: Customer Relations Issues, Inadequate Disclosures, Permissible Charges/Fees, Refunds and File Transfers, Bait and Switch, Identity Theft, Failure to Comply with Company Licensing Requirements, and complaints against State Savings Banks (7).

The volume of consumer complaints has been declining since 2009 which can be attributed to a declining licensee base during the same time. The decline in complaints may be reversed with the expansion of licensee populations and disclosure requirements under the Residential Mortgage Loan Servicer Act established by the 82nd Legislature. Nevertheless, the Department continues to be challenged because of the complexity of some complaints. The complaints caseload has stabilized when compared to previous years and the aging of open complaints continues to improve. At the end of fiscal year 2011, there were no open complaints older than 150 days with 66% of complaints being open for less than 90 days.

Previous legislatures granted additional FTEs for mortgage regulation and complaint resolution processes. The additional staff has been instrumental in addressing the consumer complaint backlog and has allowed new procedures to be established to process complaints and investigations more timely. The ability to maintain investigation and enforcement activities results in eliminating illegal, unearned, and unjustified mortgage loan fees for Texas consumers.

COOPERATIVE AND INFORMATION SHARING AGREEMENTS

The Department continues to support information sharing for consumer protection purposes. The Department currently has cooperative and information sharing agreements in place with the Consumer Financial Protection Bureau, Conference of State Bank Supervisors, Financial Crimes Enforcement Network, Texas Attorney General, and other state regulators. These agreements establish a framework of cooperation, enhance working relationships, and avoid duplication of efforts between the entities.

HOME EQUITY

An interagency staff working group develops home equity interpretations for the Joint Financial Regulatory Commission (JFRC). Adopted home equity interpretations are codified in 7 TAC Chapters 151-153. The Department actively participates in the process because its constituent groups (thrifts, mortgage brokers, and mortgage bankers) engage in making or originating home equity loans. The Department monitors litigation relating to home equity lending and developments in the home equity market, and as needed actively participates in developing and revising home equity interpretations.

Litigation in Texas has challenged adopted interpretations and standard home equity provisions. Certain of the JFRC interpretations were held invalid by a Texas district court. On appeal, the appellate court affirmed the trial court's opinion upholding one joint rule, opined that one joint rule was rendered moot due to constitutional amendments in 2007, reversed the trial court's opinion invalidating two joint rules, and affirmed the portion of the trial court's judgment invalidating one of the joint rules. The JFRC filed a Petition for Review with the Texas Supreme Court relating to the latter ruling. The individual Respondents filed a cross-petition regarding the appellate court reversal on two rules. The Texas Supreme Court granted the parties' cross-petitions for review. At oral argument in September 2011, the issue of standing of the plaintiffs to bring the case was raised. The Texas Supreme Court required all parties to file briefs on the issue of jurisdiction. The briefs have been filed. The Department is participating in the litigation process as a member of the interagency working group.

NATIONAL ORGANIZATION SUPPORTING STATE REGULATION

The Department is an active participant in numerous CSBS initiatives through NMLS. The SML Commissioner currently serves as the Vice Chairman of the board of managers for the SRR. SRR is the owner and operator of NMLS. NMLS is a repository for information and is used by state regulators to process license application requests, enhance state's ability to protect consumers, and improve supervision and enforcement of licensed entities. Other members of the Department's management team serve on the following standing committees which set national policy for NMLS: Lawyers Committee; Mortgage Testing & Education Board; Residential Mortgage Regulatory Taskforce; and the Regulator Development Working Group.

In addition to this national affiliation several staff members are actively engaged in making presentations and maintaining a free flow of communication with Texas statewide trade groups directly or indirectly involved in mortgage lending. Just over 20 presentations were made by Department staff during fiscal year 2012. These groups include the Texas Mortgage Bankers Association, the DFW Mortgage Brokers Association, the Greater Houston Area, Central Texas, San Antonio Area Mortgage Professionals, Texas Association of Realtors, Texas Real Estate Teachers Association, Reverse Mortgage Conference, Texas Association of Community Development Corporations, Texas Association of Local Housing Finance Agencies, Real Estate Investor's Club, Rio Grande Legal Aide, and Texas State Bar. The Department has found its relationship to all of these various trade groups to be invaluable in the dissemination of information and promotion of compliance.

EDUCATION INITIATIVES

One of the most important steps in reducing non-compliance and abusive practices is enhancing education. The Department had been engaged in a comprehensive education of licensees for nearly a decade. However, on January 1, 2010, all industry professional education requirements and approvals were transferred to the NMLS. Also, the pre-licensing education requirements were substantially reduced as a result of the Texas SAFE Act to match federal minimum standards. NMLS also took control of pre-license testing requirements. Current discussions include the possibility of merging the current 54 separate state level tests into one uniform test. If this action occurs the Department will seek a statutory change in the pre-licensing education requirements by including up to as many as five additional hours of education on Texas specific regulations and compliance. Currently only 20 hours of pre-licensing education is required with no content specifically targeted to Texas. The Commissioner and senior staff will continue to conduct presentations to industry representatives and licensees designed to enhance communication between the Department and the mortgage industry, raise awareness of the need for quality education, and to learn firsthand from attendees the issues needing more emphasis. During the 20 month period ending April 30, 2012 staff provided 37 separate presentations.

The Department primarily uses its website and also the news media to facilitate consumer education and convey consumer precautions and tips for applying for a mortgage loan. Several investigative reports and stories related to mortgage lending have featured interviews with the Commissioner. Senior staff appears before industry and consumer groups, regulatory entities, civic organizations, and other related or interested parties. Feedback indicates these efforts have raised consumer awareness.

FEDERAL AND NATIONAL ISSUES CONCERNING THRIFT INSTITUTIONS

REGULATORY RELIEF

Congress passed House Resolution (H.R.) 2056, becoming effective January 3, 2012, requiring the FDIC inspector general to study examination and resolution policies that may contribute to the current harsh examination environment. Regulatory relief for community banks is the preeminent issue being promoted through multiple proposed federal legislative initiatives. The Communities First Act (H.R. 1697/S. 1600) includes a variety of policies to provide sensible and much needed regulatory and tax relief for community banks. Pieces of the Act are also advancing as separate bills. For example, on November 2, 2011 the House voted overwhelmingly to approve legislation (H.R. 1965) amending the Securities Exchange Act to raise the shareholder registration threshold for banks and bank holding companies from 500 shareholders to 2,000. It also would increase the deregistration threshold from 300 to 1,200 shareholders for banks and bank holding companies. As of May 31, 2012, the bill is still pending.

Additionally, H.R. 3213 which would exempt all companies with $350 million or less in publicly held stock shares from Sarbanes Oxley 404(b) reporting requirements, a significant increase over the current exemption of $75 million granted by the Dodd-Frank Act. The Common Sense Economic Recovery Act of 2011 (H.R. 1723), would stop regulators from assigning nonaccrual status to performing loans and would provide for more consistent loan classifications.

DEPOSIT INSURANCE SYSTEM ISSUES

The Dodd-Frank Act permanently increased deposit insurance coverage to $250,000 per depositor. It also established a two year extension of unlimited deposit insurance for noninterest bearing transaction accounts. There is a push to extend unlimited FDIC deposit insurance coverage on noninterest bearing transaction accounts once the temporary coverage expires on December 31, 2012. Additionally, Congress enacted measures requiring new asset based FDIC assessments, which is projected to save community banks nationwide more than $4.5 billion in the first three years.

> ***Deposit Insurance Fund (DIF) Balance*** - After seven consecutive quarters of negative balances, the DIF achieved a positive balance in the summer of 2011. The FDIC predicts that at current assessment rates, the DIF balance will reach 1.15% of estimated insured deposits by 2018. The Dodd-Frank Act requires that the DIF reserve ratio reach 1.35% by September 30, 2020. All banks made a substantial, three year prepayment of assessments in 2009. Because the new asset based assessment rates shifted more of the costs to the larger banks, many community banks have large balances of prepaid assessments that may be returned.

> ***Resolution planning*** - The FDIC has issued a series of regulations that establish a framework for the orderly liquidation of covered financial institutions (i.e., banks with assets of $50 billion or more and designated as systemically important nonbank financial companies) once the FDIC is appointed as the receiver. The Financial Stability Oversight Council has issued rules or guidelines for determining which nonbank financial companies should be considered systemically important financial institutions (SIFIs). However, so far the Council has not announced any company that meets its criteria. The FDIC and the Federal Reserve have also issued rules requiring systemically risky institutions to annually submit contingent resolution plans — so called living wills — that would provide a blueprint for an orderly wind down should the institution fail. These companies must begin submitting initial resolution plans in 2012. Today the seven largest banks hold assets equal to 66% of GDP; 20 years ago that figure was only 18%.

> ***Capital and liquidity requirements*** **–** On January 5, 2012 the Federal Reserve published a comprehensive proposed rule laying out new capital and liquidity requirements for systemically important banks and nonbanks. Industry leaders continue to urge policymakers to impose a surcharge on SIFIs, one that is at least what the Basel Committee on Banking Supervision has recommended for the global SIFIs—a progressive common equity Tier 1 capital requirement of between 1% and 2.5%, depending on the bank's systemic risk.

STRESS TESTING

As required under §165(i) of the Dodd-Frank Act, depository institutions with more than $10 billion in assets must conduct periodic stress tests of their operations to measure the impact on future capital levels. Similar tests were recently administered under the Supervisory Capital Assessment Program (SCAP) by the Federal Reserve Bank on the largest 19 banks in the country. These 19 banks were deemed to be "systemically significant" to the US economy. As a result of the SCAP tests 10 of these institutions were required to raise approximately $185 billion in capital, collectively. With the exception of one institution, all were able to raise the required capital. The remaining institution used Troubled Asset Relief Program funds in lieu of conducting its own public capital raise. The perceived success of this program led Federal

Reserve Bank Chairman Ben Bernanke to publicly indicate that stress testing should be an integral part of a depository's processes for determining the adequacy of its capital levels.

In October 2010, the CSBS released a white paper entitled, "The Case for Stress Testing at Community Banks". The paper was released because CSBS anticipated that some level of stress testing requirement would be written into interagency policies. The paper contemplates the wide diversity of business models, markets, policies, and expertise among community banks, supporting an argument for bank specific, internally administered stress testing. A series of nationwide seminars have been jointly held by CSBS and the Graduate School of Banking at Colorado for community bankers to learn about state and federal regulator expectations, and related third-party vendor services. Examiners are expected to evaluate these policies and procedures, as well as imbedded assumptions at each regular, full scope examination. SML continues to monitor the risk profile of each state savings bank in a forward looking manner through early detection modeling, and does not anticipate implementing a single, centralized stress testing model for use in determining capital needs within the diverse community of state savings banks.

OVERDRAFT PROTECTION

In the summer of 2011, the FDIC published final guidance on overdraft services while the OCC proposed its own supervisory guidance on deposit related consumer credit products, including automated overdraft protection and direct deposit advance programs. The OCC's proposed guidance details the principles national banks should follow in connection with such products to address potential risks. In regard to automated overdraft protection products, the proposed guidance would supplement recent regulatory amendments to Regulation DD (Truth in Savings) and Regulation E (Electronic Fund Transfers), as well as the 2005 Joint Agency Guidance on Overdraft Protection Programs. The proposed guidance would not address ad hoc and accommodation payment of overdrafts to an individual customer.

FAIR LENDING

Community banks may begin to see practices that have been acceptable in fair lending examinations for years being referred to the Department of Justice (DOJ) for fair lending violations. Although the fair lending laws and regulations have not changed, the standard for measuring potential redlining has changed — from comparing the percentage distribution of a bank's loans between minority and non-minority areas, including areas outside a bank's Community Reinvestment Act (CRA) area, to comparing the percentage distribution of so called peer banks.

The DOJ established a dedicated fair lending unit in the Civil Rights Division's housing and civil enforcement section in early 2010. The Division received 26 referrals from federal depository regulators (14 by the FDIC) alleging a pattern or practice of discrimination involving race or national origin in 2010 alone — a department record — and 18 referrals in 2011, according to the attorney general's annual fair lending report to Congress compared with only 30 referrals in the eight year period ending in 2008.

EQUAL CREDIT OPPORTUNITY ACT

The Dodd-Frank Act amended the ECOA which requires lenders to collect Home Mortgage Disclosure Act like information from small business applicants. ECOA was amended to require financial institutions to collect and report information concerning credit applications made by women or minority owned businesses and by small businesses.

This year community banks will be required to begin collecting information about the race and ethnicity of the principal owners of small business loan applicants as well as other borrower information such as gross annual revenue, business location and the type, purpose and amount of credit that the business borrower is seeking. The information must be submitted to the CFPB annually and made publicly available.

ESCROW REQUIREMENTS

The Federal Reserve, before transferring its authority to CFPB on many consumer financial regulations, proposed changes to the regulatory escrow requirements for higher priced mortgage loans. The Federal Reserve's proposed rule would expand the minimum period for mandatory escrow accounts for first lien, higher priced mortgage loans from one to five years, and longer under certain circumstances. The rule would also exempt certain creditors that operate in "rural or underserved" counties and services 100 or fewer first lien mortgage loans; and do not escrow for any mortgage loan it services. Opposition is urging the CFPB to exempt loans from the escrow requirement if the loans are held in portfolio by the financial institution.

FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

The Financial Accounting Standards Board (FASB), in deliberating under a joint project with the International Accounting Standards Board, proposed significant changes to the classification and measurement of financial instruments under GAAP, including loans and securities. Under the proposed guidance, financial instruments like mortgage loans and investment securities would no longer follow separate accounting guidance. Rather, these instruments would be identified based on the entity's business strategy and would be recorded at either amortized cost; fair value through other comprehensive income (OCI); or fair value through net income. Reclassification between categories would be prohibited under the proposed guidance. However, in a big departure from current GAAP, sales of assets in the amortized cost category could not call into question the ability for the enterprise to hold other financial instruments at amortized cost.

> ***Amortized cost versus fair value*** - To be classified in the amortized cost category lenders must have the ability to engage in future modifications to minimize credit losses. However, with most investment securities the holder rarely retains the ability to manage credit risk and would not be eligible for amortized cost treatment. The investment would have to be carried at fair value on the balance sheet either through OCI (for assets held for cash flows or to manage interest rate or liquidity risk) or net income (for assets held for sale). Some current fair-value accounting guidance would continue unchanged. Derivatives would continue to be classified at fair value through net income. Loan participations where the ability to manage credit risk through the modification of contractual cash flows may not reside with a participation holder, may prevent the lender from classifying that investment in the amortized cost category.

> ***Fair value disclosures*** - New disclosure requirements would mandate the reporting of fair values for all instruments classified in the amortized cost category on the face of the balance sheet. Community banks would be required to gather specific fair values for their loan portfolios based on the exit price notion under FASB's fair value guidance. Fair value would be determined based on what a buyer and seller would transact for that asset in a non-distressed sale on the measurement date. Before implementing the proposed guidance FASB will issue an exposure draft with a request for comment. Final adoption is expected in 2012 with required implementation sometime after 2013.

TIER 1 CAPITAL REQUIREMENTS

Tier 1 regulatory capital will be composed of common shares, additional paid in capital, retained earnings and accumulated other comprehensive income (AOCI). Also qualifying for Tier 1 treatment will be other equity instruments that are perpetual and have dividend distributions made solely at the discretion of the issuer. Transition to the new Tier 1 requirements will occur through a phase in arrangement starting with minimum Tier 1 capital to risk weighted assets of 4.5% in 2013. This minimum requirement rises to 6% in 2015. The Basel Committee on Banking Supervision calls for an additional capital conservation buffer starting in 2016 that eventually rises to 2.5% in 2019. When a bank's capital conservation buffer is below 2.5%, limitations are placed on its ability to distribute earnings, repurchase shares and pay staff bonuses. Banks can choose to rebuild the buffer using internally generated earnings over time or through raising new capital.

> ***Accumulated Other Comprehensive Income*** - Community banks will have a new requirement to include AOCI in the calculation of Tier 1 regulatory capital. For most community banks, AOCI represents unrealized gains and losses on debt securities held available for sale. With the inclusion of AOCI in Tier 1 regulatory capital, community banks will be subject to increased volatility in their core regulatory capital calculations, especially for banks with large concentrations of securities available for sale that are highly sensitive to changes in long term interest rates. Compound this change with FASB proposed limitations on investment securities held at amortized cost and community banks will face increased challenges to manage liquidity and capital buffers.

Final implementation of the regulatory capital changes proposed by the Basel Committee on Banking Supervision, in Basel III, the United States is subject to adoption by the prudential bank regulators and is expected during 2012.

ELIMINATION OF THE OFFICE OF THRIFT SUPERVISION

Under Title III of Dodd-Frank, the Office of Thrift Supervision was officially closed on July 21, 2011 and supervision authority of existing federal savings banks was transferred to the Office of the Comptroller of the Currency. This included all functions of the former agency, including its rulemaking authority. The absence of a dedicated federal thrift regulator presents an opportunity. As a respected regulator whose team has an in depth understanding of thrift industry issues, business models, and local markets, the Department offers an attractive charter alternative.

There were 19 federal thrift charters operating in Texas at the start of 2010. Three of these institutions have converted to state savings bank charter in order to maintain a thrift specific regulator and several others have had varying degrees of conversion conversation with the Department.

FED MEMBER STATUS

Yet another development in the regulatory relationship between the state and federal regulators and our state savings banks is a new interest on the part of some state savings banks in becoming Fed members. This action, if taken, would remove the FDIC as the institution's primary federal regulator, replacing it with the Federal Reserve. More than one charter is currently exploring this option. The Department has had limited joint field examination experience with the Dallas Federal Reserve Bank, but has had a positive working relationship for many years with regards to holding company examination and supervision.

EXAMINATION CYCLE

In 2007, the federal financial institution regulatory agencies jointly adopted rules permitting insured depository institutions with up to $500 million in total assets, a CAMELS composite rating of 1 or 2, and that met other criteria, to qualify for an 18 month, rather than 12 month, examination cycle. The other criteria that must be met includes being well managed, well capitalized, not having undergone a change in control in the previous 12 month period, and not being subject to a formal enforcement proceeding or order.

Additionally, interim examination visitation guidelines were established for all institutions subject to a formal or informal enforcement action, resulting in visitations occurring six months after completion of an examination. These visitations are not considered limited scope examinations as the scope typically includes a review of all CAMELS components, loan review and a review of the subject enforcement action.

The adoption of these joint rules and the establishment of the interim examination guidelines have created a steep increase in examination frequency, depth of review, and staffing demands. Further, with the economic downturn special visitations for excessive growth, commercial real estate concentrations, and business plan reviews were also initiated. In fiscal years 2010 and 2011 the Department conducted 47 and 36 examinations and visitations, respectively.

GEOGRAPHIC CONSIDERATIONS

The Department expects the need for community oriented financial institutions, and specifically for thrift institutions, in Texas to continue. In the thrift industry, the merger and acquisition trend continues, providing new opportunities for the formation of independently owned local savings banks to serve communities not attractive to mega-banks and mega-thrifts. Today, most rural communities in Texas have no locally owned and managed thrift institution. As equity capital becomes more available, these communities will continue to provide opportunities for de novo savings bank charters. Often, the housing credit needs of these communities are poorly met, and major metropolitan financial institutions typically find these communities unprofitable sites for full service branch locations.

TEXAS INITIATIVES AND CONDITIONS RELATING TO THRIFT INDUSTRY

REGULATORY ENHANCEMENTS

Since the 73rd Legislature established the state savings bank charter in 1993, fifteen de novo savings banks have opened, and eight commercial banks, four national banks, ten federal savings associations, and 21 state chartered savings and loan associations have converted to the state savings bank charter. Presently, we have two federal thrifts and one national bank in the discussion phase of conversion. All of these sources of new charters to the state savings bank system provide additional confirmation of the excellence of this charter. The economic recession and bank failures have significantly reduced FDIC approval of new charters, mergers, and acquisition activities. S.3217, the Restoring American Financial Stability Act of 2010, included the elimination of the Office of Thrift Supervision. Passage of this Act stimulated numerous conversations with federal savings bank charters because the Department now represents the only dedicated thrift regulator option available. Three federal savings bank charters converted to state savings banks in 2011.

COMPOSITION OF THE TEXAS THRIFT INDUSTRY

Despite strong competition from commercial banks and non-depository residential real estate lenders, thrift institutions are a significant presence in the Texas financial institutions industry. As of December 31, 2011, the $67.4 billion Texas thrift industry includes many of the largest institutions domiciled in Texas, including: [1] USAA Federal Savings Bank ($52.2 billion); [2] Beal Bank, SSB ($3.6 billion); and [3] Omni American Bank ($1.3 billion). Key thrift industry statistics as of December 31, 2011 follow.

- The Texas thrift industry includes 44 state and federal savings banks and savings associations.
- The state chartered thrift industry includes 31 institutions with total assets of $9.51 billion.
- Twenty-four state chartered thrifts were rated a "1" or "2" by both the Department and federal regulators, the highest ratings on the five point CAMELS rating system used by all federal financial institution regulators.
- Seven state chartered thrifts reported losses in calendar year 2011, compared to five in 2010, and twelve in 2009. Overall, net income increased $1.9 million or 8% due to various factors. These factors primarily improved net interest income of $32.6 million or 23.1% due to increased interest income of $32.6 million or 15.5%, despite a $3.9 million or 24.6% increase in loan and lease loss provisions, and a $26 million increase in non-interest expense two-thirds related to salary increases; reduced non-interest income of $4.3 million or 12%; and increased securities gains of $878,000 or 32.4%. This net income increase does not include one institution with a non-comparative business model.

All state chartered institutions remained "well capitalized" as economic pressures become more stable, and net loan charge-offs to loans remain consistent around a half of one percent (0.5%). However, asset growth results in slightly reduced capital ratios. Provided past due and non-accrual assets remain stable, and charge-offs remain low, industry capital should remain consistent.

STATE CHARTERED THRIFT INSTITUTIONS

Data as of (YTD):	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Active Charters	31	29	29	28	26	21	20
Total Assets (Billions)	9.5	8.6	8.4	4.0	10.0	9.2	8.7
Net Income (Millions)	52.0	95.3	221.2	7.7	54.5	210.6	206.4
Number Profitable/Total Charters	24	24	17	15	19	20	19
Tier 1 Leverage Capital - Lowest	5.4	5.7%	5.7%	5.7%	6.7%	7.0%	6.3%
Tier 1 Leverage Capital - Industry Average	11.7%	11.6%	11.0%	12.6%	28.7%	12.9%	11.5%
Tier 1 Leverage Capital - Highest	27.7%	21.5%	19.4%	30.8%	195.8%	42.0%	31.6%
Total Risk-Based Capital - Industry Average	20.8%	20.6%	18.2%	19.1%	45.8%	20.4%	18.7%

As of the end of fiscal year 2011, the Department had six state savings banks that are in a de novo status. De novo institutions face a strenuous process of attaining profitability and market share in even the best of times. As a result of these natural stresses being exacerbated by the severity of the recent economic downturn the FDIC chose to amend the official definition of the de novo status period from three to seven years, despite no other federal regulators taking similar action. With this change in definition these banks will remain in a de novo status until they have met the seven year requirement. Additionally, during fiscal year 2011 three federal thrifts converted to a state savings bank charter.

Despite significant deterioration in the 1-4 family national mortgage market since 2007, the state chartered industry non-performing assets plus other real estate owned as a percent of total assets has decreased from 8.36% in 2010 to 7.57% in 2011. Excluding an institution that is active in acquiring performing and non-performing assets in the secondary market, the industry reflects a decrease in nonperforming assets plus other real estate owned from 2.87% in 2010 to 1.40% in 2011. Maintaining asset quality remains challenging in the current economic environment and must continue to be closely monitored. The ratio analysis below is as of December 31, 2011.

	Banks			**Thrifts**		
	State Chartered Banks	**Texas National Banks**	**All Texas Banks**	**State Chartered Thrifts**	**Texas Federal Thrifts**	**All Texas Thrifts**
Number of Institutions------------- →	**302**	**250**	**552**	**31**	**13**	**44**
% of Unprofitable Institutions	8.94%	5.60%	7.43%	22.58%	23.08%	22.73%
% of Institutions with Earnings Gains	65.89%	66.80%	66.30%	70.97%	61.54%	68.18%
Yield on Earning Assets	4.19%	4.50%	4.33%	6.24%	4.90%	5.08%
Net Interest Margin	3.58%	4.01%	3.79%	5.24%	4.05%	4.21%
Return on Assets	0.97%	1.28%	1.12%	0.58%	1.28%	1.18%
Return on Equity	8.68%	11.20%	9.91%	3.71%	14.46%	12.04%
Net Charge-offs to Loans	0.65%	0.80%	0.73%	1.02%	1.72%	1.63%
Earnings Coverage – Net Loan C/Os	3.84	3.96	3.9	3.2	2.3	2.37
Loss Allowance to Loans	1.65%	1.93%	1.79%	2.36%	2.13%	2.16%
Noncurrent Assets+OREO to Assets	1.88%	2.13%	2.00%	7.57%	0.72%	1.68%
Net Loans and Leases to Core Deps	78.32%	84.96%	81.57%	119.36%	94.35%	97.01%
Equity Capital to Assets	11.27%	11.12%	11.19%	16.30%	8.78%	9.84%
Core Capital (Leverage) Ratio	10.00%	9.63%	9.82%	15.81%	8.73%	9.73%

Data for institutions chartered by other states and doing business in Texas are not available and therefore excluded.

CAPITAL STANDARDS

There is an increasing regulatory demand for capital in depository institutions as a result of the financial crisis. While other parts of the country have experienced trouble raising capital Texas state savings banks have not. Primarily as a result of their very young status (22% of charters are less than seven years old) many of these institutions are still in growth patterns. Total contributed capital injections placed into the state thrift industry during calendar year 2011 was $273.1 million. Since 2005, $659.4 million has been contributed to state savings banks, with $203.6

million in capital stock net sales, conversion, acquisition or retirement; $193.5 million through business combinations; and $262.3 million from transactions with parent holding companies.

	Capital Contributions and Changes (in millions)			
Year	**Capital Stock, Net Sale, Conversion, Acquisition, Retirement**	**Changes incident to business combinations, net**	**Other transactions with parent holding company**	**Total**
2011	$41,645	$211,774	$19,670	$273,089
2010	$27,556	($19,340)	$43,644	$51,860
2009	$7,372	0	$45,900	$53,272
2008	$20,811	($1,102)	$44,879	$64,588
2007	$80,966	0	$109,863	$190,829
2006	$16,717	$2,130	($116,473)	($97,626)
2005	$8,500	0	$114,869	$123,369
Total	$203,567	$193,462	$262,352	$659,381

Announced capital raises for 2012 indicate continuation of this positive trend. A total of $9.1 million of funding was made in the second quarter of 2009 to two savings banks from the Troubled Asset Relief Program (“TARP”). In October 2010, one institution paid back its $3.0 million of TARP funding, and in October 2011, the remaining $6.1 million was repaid.

SAFETY AND SOUNDNESS

The national recession and significant deterioration in the housing market had its impact on the Texas thrift industry as well. However, as of December 31, 2011, 24 out of 31 state savings banks were rated satisfactory or better (CAMELS composite rating of 1 or 2).

MATERIAL LOSS REVIEWS – COMMON CHARACTERISTICS OF FAILED INSTITUTIONS

Early 2007 marked the end of the longest period of time (over two years) in FDIC history without a bank failure in our country. From 2007 through May 4, 2012 there have been 440 bank failures nationwide. Of this number only nine have been in Texas despite having more charters than any other state except Illinois. More than half of all these failures have occurred in four states; Georgia, Florida, Illinois, and California. Only ten states have not had any failures during this time period.

The Offices of the Inspector General of the FDIC, FRB, and Treasury Department issue a Material Loss Review (MLR) for any bank failure which results in a loss to the Deposit Insurance Fund of greater than $25,000,000 or greater than 2% of the failed bank’s total assets. CSBS sampled a number of MLRs from 2009 and 2010 and tabulated the data to identify common characteristics. The data for 29 MLRs in 2009, and 41 in 2010 were sampled for a total of 70 bank failures. Over this time period, there were a total of 297 bank failures (according to numbers produced by the FDIC), for a sample of roughly 24% of total bank failures. The Department analyzed the CSBS data and incorporated appropriate offsite and onsite monitoring of state savings banks where the MLR factors identified are present.

A number of common characteristics emerged from the analysis. A list of the most common and contributory characteristics (present in greater than 75% of the banks reviewed) are summarized below:

Risk Characteristics	Percentage of Sample
Aggressive Loan Growth	96%
Inadequate Controls over Commercial Real Estate Lending	93%
High levels of CRE Concentrations	91%
Inadequate controls over credit underwriting	91%
High levels of Adverse Loan Classifications	89%
Inadequate controls over credit administrative practices	84%
Dependency on Brokered Deposits, FHLB Borrowings	80%
Underfunded ALLL	80%

In addition to the high level of commonality in the above list, 61% of failed institutions were found to have not addressed examiner recommendations.

House Resolution 2056 was signed into law on January 3, 2012, and requires the Inspector General of the FDIC to conduct a study on the impact of bank failures and the Government Accountability Office (GAO) to carry out a study on the causes of high levels of bank failures. The GAO study will look at the impact of fair value accounting standards while also examining causes of failures in states with at least 10 failures since 2008.

SML MONITORING PROGRAMS THAT PROVIDE EARLY DETECTION

The Department's Relationship Manager and Supervisory Analyst utilize numerous offsite monitoring tools and reports including, but not limited to, the Uniform Bank Performance Report (UBPR), FFIEC Reports of Condition and Income (Call Reports), Financial Information System's Bank Analyst (Bank Analyst), Thrift Quarterly Review Worksheet and Early Detection Model (EDM). The risks, identified through the MLRs, and procedures for identifying these risks at early stages are discussed below:

> ***Aggressive Loan Growth*** – Aggressive loan growth can be risky to any size institution given lending practices and the types of products offered. The Department, through its Relationship Manager Program and Supervisory Analysts, review quarterly reports from the institution, to monitor for significant increases in total assets or within specific product lines that may pose significant risks to the institution.
>
> ***Inadequate Controls over Commercial Real Estate Lending (CRE)*** – Each examination includes a review of CRE concentrations and the internal controls required to manage large volumes of this type of lending. Controls that are considered inadequate as identified by the examination staff may be presented to the institution's board under a *Matter Requiring Board Attention* and/or included as provisions in an enforcement action. Either of these actions could require quarterly progress reports, which would be reviewed offsite by the Department's Supervisory Analyst.
>
> ***High Levels of CRE Concentrations*** – Quarterly reporting review includes EDM and Bank Analyst reports. These reviews allows for easy trend analysis to identify both

existing high levels of CRE and also increasing upward levels for early detection of high concentration levels.

Inadequate Controls over Credit Underwriting and Administration – A review of credit underwriting and loan administration practices is performed at each onsite examination or visitation. Any recommendations of concern are communicated to the institution's senior management and the Board of Directors during the examination. Severe deficiencies may be presented to the Board under a *Matter Requiring Board Attention* and/or included as provisions in an enforcement action resulting in quarterly progress reports to be reviewed offsite by the institution's assigned Supervisory Analyst.

High Levels of Adverse Loan Classifications and Underfunded ALLL – Institutions report internally identified adverse classifications to the Department on a quarterly basis. The Supervisory Analysts' quarterly financial review also includes past due, loan loss, and Allowance for Loan and Lease Losses (ALLL) data obtained through each institution's regular quarterly Call Report and related analytical tools such as the UBPR or Bank Analyst. Trends and anomalies are identified and reported to Department management, and discussed in weekly meetings with field management. This early detection enhances field operations by providing information for use in scheduling of and planning for examinations.

Dependency on Brokered Deposits, FHLB Advances and Internet Deposits – Quarterly review allows the Relationship Manager and Supervisory Analyst to identify trends of increasing dependency of funding products. Additionally, changes to the March 31, 2012 Call Report, require institutions to include the amount of internet obtained deposits that do not meet the regulatory definition of brokered deposits. Dependency ratios above 25% have higher scrutiny on the EDM and examinations address heightened dependence, including mitigation strategies and alternative core deposit analysis. For example, many such deposits are held by directors or shareholders, or are mandated as part of a loan agreement.

Examiner Recommendations and Supervisory Agents – Depending on the severity of examiner recommendations, the bank may require quarterly progress reports. Through specific deadlines that must be met, these reports ensure that management and the institution's board are correcting recommendations. The Department has placed Supervisory Agents in troubled institutions during this recent financial crisis. In the history of state savings bank charters, all institutions placed under supervisory control have ultimately been returned to the oversight of the institution's board of directors.

Interest Rate Risk GAP Monitoring – The Department monitors each institutions' ratio of rate sensitive assets to rate sensitive liabilities through a three tiered risk scale to assess trends of asset/liability sensitivity and potential effects to earnings and capital given a rising or falling interest rate environment. Given the current level of very low market interest rates, institutions that are liability sensitive are monitored on a quarterly basis, while asset sensitive institutions are monitored at each onsite examination or visitation, but not to exceed one year. Severely liability sensitive institutions are periodically asked to submit an informal action plan to the Department addressing the position they are in and contingency plans to address an eventual rise in interest rates.

THRIFT COMPLIANCE EXAMINATION

The Thrift Compliance Examination program, initiated by the Department, is a result of complaints received from various state savings banks relating to the harshness and potential unfairness of compliance examinations by the FDIC. The Department's role, at this point, is to attend and assist in the examination process and to attend management and board exit meetings. By being involved from the beginning of the compliance examination process, the Department is able to evaluate whether the state savings banks are being treated fairly and consistently. Further, the Department has the opportunity to discuss issues with the FDIC prior to the assignment of ratings. Examinations are not joint examinations and the Department does not sign the examination report. However, if at some point, the Department sees value in joint examinations the process will be revised.

SAVINGS AND LOAN CHARTER

In response to the constriction in the credit markets, lack of liquidity and a scarcity of new charter approvals by the FDIC, the Department began accepting applications for savings and loan charters without insurance of deposit in fiscal year 2010. The Texas Savings and Loan Act allows for a savings and loan association to not be insured by the FDIC. These special purpose institutions will be prohibited from accepting deposits from anyone except major shareholders or directors. Potential business models include troubled asset acquisition, non-traditional mortgages, or a warehouse lending platform. Since 2010, the Department has received three potential wholesale savings and loans charter applications. Two of these applications were withdrawn and the third application, was approved, and remains unopened while capital is being raised.

NATIONAL ORGANIZATIONS SUPPORTING STATE REGULATION

The Department is an active member of the American Council of State Savings Supervisors (ACSSS), the primary professional trade organization of state thrift regulators in the country. The Commissioner currently serves as the Past-Chairman of ACSSS. The group collaborates on issues of common concern to state chartered savings institutions and provides training on current and emerging issues. ACSSS was instrumental in the development and promotion of the state savings bank charter as a way to obtain relief from the burdensome triple regulation of state chartered savings and loan associations. The group takes an active role in providing the banking committees of Congress with each state's perspective on issues such as regulatory restructuring and other financial services issues.

The Commissioner also serves as the Vice-Chairman of the State Liaison Committee to the Federal Financial Institutions Examination Council (FFIEC). Congress established the FFIEC to conduct training and promote uniformity. The State Liaison Committee is comprised of five state commissioners who interface with the five Federal financial supervisory agencies of the FFIEC: the FDIC, the Federal Reserve, the NCUA, the OCC, and the CFPB.

Additionally, the banking industry is represented by both the Texas Bankers Association and the Independent Bankers Association of Texas. The Commissioner has been a frequent participant and speaker for many events of these state trade associations.

INTERNAL FACTORS

STRUCTURE AND OPERATIONS OF THE DEPARTMENT

STAFF OVERVIEW

As of March 31, 2012 the Department was staffed at 61 FTEs and one regular part time employee.

Ten FTEs of the current staff are dedicated solely to administrative support activities (accounting/human resources, information technology, switchboard/reception and mail processing). All remaining staff is directly involved in the regulatory functions of either; examining, supervising and chartering thrifts, licensing, registering, and examining mortgage originators; or investigating consumer complaints and enforcing the statutes administered by the Department. A more detailed analysis of current staffing is provided in Appendix F, Workforce Plan.

CROSS TRAINING

In any small organization, providing backup is a challenge. Wherever possible, individuals are cross trained, particularly in critical areas of internal control. All thrift examiners have been cross trained to conduct mortgage broker inspections, and several mortgage broker inspectors are cross trained in the more complex thrift examinations.

STAFFING FOR INDUSTRY SIZE

The following chart depicts the agency's success in maintaining staff size at a level consistent with the size and activity levels of the regulated industries:

KEY OPERATING INDICATORS 1999-2012

Fiscal Year	Active Licensees and Registrants	Number of Complaints Received	Number of Thrift Charters	Total Thrift Assets Supervised (millions)	FTEs
1999	-	13	28	$13,500	14
2000	8,365	362	25	$11,300	21
2001	11,541	568	25	$12,000	22
2002	14,857	586	24	$15,000	26
2003	22,694	800	23	$17,800	33
2004	27,039	884	22	$13,000	55
2005	28,199	972	20	$8,700	71*
2006	24,576	1039	22	$9,300	63
2007	24,851	1018	23	$9,400	63
2008	18,309	1006	28	$4,000	64
2009	12,539	954	28	$4,500	60
2010	10,128	802	29	$8,400	54
2011	19,144	671	31	$8,700	63
2012**	12,724	287	31	$9,500	61.5

* FTEs for fiscal year 2005 include 15 contingency positions activated midyear.
**As of February 29, 2012.

STAFF ORGANIZATION BY POSITION

An organizational chart is provided in Appendix B, Organization Chart. Key positions and divisions are described below:

Commissioner – The Commissioner is a hands on chief executive officer and an active regulatory participant with a strong focus on maintaining regulation. This results in a safe and sound state thrift industry and a compliant mortgage industry through efficient chartering and licensing, monitoring and enforcement, examination and inspection, and complaint investigation and resolution that provides a balance of effective and equitable regulation.

Deputy Commissioner/Chief Thrift Examiner – The Deputy Commissioner directs, coordinates and performs examinations of state savings institutions; coordinates with other regulators to accomplish examination objectives; and monitors institution compliance with state and federal laws.

Deputy Commissioner/General Counsel – The General Counsel provides a full range of legal services to the agency, directs offsite monitoring of thrift institutions; coordinates regulatory approvals regarding institution activities and processing of thrift applications; works with the Commissioner and the Chief Examiners to ensure efficient and effective regulation; and monitors compliance with state and federal laws and adherence to safe and sound practices by thrift institutions. Under the General Counsel's supervision, the legal area is responsible for enforcement actions against licensees and regulated entities. Additionally, the General Counsel provides legal services relating to governmental relations.

Director of Licensing – The Director of Licensing is responsible for all aspects of mortgage originator licensing and registration through oversight of both administrative staff and technology including the interface between the Department's internal software system and the NMLS. The Director works closely with the Commissioner to educate the industry and provide guidance to applicants regarding the requirements of the mortgage regulation statutes and related rules.

Director of Administration and Finance – The Director of Administration and Finance is the chief financial and administrative officer and is responsible for accounting, human resources, strategic planning, and budgeting; oversees administrative functions.

Chief Mortgage Examiner – The Chief Mortgage Examiner coordinates, directs, and performs examination activities related to mortgage companies and mortgage bankers; reviews examination reports prior to issuance; and monitors mortgage originator compliance with state and federal laws.

Associate General Counsel – The Associate General Counsel develops cases for administrative enforcement action and in support of license denials; represents the Department in cases before the Finance Commission administrative law judge or in District Court; prepares legal opinions, briefs, and other legal documents; coordinates consumer protection activities, particularly consumer complaint investigation and resolution; interprets laws and regulations; and drafts bills for legislative consideration.

STAFF ORGANIZATION BY FUNCTION

THRIFT INDUSTRY

Thrift Examination – Thrift examiners, individually or in teams, perform either full scope independent or joint onsite safety and soundness examinations of financial institutions, under the guidance of the Deputy Commissioner, who provides field supervision, training, and schedule coordination. Thrift examiners also conduct limited scope examinations or special investigations related to supervisory concerns when required. The strength of the thrift examination staff is evidenced by the FDIC's willingness to participate fully in joint examinations and to take joint enforcement and supervisory action to address problems. The majority of directors and officers of state chartered thrifts express a preference for joint examinations, believing that Department examiners provide valuable assistance by helping FDIC examiners, who are often more familiar with commercial banks, adjust to thrift industry differences. From the Department's perspective, joint examinations are generally more efficient, fostering a more effective working relationship with the FDIC, and allowing the Department to stay more informed about the institutions under its jurisdiction (i.e., examiners visit regulated institutions at least every eighteen months with a joint examination program as opposed to every 36 months when examinations are alternated).

Offsite Monitoring and Supervision – The General Counsel provides guidance with the assistance of the Department's Supervisor of Thrift Supervision and Analysis and two financial examiners who serve as supervisory analysts. Each analyst coordinates offsite monitoring on an assigned caseload of state chartered savings institutions; maintains the financial institution data model; reviews requests for regulatory approvals and examination reports, recommends appropriate action, and provides suggestions for future examinations; reviews thrift applications for completeness and recommends their disposition; and coordinates the hearings process for applications.

RESIDENTIAL MORTGAGE LOAN ORIGINATOR REGULATION

Licensing and Registration – Licensing and registration staff responds to pre-application questions; ensures applications and registrations are complete and comply with requirements; maintains the mortgage originator database; serves as primary contact with applicants during the application process; and assists the Director of Licensing as needed.

Mortgage Industry Examination – Mortgage industry examiners conduct compliance examinations of licensees for compliance with the applicable statutes and assist complaint investigators with field investigations as needed. The Chief Mortgage Examiner supervises, trains, and coordinates schedules of inspectors.

Consumer Protection - Complaint Resolution and Enforcement – Complaint resolution staff accepts and investigates written complaints regarding the activities of mortgage originators, unlicensed originators subject to the applicable statutes, and state chartered savings institutions. The Department has statutory authority to initiate its own complaint investigations. The Associate General Counsel, prepares cases for administrative hearings, and prepares various enforcement orders including orders to: cease and desist; take affirmative action; and pay restitution and/or administrative penalties.

SDSI STATUS, OPERATING EXPENDITURES AND REVENUE

Prior to passage of HB2774 by the 81st Legislature, which gave the Department SDSI status, the legislature approved appropriations of $6,165,357 for fiscal year 2010 and $5,399,048 for fiscal year 2011, not including contingency riders, employee benefits, and other direct and indirect costs included elsewhere in the General Appropriations Act. Subsequently, the Finance Commission has approved operating budgets for fiscal year 2010 in the amount of $5,526,557, for fiscal year 2011 in the amount of $5,430,328 and for fiscal year 2012 in the amount of $5,425,155. The Department has been very fiscally responsible with its expenditures in light of statewide budgetary constraints. The Department's fiscal responsibility has been equally matched with an emphasis on transparency and constituent involvement. Prior to the final adoption of any Finance Commission Department's budget a public hearing date is set inviting input from any concerned group or individual. In preparation for this meeting the Department enters into discussions with various key constituent trade groups about the nature of the budget and any changes from prior years and then asks for either a letter of support for the budget or a to participate in the public hearing process.

Although the Department has been and remains self-funding, self-leveling, in prior years residential mortgage loan originators have paid fees in excess of covering all direct and indirect costs of regulation, due to the lack of a flexible mechanism to adjust licensing fees. Historically, the excess revenue resulted from license application volume exceeding estimates. Starting in 2008, however, the Department observed a continual decrease of new licensees and renewals which directly impacted the revenue inflow, and as a result the level of expenditure outflow. With the transition to NMLS, the license renewal structure changed from a two-year rolling expiration date to a one year single expiration date. With this change, the Department is now able to quickly respond to changes in the licensee population as it expands with new license types and adjust the licensing fees in order to cover operating expenditures. Evidence of this improved control over fee structure is the fact that the Department lowered mortgage licensing fees on average 17% for 2012 licenses.

STAFFING, COMPENSATION, AND TURNOVER

Employee salaries and benefits represent approximately 85% of the total budget for fiscal year 2012 up from 72% of the total budget in fiscal year 2010, while travel costs account for another 8% down from 16% in the same fiscal years.

As of December 31, 2011, 8% of all employees had less than two years of agency service (down from 40% in February 2007). Historically, the Department's examiner salaries have not been competitive with either private industry compensation or other state or federal regulatory agencies that employ financial examiners, which made hiring and retention very difficult. The SDSI status provided the Department with the ability to make significant strides towards making examiners' salaries competitive with salaries of federal counterparts. Training and retention of new staff are critical to agency performance and have been addressed continuously. Examiner annual turnover rate has decreased from 28% in fiscal year 2005 to 4% in fiscal year 2010, and down to 0% in fiscal year 2011.

Additionally, the Department has taken steps to increase employee satisfaction and reduce turnover. One time merit increases are given when revenue or available funding do not allow for regular merit increases. Flexible work schedules, as well as a telecommuting policy, are available to employees. Thrift examiners work four ten hour days each week, saving one night's travel cost and reducing turnover by allowing examiners more personal time. A business casual dress code was implemented several years ago. Employee feedback is solicited through regular employee attitude surveys. The results indicate generally high satisfaction with working conditions except for salary and benefit levels.

SUPPORT HISTORICALLY UNDERUTILIZED BUSINESSES

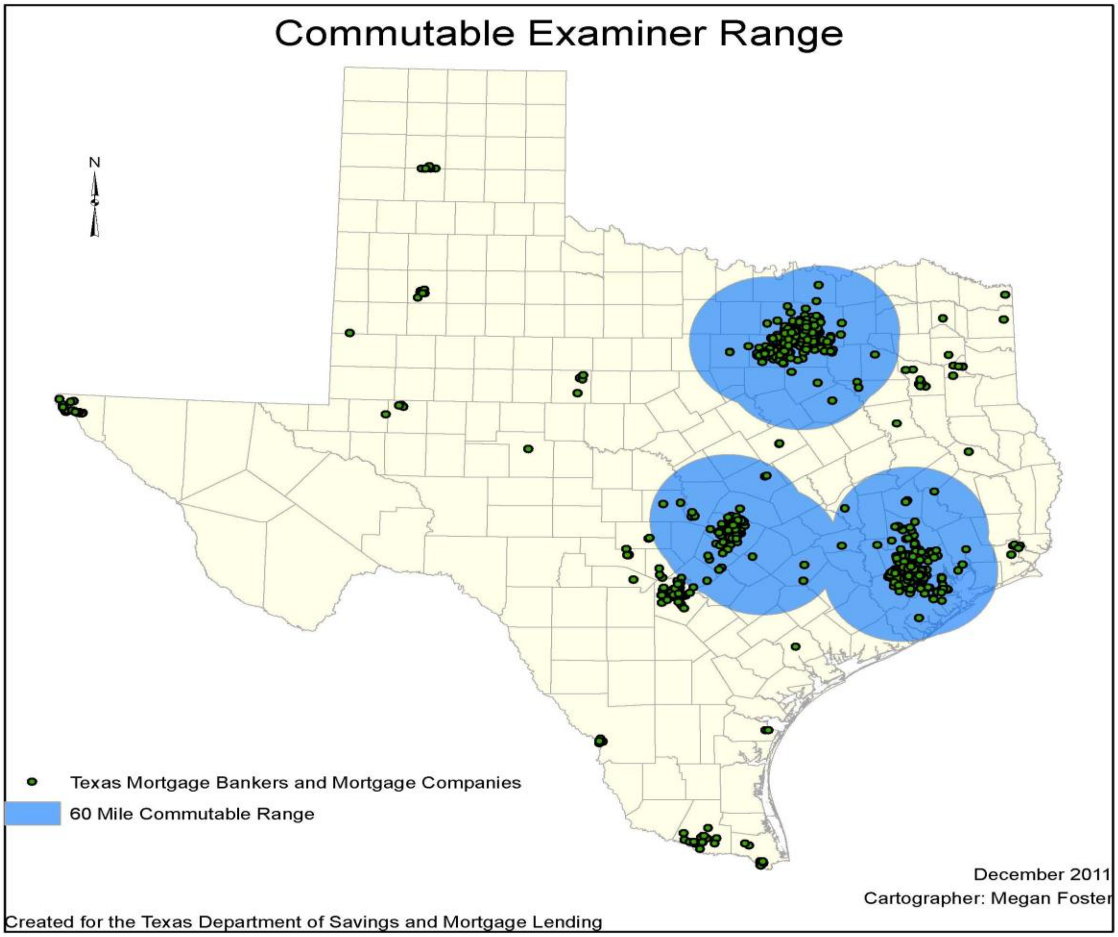
Modular furniture, technology, space reconfiguration, maintenance contracts and printing services constitute the bulk of HUB eligible purchases. The Department complies with all applicable statutes and regulations. Actual HUB purchases represented 19.80% of the Department's purchases in fiscal year 2011 and 30.7% in fiscal year 2010, compared to the state levels of HUB spending of 14.5% and 15.9%, respectively.

LOCATION OF AGENCY AND REGULATED POPULATION

The Department's only public office is in the Finance Commission Building, 2601 North Lamar, Suite 201, Austin, Texas 78705. The Department occupies an estimated 7,714 square feet of usable space, which includes areas shared with the other Finance Commission agencies. Thrift examiners and mortgage inspectors are headquartered at their personal residences. This facility is no longer meeting the needs of the Department or the other agencies under the Finance Commission's oversight. A collective decision was made by all three agencies and the Finance Commission to sell the building and purchase another property that fits the needs of the agencies. The Finance Commission building was listed for sale in April 2012 and the search for a new facility is underway. Expenses related to the building and relocation of the three agencies may impact future budgets.

State chartered savings institutions are grouped as follows: Dallas/Fort Worth area – 7; Houston area – 6; Austin area – 4; East Texas – 4; West Texas and Panhandle – 5; South Texas – 2; Central Texas – 3. Most thrift examiner travel is overnight and examiners are in travel status for a significant amount of the time. Travel to outlying regions of the state sometimes involves air travel to the nearest airport followed by a lengthy car trip. To minimize the impact of travel expenses on the budget examiners follow a compressed work schedule, work from home when possible, and are hired from regions similar to the geographic groupings of the financial institutions under the Department's jurisdiction.

Residential mortgage loan originator licensees do business throughout the nation, but in the state are concentrated in the major population centers: 33% in the Houston Standard Metropolitan Statistical Area ("SMSA"); 33% in the Dallas/Fort Worth SMSAs; and 20% in central Texas (San Antonio and Austin SMSAs). Examiners are concentrated in these areas as reflected in the map below to increase efficiency and reduce travel cost. Mortgage examiners travel is frequently limited to shorter distance day travel as 80% of all originators live within a 60 mile radius of examiner headquarters. However, travel to East and West Texas, El Paso (3%) and the Rio Grande Valley (4%) requires overnight travel and airfare to the more distant locations. Longer distance travel is planned in blocks to reduce travel expenses. Although most examination are conducted in state, as needed the Department may travel and conduct examinations of licensee's whose records are kept out of state. Should the Department have the need to hire an additional examiner they would be headquartered in San Antonio to increase our commutable coverage to 89%.



INFORMATION SYSTEMS

Agency operations are not capital asset intensive. Personal computers are upgraded as needed. Acquisitions are coordinated with the Texas Department of Information Resources. Each examiner uses a laptop computer, scanner, and printer and internet access to e-mail for file exchange with FDIC examiners and the Department, as well as Internet access to resource materials on the web sites of federal regulators. The Department has Internet access to the FDIC for bank peer data, call report data, institution examination history, and other information. To facilitate joint examinations with the FDIC, thrift examiners use FDIC software in conducting examinations and compiling examination reports. Thrift examiners are also given the FDIC Examiner Manual on CD-ROM as a reference tool. Any software or procedural change by the FDIC has a direct and immediate impact on the Department's thrift examiners. The Department uses the "Bank Analyst" integrated database software provided by Financial Information Systems, LLC, Bedford, Texas, to compile essential information on state chartered savings institutions and develop quarterly monitoring reports to facilitate regulations. We expect to upgrade computer equipment for examination staff and office desk top functions during fiscal years 2012 and 2013 to remain fully compatible with the FDIC, particularly the integrated examination software with its increased system requirements. Equipment upgrades on the scheduled replacement cycle should be available for $50,000-$75,000.

The Department's local area network provides Internet access and e-mail to all staff. A proprietary database (MyLic) is utilized for the mortgage regulation function, including enforcement actions, consumer complaints, and criminal history information. The NMLS is the Department's system of record for licensing. NMLS is the official and sole system for companies and individuals seeking to apply for, amend, renew and surrender licenses managed in the NMLS on behalf of the Department. Data is downloaded daily from the NMLS into MyLIC in order to manage those functions not current in the NMLS. Crystal Reports® software is used to select and sort MyLIC database elements to meet any management reporting or analysis need.

The three Finance Commission agencies share a document imaging system. License and registration applications and supporting documentation are imaged upon receipt. Thrift institution documents and enforcement files are also imaged. Field staff accesses the imaging system through the web version of the software.

The Department's home page (www.sml.texas.gov) informs citizens and other constituents of the Department's functions and responsibilities. Then information available on the website includes: downloadable applications and forms, responses to frequently asked questions, pertinent statutes, rules and policies, enforcement actions, a searchable database of mortgage originators via NMLS Consumer Access; and the NMLS Resource Center. We continue to explore ways to use the Internet to deliver convenient and economical service to the citizens of Texas.

STRENGTHS, WEAKNESSES AND OPPORTUNITIES

STRENGTHS

- Staff is experienced and knowledgeable of the thrift and mortgage industries, related state and federal law and regulations, as well as the applicable financial and accounting standards.

- Staff is dedicated to the Department and strongly committed to consumer protection.

- Staff is cognizant of the necessary balance between regulatory compliance and safety and soundness concerns, offset by the need for credit and financial services.

- Staff is strongly committed to the state thrift system and the residential mortgage lending system that serves consumer needs and provides positive benefits to the state economy.

- The Department has created a family friendly workplace by offering alternatives to employees to achieve productivity in a less structured environment and improve staff retention.

- The Department's commitment to professionalism has attracted competent, well educated and diverse employees.

- Efficient operations are mandated by the size of the state chartered thrift industry, competitive regulatory alternatives, the demands of mortgage licensing and regulation, and the need to match costs with revenue.

- Through cross-training and closely managed internal operational control, the Department has maintained efficient charter and license processing, and aggressive oversight and supervision of the industries it regulates.

- The Department is nationally accredited for its regulation and supervision of mortgage origination.

- The Department is responsive to feedback from its regulated entities, and enjoys an excellent reputation for competent and balanced supervision.

- Effective fiscal management has enabled the Department to accurately project revenue and expenditures, and provide for a reserve balance.

- As a Self-Directed / Semi-Independent agency, the Department has more freedom to provide cost effective regulation.

WEAKNESSES

- In the beginning of fiscal year 2009, the Department faced a serious issue with four of six senior managers eligible for retirement within two years. Three of those eligible managers have retired and one other manager resigned. The replacements were made internally for three positions and the fourth was an outside hire with extensive relevant experience. The Department continues to face retirement issues as two of six managers are eligible for retirement in fiscal year 2012. Additionally, with five of the six current managers being promoted internally, the Department's "bench strength" has been depleted and internal cross training and development programs have been a priority.

- Identifying the parties subject to licensing under SAFE requirements, especially those who are not members of an association or organization.

- The future of housing finance including the role of the federal government and delivery conduits remain in a state of uncertainty.

- The Department's number of staff fluent in Spanish is concentrated in our licensing staff and not broad based throughout the organization.

OPPORTUNITIES

- The Texas savings bank charter provides an attractive alternative to federal savings banks in Texas who no longer have a dedicated federal thrift regulator.

- New authority over third party mortgage servicers allows additional powers to resolve consumer complaints already coming to the Department and greater awareness of our ability to assist.

- Maintaining the reduced turnover in examiner and all other staff through competitive salary and benefits.

- Continue to explore ways to use the Internet to deliver convenient and economical service to the citizens of Texas.

AGENCY GOALS, OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES

GOAL A: THRIFT SAFETY AND SOUNDNESS

Aggressively enforce safety and soundness standards in the state chartered thrift industry and compliance with the Texas Finance Code in a manner that is constructive and maintains the interest of depositors, creditors and borrowers of savings institutions as paramount. [Texas Finance Code Subtitle B, Savings and Loan Associations and Subtitle C, Savings Banks,]

OBJECTIVE

A. SAFETY AND SOUNDNESS: To examine, monitor and enforce the safe and sound operations of state chartered savings institutions and their compliance with applicable state and federal statutes and regulations through 2015 by guaranteeing that:

- 100% of savings institutions receive a quality examination when due per the priority examination schedule;
- 100% of problem institutions have the appropriate supervisory action(s) in place; and
- 100% of applications receive final action within the statutory time frame.

OUTCOME MEASURES

01-01-01	Percent of state chartered savings institutions receiving examinations as required by priority schedule
01-01-02	Percent of safe and sound institutions to total savings institutions
01-01-03	Percent of assets in safe and sound savings institutions
01-01-04	Percent of applications receiving final action within statutory time frames

STRATEGY

A-1-1. THRIFT EXAMINATION AND SUPERVISION. Perform full and limited scope examinations and participate with federal regulators in examinations according to the priority examination schedule; monitor and enforce the safe and sound operations of state chartered savings institutions and their compliance with applicable laws and regulations.

OUTPUT MEASURES

01-01-01-01	Number of examinations performed
01-01-01-02	Number of detected instances of unauthorized or prohibited financial activity
01-01-01-03	Number of formal and informal regulatory actions

EFFICIENCY MEASURES

01-01-01-01	Assets examined per examiner day
01-01-01-02	Average time (business days) between identification of a problem and initiation of regulatory action

EXPLANATORY MEASURES

01-01-01-01	Number of state chartered savings institutions
01-01-01-02	Dollar amount of assets under regulation (in billions)

GOAL B: MORTGAGE REGULATION

Protect Texas home buyers through fair and effective regulation of mortgage originating individuals and businesses. [Texas Finance Code, Subtitle E, Chapter 156, Mortgage Broker License Act, , Chapter 157, Mortgage Banker Registration Act, and Chapter 158, Residential Mortgage Loan Servicer Registration Act]

OBJECTIVE

B. RESIDENTIAL MORTGAGE LOAN ORIGINATOR REGULATION: To ensure timely and efficient licensing, registration, and examination of mortgage originators through fair, responsible, comprehensive regulation and enforce regulatory requirements regarding education, experience and conduct through 2013.

OUTCOME MEASURES

02-01-01	Percent of mortgage originators with no recent violations
02-01-02	Percent of mortgage originators who renew online

STRATEGY

B-1-1. MORTGAGE BROKER LICENSING. Process, investigate and evaluate mortgage originator license applications and registrations; establish continuing education course standards; enforce compliance with standards of conduct.

B-1-2. MORTGAGE BROKER EXAMINATION. Ensure effective and efficient examination of mortgage originators through fair, responsible, and comprehensive investigation and enforcement of regulatory requirements regarding procedures and standards of conduct.

B-1-3. TEXAS ONLINE. Provide for the processing of occupational licenses, registrations, or permit fees through TexasOnline. Estimated and nontransferable.

OUTPUT MEASURES

02-01-01-01	Number of new mortgage originators approved
02-01-01-02	Number of mortgage originators reapproved
02-01-01-03	Number of mortgage bankers registered
02-01-02-01	Number of originators or licensees inspected

EFFICIENCY MEASURES

02-01-01-01	Average approval cost per mortgage originator approved
02-01-01-02	Percentage of new mortgage originator approvals issued within 10 days

EXPLANATORY MEASURES

02-01-01-01	Total number of originators approved

GOAL C: CONSUMER RESPONSIVENESS.

Ensure responsiveness to inquiries, requests and complaints from the industry, citizens, public officials, and other state and federal governmental entities. [Texas Finance Code,Chapter 13, Savings and Loan Department, §13.011; Chapter 156, Mortgage Brokers, §156.301, et. seq.; Chapter 157, Mortgage Bankers, §157.007 and §157.008, Chapter 158, Mortgage Servicers, §158.102]

OBJECTIVE

C. COMPLAINTS AND INQUIRIES: To ensure timely and efficient complaint resolution by guaranteeing through 2017 that all consumer complaints, requests and inquiries will be answered within ten days.

OUTCOME MEASURES

03-01-01 Percent of complaints, requests or inquiries answered within ten business days of receipt of complete information

STRATEGY

C-1-1. COMPLAINT AND INQUIRY PROCESS. Provide a forum for registering complaints, responding to requests and inquiries and taking appropriate action when warranted. Respond appropriately to requests or inquiries to obtain information regarding financial institutions and mortgage originators giving particular priority to requests from state and federal agencies conducting civil and criminal investigations.

OUTPUT MEASURES

03-01-01-01 Number of consumer complaints completed
03-01-01-02 Number of informational inquiries and requests completed (phone/written)

GOAL D: SUPPORT DUAL SYSTEM

To support and promote the dual thrift system, and serve as a voice and a resource about the importance of preserving the right and authority of the state to establish and maintain its own system of chartering and regulating the thrift industry in Texas. [Article 16, Section 16 of the Texas Constitution]

The Department believes the dual system in the banking and thrift industries is the state's most effective means to exercise control over the financial institutions operating in its boundaries. The Department will continue to take an active role in the American Council of State Savings Supervisors to promote the value of the dual system on a national basis. This organization also provides valuable communication with other state regulators regarding all issues of industry regulation and has been particularly effective in championing the interests of states in thrift regulation nationwide. The Department will continue to serve as a clearinghouse for information about legislation in other states and at the federal level, and will communicate such information to the Finance Commission, and state legislative and executive officials.

GOAL E: SUPPORT HISTORICALLY UNDERUTILIZED BUSINESSES.

To establish and implement policies governing purchasing and public works contracting that foster meaningful and substantive inclusion of historically underutilized businesses ("HUBs"). [1 TAC §§111.11-111.23]

The Department supports efforts by state leadership in their policy directing state agencies to utilize HUBs when awarding state contracts. While the Department issues only a few contracts, we will continue our concerted effort to maximize such utilization.

TECHNOLOGY RESOURCE PLANNING

TECHNOLOGY ASSESSMENT SUMMARY

STATEWIDE TECHNOLOGY GOAL 1 Strengthen and Expand the Use of Enterprise Services and Infrastructure.

With the implementation of the NMLS, the agency discontinued use of the statewide portal for license renewals and registrations at the end of fiscal year 2010. Historically, the participation rate was above 80%.
The Department shares a document imaging system with the other two Finance Commission agencies. The Department is scanning in multiple documents from the licensing, enforcement and thrift examination areas.

STATEWIDE TECHNOLOGY GOAL 2 Secure and Safeguard Technology Assets and Information

The Department immediately addresses any potential vulnerability discovered by the Department of Information Resources (DIR) during their annual penetration test.

To improve e-mail security against fraud, identity theft, and to increase the protection over confidential industry information, the Department deployed an e-mail encryption system in fiscal year 2011.

Currently, there are procedures in place to control, document, and track the access of employees to the Department's systems. To build on that concept and improve identity management, the Department restructured the shared drives and implemented multiple predetermined access levels in fiscal year 2012.

STATEWIDE TECHNOLOGY GOAL 3 Serve Citizens Anytime, Anywhere

The Department's website went through major update in FY2009 and is available to citizens and regulated industries 24 hours a day. The Department has been publishing not only information targeted to the members of regulated industries, i.e. rules and regulations, application forms, etc., but also links to articles and publications of a general interest to the public related to mortgage lending. Additionally, contact information of other regulatory bodies that could address citizens' complaints or concerns is available.

STATEWIDE TECHNOLOGY GOAL 4 Pursue Excellence and Foster Innovation across the Enterprise

Staff continuously reviews processes in an effort to improve productivity. Employees are surveyed annually about their technology needs, computer configurations, software and possible solutions.

TECHNOLOGY INITIATIVE ALIGNMENT

NATIONWIDE MORTGAGE LICENSING SYSTEM (NMLS). NMLS is the Department's system of record for licensing. NMLS is the official and sole system for companies and individuals seeking to apply for, amend, renew and surrender licenses managed in the NMLS on behalf of the Department.

RELATED AGENCY OBJECTIVE. This initiative relates to Goal 2, Objective 1 - Ensure timely and efficient processing of initial and renewal license and registration applications for residential mortgage loan originators through fair, responsible, comprehensive evaluation and investigation of applicants within statutory time frames and enforce regulatory requirements regarding education, testing, and conduct.

RELATED SSP STRATEGY. Strategy 1-4. Leverage shared applications and processes where common business needs exist. The common business needs in this area are among some Texas state agencies including the Credit Union Department, but are common to agencies in all states which regulate residential mortgage loan originators. Unlike Texas, many states had outdated or otherwise inadequate residential mortgage loan originator licensing databases and were eager to participate in the NMLS.

STATUS. The Department utilizes NMLS as the system of record and adjusts to updates, enhancements, and functionality changes as needed.

ANTICIPATED BENEFITS. With the Department's participation in the NMLS, it now has immediate access to the records of residential mortgage loan originators conducting business in other states. This benefit was offset by the buy-in price of the system, by the need for legislative changes to the Texas licensing statute, with more anticipated, and by system limitations. The NMLS does not currently incorporate other functions necessary for effective regulatory oversight including examination, complaint, and enforcement information.

INNOVATION, BEST PRACTICE, BENCHMARKING.

Best Practice**:** The Department will have immediate access to the records of residential mortgage loan originators conducting business in other states.

Benchmarking: The Department will be able to compare the cost and efficiency of its processes to those of other states.

APPENDICES

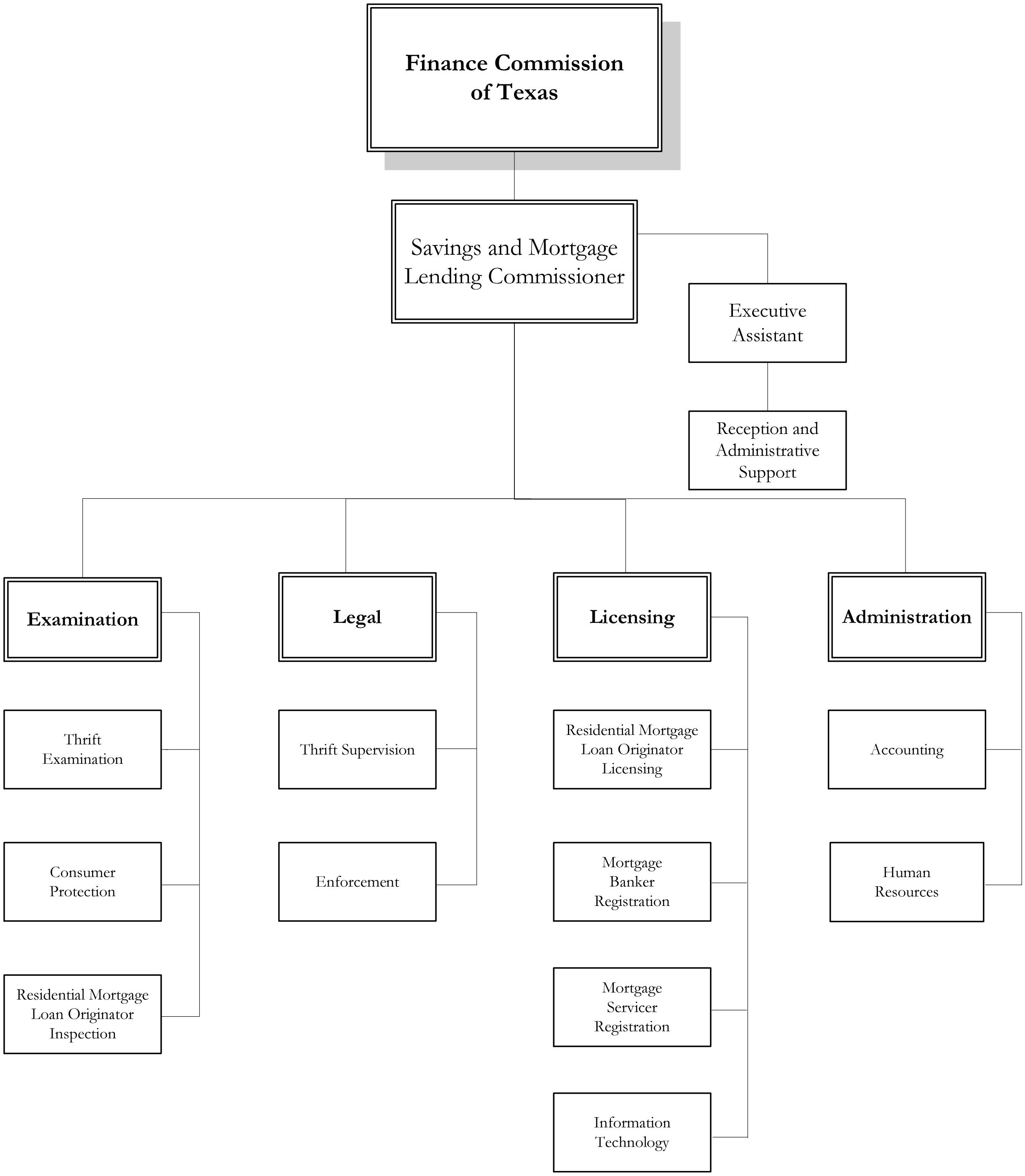
APPENDIX A: STRATEGIC PLANNING PROCESS

Each division director was assigned sections of the strategic plan and was asked not only to revise their assigned areas but also to read the complete plan, making additions and changes and inserting notes regarding changed, incomplete, or unclear areas. Volunteers were solicited from among the staff to engage in the development process. Simultaneously both volunteer staff members and division directors worked independently on identify suggested changes before combining into a group consensus. All changes were tracked in the initial revisions. The Commissioner then met with the directors to solicit further discussion of the changes and incorporate suggested changes into the final draft plan. Each element of the Department's mission, philosophy, goals, objectives, strategies and measures was critically reviewed and discussed. Areas for operational improvement, strategic plan goals, objectives and strategies, and the variety of external customers served by the Department were discussed and modifications made where appropriate.

Each employee was requested to read the draft strategic plan and provide input. The draft plan was provided to the members of the Mortgage Industry Advisory Committee (MIAC) and trade group representatives before being discussed in detail as part of the March 28^{th} meeting. All thrift executives were provided an opportunity to participate in the process with contributions made by several as well as their representative trade group. Suggested modifications received from both the thrift and mortgage industries were incorporated into the plan.

The chairman of the Finance Commission’s Strategic Planning Committee Stacy G. London and member Susan Burton participated in the process early on. Draft plans were provided to them at the same time it was sent to industry representatives and both members participated in the MIAC meeting. All Finance Commission members were provided copies of the plan in advance of the commission meeting at which the plan was approved and their comments were incorporated into the plan. Final review and approval by the Finance Commission was completed at its June 15, 2012 meeting.

APPENDIX B: ORGANIZATION CHART



APPENDIX C: FIVE-YEAR PROJECTIONS FOR OUTCOMES

Goal–Strategy–Outcome	Description	2013	2014	2015	2016	2017
THRIFT SAFETY AND SOUNDNESS						
A-01-01	% of Savings Institutions Receiving Exams Required by Priority Schedule	100%	100%	100%	100%	100%
A-01-02	Percent of Safe and Sound Institutions to Total Savings Institutions	90%	90%	90%	90%	90%
A-01-03	Percent Assets in Safe and Sound Savings Institutions	90%	90%	90%	90%	90%
A-01-04	% of Applications Receiving Final Action within Statutory Time Frames	100%	100%	100%	100%	100%
MORTGAGE REGULATION						
B-01-01	Percent of Originators and Licensees with No Recent Violations	90%	90%	90%	90%	90%
B-01-02	Percent of Originators and Licensees Who Renew Online	100%	100%	100%	100%	100%
CONSUMER RESPONSIVENESS						
C-01-01	% of Complaints, Requests and Inquiries Answered within Ten Business Days	85%	85%	85%	85%	85%

APPENDIX D: MEASURE DEFINITIONS

GOAL A: THRIFT SAFETY AND SOUNDNESS

Outcome 01-01-01 Percent of state chartered savings institutions receiving examinations as required by priority schedule.

Short Definition: The percentage of savings institutions receiving timely examination according to the priority schedule of relative risk used by financial institution regulators.

Purpose / Importance: The Department's primary mission with respect to state chartered thrifts is to ensure that all state savings institutions are operated in a safe and sound manner and in compliance with applicable statutes and rules. To accomplish this mission each institution must be regularly examined based on an assessment of risk expressed in the Priority Schedule. Material failure to achieve this measure could result in an unsafe and unsound thrift industry in Texas.

Source / Collection of Data: An examination tracking log of all examinations performed by the Department as well as by federal regulators is maintained by agency staff. The tracking log is maintained by the following Priority Schedule: -- Institutions $500 million in asset size or more, rated composite CAMELS 1 or 2, are examined every 12 months. Institutions less than $500 million in asset size, rated composite CAMELS 1 or 2, are examined every 18 months IF they are well capitalized, well managed and free from any formal enforcement action. Institutions with less than $500 million, CAMELS 1 or 2 rated with a 3 rated management or subject to formal enforcement action, are examined every 12 months. Institutions of any asset size with CAMELS rating of 3, 4, or 5 are required to have a full scope examination annually with a visitation in the interim, six months after completion and submission of the results of the full scope examination. The visitation examination should be of sufficient scope to address regulatory concerns.

Method of Calculation: The cumulative number of state chartered savings institutions due for examination according to the examination priority schedule and examined by the Department, FDIC, or Federal Reserve Bank over the twelve month period preceding the reporting cut-off, divided by the number of savings institutions required to be examined under the Department's priority schedule for the reporting period. The measurement date for timeliness of exams begins on the transmittal date of the Report of Examination to the institution.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

<u>Outcome 01-01-02</u> Percent of safe and sound institutions to total savings institutions.

<u>Short Definition:</u> The percentage of savings institutions determined to be operating in a safe and sound manner as a result of an on-site examination. A safe and sound institution is defined as any institution with a CAMELS rating of "1" or "2".

<u>Purpose / Importance:</u> This measure provides a comprehensive indication of the health of the state chartered industry as determined by examination results. The higher the percent, the healthier the industry, and by deduction the more effective the agency's regulation has been.

<u>Source / Collection of Data:</u> Agency staff maintains information on each institution under the Department's jurisdiction including their financial institution rating under the CAMELS system (i.e., capital, asset quality, management, earnings, liquidity and interest rate sensitivity) at their last examination and reports the results in the quarterly Financial Monitoring Report.

<u>Method of Calculation:</u> The number of safe and sound institutions is divided by the total number of state chartered institutions regulated as reported in the quarterly Early Detection Model.

<u>Data Limitations:</u> The primary limitation of this measure as a tool to evaluate the agency's effectiveness is that it can be impacted as much by economic conditions as agency regulation.

<u>Calculation Type:</u> Non-Cumulative.

<u>New Measure:</u> No.

<u>Desired Performance:</u> Higher than target.

<u>Outcome 01-01-02</u> Percent of assets in safe and sound savings institutions.

<u>Short Definition:</u> The percentage of the state charted thrift industry's total assets in savings institutions determined to be operating in a safe and sound manner as a result of an on-site examination. A safe and sound institution is defined as any institution with a CAMELS rating of "1" or "2".

<u>Purpose / Importance:</u> This measure provides a comprehensive indication of the health of the state chartered industry as determined by examination results. The higher the percent, the healthier the industry, and by deduction the more effective the agency's regulation has been.

<u>Source / Collection of Data:</u> Agency staff maintains information on each institution under the Department's jurisdiction including their financial institution rating under the CAMELS system (i.e., capital, asset quality, management, earnings, liquidity, and interest rate sensitivity) at their last examination and reports the results in the quarterly Financial Monitoring Report.

<u>Method of Calculation:</u> The total assets of safe and sound institutions divided by the total state chartered assets regulated as reported in the quarterly Early Detection Model.

<u>Data Limitations:</u> The primary limitation of this measure as a tool to evaluate the agency's effectiveness is that it can be impacted as much by economic conditions as agency regulation.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

Outcome 01-01-03 Percent of applications receiving final action within statutory time frames.

Short Definition: Percentage of savings institution applications receiving final action within the following statutorily defined time frames or, where no statutory time frame exists, within the Department's goal for that type application:

> 60 calendar days after application is complete and hearing held: new charter, branch office, mobile facility, reorganization, merger, consolidation, change of control, change of name, and change of location.
>
> 30 calendar days after application is complete: investment in subsidiary.

Purpose / Importance: This measure is a strong indicator of whether the agency is processing applications in a timely manner and informing the applicant of the evaluation and conclusion in a reasonable time.

Source / Collection of Data: For all application activity, agency staff maintains a log showing date application received, date application deemed complete, date of hearing and final determination by the Commissioner. These dates will be supported by letters to the applicants and, when applicable, hearings notices published in the Texas Register.

Method of Calculation: The application log is reviewed for the period and each application in process during the period is evaluated for compliance with statutory time frames. Applications processed within required time frames are divided by the total number of applications for which processing is completed during the period.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

EFFICIENCY MEASURES:

Efficiency 01-01-01-01 Assets examined per examiner day.

Short Definition: The total state chartered industry assets divided by the number of examiner days available.

Purpose / Importance: This measure compares total industry assets to the available examination staff days available to evaluate the reasonableness of the number of examiners to the size of the industry being regulated by the Department.

Source / Collection of Data: The average number of examiner FTEs is determined by agency staff from a report of staff salaries prepared from USPS reports. The total assets of state chartered savings institutions are obtained from the Early Detection Model prepared by agency staff from quarterly call reports submitted by each institution. The number of examiner days available iscalculated by subtracting vacations, weekends, training days, typical number of sick days and holidays from 365 days in the year.

Method of Calculation: Total assets of state chartered savings institutions examined by the Department during the reporting period taken from the Early Detection Model and dividing that amount by the number of available examiner days (excluding absences from work due to vacation, holidays, sickness and training).

Data Limitations: This measure must be considered along with the general supervisory condition of the state chartered industry under regulation. Significant economic downturns can adversely affect financial institutions in the state system increasing the number of examiners required to effectively regulate the industry.

Calculation Type: Noncumulative

New Measure: No

Desired Performance: Higher than target.

Efficiency 01-01-01-02 Average time (business days) to complete analysis of quarterly financial data.

Short Definition: This measure calculates the number of business days required to analyze and report to the Commissioner initial quarterly financial results of savings institutions under the Department's jurisdiction from financial reports they submit.

Purpose / Importance: This is a key measure of off-site monitoring efficiency. The financial monitoring report is a significant tool for the Commissioner and staff in identifying and addressing financial operating changes in an institution between quarterly reports so that prompt, effective supervisory action can be taken when needed. Unquestionably, the more timely the action, the greater its effectiveness.

Source / Collection of Data: Call report data serves as the basis for Early Detection Model reports. Call reports are required to be sent to the Department within 30 calendar days of a quarter end. Agency staff maintains a log of call reports received. Final Early Detection Model reports cannot be produced until all call reports are received.

Method of Calculation: Financial monitoring system reports are available within a few days after receipt of the last call report as shown in the data entry log. That date is used as the starting point for purposes of this measure. The date that the first complete Early Detection Model is delivered to the Commissioner marks the end date. The elapsed business days between the two dates is the measure of performance.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Lower than target.

Efficiency 01-01-01-03 Average time (business days) between identification of a problem and initiation of regulatory action.

Short Definition: The average number of business days it takes the Department to take regulatory action after identifying a problem in a savings institution under its jurisdiction.

Purpose / Importance: The measure identifies how promptly the Department responds to an identified regulatory problem. It is presumed that prompt regulatory action to correct problems will generally mitigate any damage caused to the savings institution.

Source / Collection of Data: Supervisory or regulatory problems are normally identified as a result of field examination or analysis of quarterly financial information submitted by savings institutions. A problem is considered anything that results in a formal or informal regulatory action by the Department. Enforcement actions are monitored and logged by agency staff. Typically, a problem is identified by memorandum or in an examination report. Before a regulatory action can be taken, the Department must ensure that all relevant facts to the problem are investigated and understood; therefore, for problems identified in connection with an examination issuance of the final examination report begins the period for resolution. The Department must also consult with the FDIC; informal actions are handled jointly, with formal actions issued by one or the other, with concurrence. Therefore, the timing on this measure may be affected by the drafting and review of the FDIC.

Method of Calculation: The date of receipt of an examination report in the Austin office, or date of supervisory memorandum resulting from completion of this investigation begins the measurement period while the date of initiation of regulatory action marks the end of the measurement period.

Data Limitations: Supervisory problems cover a wide range of possible activities and levels of complexity. Identification of the full extent of a supervisory problem may take a period of several weeks or months of investigation once a preliminary indication has surfaced.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Lower than target.

EXPLANATORY MEASURES:

Explanatory 01-01-01-01 Number of state chartered savings institutions.

Short Definition: The total number of savings institutions chartered by the state under the Department's jurisdiction.

Purpose / Importance: This measure indicates the number of savings institutions under the Department's jurisdiction, providing a major indicator for evaluating the Department's level of activity in all strategies and other measures related to savings institution regulation (i.e., the number of examinations, applications and consumer complaints correlate in whole or in part to the number of institutions).

Source / Collection of Data: Agency staff maintains information on each institution under the Department's jurisdiction and reports that information in the quarterly Early Detection Model ("EDM"). The EDM provides information on the number of institutions and aggregate assets and is updated on a calendar quarter basis.

Method of Calculation: This is an arithmetic count of the number of state chartered savings institutions.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

Explanatory 01-01-01-02 Dollar amount of assets under regulation (in billions).

Short Definition: This measure provides information on the aggregate total assets of savings institutions chartered by the state under the Department's jurisdiction.

Purpose / Importance: This measure provides the aggregate assets of the state thrift system subject to the state's jurisdiction and influence. The measure also serves as an indicator of the appropriateness for the amount of the state resources dedicated to supervising and regulating the industry.

Source / Collection of Data: Agency staff maintains information on each institution under the Department's jurisdiction and reports that information in the quarterly Early Detection Model ("EDM"). The EDM provides information on the number of institutions and aggregate assets and is updated on a calendar quarter basis.

Method of Calculation: This is an arithmetic count of the total assets of state savings institutions.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

OUTPUT MEASURES:

Output 01-01-01-01 Number of examinations performed.

Short Definition: The total number of on-site independent, joint, full scope, limited scope, or special examinations of savings institutions performed during the quarter.

Purpose / Importance: The measure indicates the level of examination activity for the period reviewed as a productivity indicator and in comparison with the total number of state chartered savings institutions; it provides an indication of workload for the agency's examination staff.

Source / Collection of Data: A log is maintained by agency staff tracking the status of examinations and responses (e.g., type examination, date examination began and completed, date report issued, date of response by the institution, etc.). This log serves as the basis for capturing the number of all types of examinations performed on savings institutions under the agency's jurisdiction.

Method of Calculation: Arithmetic addition of the total number of examinations.

Data Limitations: On occasion, this measure can be distorted as a result of multiple examinations of the same institution, or a large number of special examinations.

Calculation Type: Cumulative.
New Measure: No.
Desired Performance: Higher than target.

Output 01-01-01-02 Number of detected instances of activity in unauthorized or prohibited areas.

Short Definition: The total number of instances of activity by a state savings institution in unauthorized or prohibited areas detected during the quarterly financial review of the institution's quarterly regulatory financial report.

Purpose / Importance: The Department's review of quarterly financial reports submitted by each state chartered savings institution provides a critical element in the Department's off site monitoring between field examinations to assure safe and sound operation of the institution.

Source / Collection of Data: The assigned agency employee reviews the quarterly Call Report, or Thrift Financial Report, submitted by each state savings institution, analyzing the report for unusual activities and making inquiries to the institution's management to discuss its operations and/or obtain an explanation for anything that appears unusual, unauthorized or prohibited.

Method of Calculation: This measure is an arithmetic determination of the number of instances reported based on the number of memoranda prepared.

Data Limitations: If the industry is healthy, well-managed, and operating in a compliant manner and if field examinations are effective, the number of detected instances is likely to be very low. On the other hand, poor examination quality can result in a high level of detected instances. Thus, the outcome of this measure may be counterintuitive.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Lower than target.

Output 01-01-01-03 Number of formal and informal regulatory actions.

Short Definition: The total of all formal and informal regulatory actions taken by the Department as a result of either a field examination or off-site monitoring to direct a state chartered savings institution, its management or board of directors to take or cease an action.

Purpose / Importance: The Department may take formal or informal regulatory actions to remedy unsafe and unsound activities by a savings institution under its jurisdiction. Such regulatory actions are normally taken as a result of monitoring or examination findings. Formal enforcement actions include orders from the Commissioner pursuant to authority granted under the Texas Savings Bank Act or the Texas Savings and Loan Act and are legally enforceable. Examples of these include agreed memoranda of understanding, cease and desist orders, conservatorship orders, receivership orders, and removal and prohibition orders.

Source / Collection of Data: Copies of these orders and a log are maintained by agency staff and are the source of measurement for formal actions. Informal enforcement actions, usually in the form of a written directive to the institution, are maintained by agency staff to facilitate ongoing review of the institution’s compliance with the order. The log of these directives serves as the source for the number of informal enforcement actions.

Method of Calculation: This is an arithmetic count of the number of regulatory actions taken by the Department during the reporting period, recorded in the log maintained by the assigned agency staff.

Data Limitations: The number of regulatory actions required to be taken by the Department is generally indicative of the industry's condition and the economic environment; however, as a measure of the Department's performance it is a poor indicator. The number of regulatory actions taken can result from proactive regulation by the Department to mitigate damage to an institution, or reactive regulation resulting from failure to intervene early enough to avoid undesirable consequences (i.e., effective field examinations and off-site monitoring will normally result in fewer regulatory actions being required).

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Lower than target.

Output 01-01-01-04 Number of applications processed.

Short Definition: The total number of all applications received by the Department during the period to charter a savings institution, or establish additional offices, engage in a merger or acquisition transaction, invest in a subsidiary, etc.

Purpose / Importance: This measure provides an indication of the application workload regarding savings institution corporate transactions. The measure is frequently reflective of economic expansion in the state. During more prosperous economic conditions, individuals seek to charter new institutions; and existing financial institutions establish new branch offices and engage in a greater level of merger and acquisition activities.

Source / Collection of Data: For all application activity, the assigned agency staff maintains a log showing date application received, date application deemed complete, date of hearing and final determination by the Commissioner. These dates are supported by letters to the applicants and, when applicable, hearings notices published in the Texas Register.

Method of Calculation: This is an arithmetic count of the number of applications processed by the Department during the reporting period as recorded in the log maintained by the assigned agency staff. Applications received in one reporting period and completed in another are evaluated at the end of the period to determine the percentage of completion and fractionally reported based on that evaluation. When aggregated for the period, any resulting fraction in the application total is rounded to the nearest whole application (i.e., less than 50% - rounded down / 50% or more - rounded up).

Data Limitations: The Department has no control over the number of applications received and processed. The measure does, however, provide a workload indicator for the Department's savings institution application process.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than target.

GOAL B: MORTGAGE REGULATION

OUTCOME MEASURES

Outcome 02-01-01 Percent of licensees and mortgage originators with no recent violations.

Short Definition: The percent of the total number of individuals licensed as mortgage originators at the end of the reporting period who have not incurred a violation within the current and preceding two years (three years total).

Purpose/Importance: Licensing individuals as mortgage originators helps ensure that practitioners meet legal standards for professional education and experience, and comply with statutory standards of conduct. This measure is important because it indicates how effectively the agency's activities deter violations of professional standards established by statute and rule.

Source/Collection of Data: Agency staff maintains a data base of licensees. Violations disclosed through consumer complaint investigations, hearings, and enforcement actions are entered in the data base by the General Counsel designee. Agency staff compiles a similar report of all licensees who have received an examination grade of 3, 4 or 5 within the past twelve months. A combined list of all approved and licensed mortgage originators with recent violations is prepared by the Commissioner's designee.

Method of Calculation: The total number of currently approved and licensed mortgage originators who have *not* incurred a violation within the current and preceding two years divided by the total number of approved and licensed mortgage originators. The numerator for this measure is calculated by subtracting the total number of licensees with violations during the three-year period from the total number of licensees at the end of the reporting period. The denominator is the total number of approved and licensed mortgage originators at the end of the reporting period. The result is multiplied by 100 to achieve a percentage.

Data Limitations: The number of violations discovered and reported as part of this measure is limited by consumer awareness and the frequency that examinations are performed. Examination staffing, accompanied by a decline in the number of licensees, limits the frequency of examinations.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than Target.

Outcome 02-01-02 Percent of licensees and mortgage originators who renew online.

Short Definition: The percent of the total number of mortgage originators or licensees who renewed their license online during the current reporting period.

Purpose/Importance: License renewal online is intended to ensure that persons who want to continue to practice as a mortgage originator or licensee can update their license information, comply with statutory requirements for professional education, and pay their renewal fee in a convenient, efficient and timely manner.

Source/Collection of Data: The agency maintains a payment log of all payments received, indicating their source (i.e. mail or online). This log is reviewed on at least a quarterly basis.

Method of Calculation: The total number of mortgage originators or licenses renewed online is divided by the total number of mortgage originators or licensees eligible to renew online during the period.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than Target

EFFICIENCY MEASURES

Efficiency 02-01-01-01 Average cost per license issued and mortgage originator approved.

Short Definition: Total expenditures, including accounts payable, for mortgage originator or licensee approval activities during the reporting period divided by the total number of individuals licensed or approved during the reporting period.

Purpose/Importance: This measure is intended to show how cost-effectively the agency processes new and renewal license or approval applications.

Source/Collection of Data: Average cost per unit is computed by adding quarter-to-date direct costs allocated to the licensing strategy, annualizing the quarterly costs, and dividing by the number of units projected. If actual units exceed projected units, divide by the actual units. Costs are obtained from management financial reports prepared by the agency from USAS expenditure reports, including accounts payable. The number of new and renewed mortgage originator or licensee approvals is obtained from performance measurement data calculated each quarter. Time allocations are prepared to allocate payroll costs among the functions of licensing, investigation and enforcement; other expenses that can be directly attributable to the strategy, such as travel, are also included in direct costs.

Method of Calculation: Total funds expended and accrued during the reporting period for the processing of initial and renewed licenses or approvals divided by the total number of initial and renewed licenses or approvals during the reporting period. Costs include the following categories: salaries; supplies; travel; postage; and other costs directly related to licensing, including document review, handling, and notification. Costs related to the investigation and enforcement function and indirect costs are excluded from this calculation.

Data Limitations: The Department cannot control the number of new originators or licensees, and can only control renewals to a limited extent. If the number of new and renewed licenses or approvals varies significantly from projections, this measure will vary in a similar manner.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Lower than target.

Efficiency 02-01-01-02 Percent of new individual licenses issued and mortgage originators approved within 10 days.

Short Definition: The percentage of initial and renewal mortgage broker or loan officer license applications that were processed during the reporting period within 10 days, measured from the later of the time in business days elapsed from receipt of a complete application, or receipt of criminal background check results, if required, until the date the license is issued.

Purpose/Importance: This measures the ability of the agency to process new and renewal applications in a timely manner and its responsiveness to a primary constituent group.

Source/Collection of Data: Each application for an initial or renewal mortgage broker or loan officer license is date stamped when mail is opened and license fees are recorded in a revenue collection log and entered into the mortgage broker data base (MBDB) as of that date. The date the application is deemed complete is noted in the MBDB and, if required, a Department of Public Safety and FBI criminal background check request is requested. Upon receipt of a satisfactory criminal background check, the license is issued and the issue date recorded in the MBDB. A report is prepared from the MBDB showing each individual license issued during the fiscal quarter, the number of calendar days which elapsed between the later of the date the application is deemed complete or the date a satisfactory background check report is received and the license issue date. The report provides the number of individual licenses which were issued in 10 days or less and the total number of individual licenses issued during the quarter.

Method of Calculation: The total number of initial and renewal mortgage broker and loan officer licenses issued during the quarter within the later of 10 days after being deemed complete, or 10 days after receipt of a satisfactory background check, is divided by the number of licenses issued during the quarter as identified in the report of licenses issued prepared by agency staff from the MBDB. The resulting number is multiplied by 100 to convert it to a percentage.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

EXPLANATORY MEASURES

Explanatory 02-01-01-01 Total number of licensees and mortgage originators approved.

Short Definition: Total number of individuals licensed or approved as mortgage originators at the end of the reporting period.

Purpose/Importance: The measure shows the total number of licenses or approvals currently issued which indicates the size of one of the Department's primary constituencies.

Source/Collection of Data: Agency staff maintains a data base of applications and licenses granted to all mortgage originators. At the end of each fiscal year agency staff prepares a report listing all individuals licensed or approved by the Department. Names and addresses are checked and duplicate names, if any, are removed from the list. The list is printed and maintained by agency staff.

Method of Calculation: Complete information on individuals licensed or approved as mortgage originators is stored in the mortgage broker database (MBDB) and a report is developed at the end of each period to determine the number licensed or approved. Only those individuals with "active status" or in the process of renewing are included in the calculation for this measure; therefore, this measure may not agree with the total number of licenses or approvals issued by the Department.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

OUTPUT MEASURES

Output 02-01-01-01 Number of new licenses issued and mortgage originators approved.

Short Definition: The number of new mortgage originators or licensees approved during the reporting period.

Purpose/Importance: A successful licensing and approval structure must ensure that legal standards for professional education and practice are met prior to licensure or approval. This measure is a primary workload indicator which is intended to show the number of unlicensed or unapproved mortgage originators or licensees who were documented to have successfully met all licensure or approval criteria established by statute and rule as verified by the agency during the reporting period.

Source/Collection of Data: Agency staff maintains a data base of applications for licensure or approval. The number of new licenses or approvals issued during the period is determined by preparing a report from the data base of licenses or approvals issued in the period. The total is verified and maintained by agency staff.

Method of Calculation: This measure counts the total number of licenses or approvals issued to previously unlicensed or unapproved mortgage originators during the reporting period, regardless of when the application was originally received. Those originators who had a license or approval in the previous reporting period are not counted. Only new licenses or approvals are counted. Licenses or approvals are counted as new for mortgage originators who were previously licensed or approved, but whose license or approval expired so that they were required to meet all criteria of a new applicant.

Data Limitations: None.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than Target.

Output 02-01-01-02 Number of licenses renewed and mortgage originators reapproved.

Short Definition: The number of previously licensed or approved mortgage originators who renewed their license or approval during the current reporting period.

Purpose/Importance: License or approval renewal is intended to ensure that mortgage originators who want to continue to practice as a mortgage originator satisfy current standards established by statute and rule for professional education and practice. This measure is intended to show the number of licenses or approvals issued during the reporting period to mortgage originators who previously held a valid license or approval.

Source/Collection of Data: Agency staff maintains a database of applications for licensure or approval. The number of license renewals or approvals in the period is determined by preparing a report from the data base of license renewals or approvals during the period. The total is verified and maintained by agency staff.

Method of Calculation: The measure is calculated by querying the Department's mortgage broker licensing database to produce the total number of mortgage originator licenses or approvals issued to previously licensed or approved mortgage originators during the reporting period.

Data Limitations: None.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than Target

Output 02-01-01-03 Total number of mortgage bankers registered.

Short Definition: Total number of individuals registered as mortgage bankers at the end of the reporting period.

Purpose/Importance: The measure shows the total number of mortgage bankers currently registered which indicates the size of one of the Department's constituencies.

Source/Collection of Data: Agency staff maintains a data base of mortgage originators. At the end of each fiscal year agency staff prepares a report listing all originators. Names and addresses are checked and duplicate names, if any, are removed from the list. The list is printed and maintained by agency staff.

Method of Calculation: Complete information on individuals registered as mortgage bankers is stored in the mortgage broker database (MBDB) and a report is developed at the end of each period to determine the number registered. Only those individuals with "active status" or in the process of reregistering are included in the calculation for this measure; therefore, this measure may not agree with the total number of registrations issued by the Department.

Data Limitations: None.

Calculation Type: Non-Cumulative.

New Measure: Yes.

Desired Performance: Higher than target.

Output 02-01-02-01 Number of licensees inspected.

Short Definition: The total number of on-site examinations and inspections of mortgage originators performed during the quarter.

Purpose/Importance: This measure indicates the level of examination activity for the period reviewed as a productivity indicator.

Source/Collection of Data: Agency staff prepares a report tracking the status of examinations (e.g., current examination date, previous examination date, examination rating, examiner's name, and whether follow-up examination is needed). This report serves as the basis for capturing the number of mortgage originators examined.

Method of Calculation: Arithmetic addition of the total number of mortgage originators examined.

Data Limitations: On occasion, a large number of examinations related to a special investigation or a significant need for follow-up examinations on the same mortgage originators can distort this measure in a given quarter.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than target.

GOAL C: CONSUMER RESPONSIVENESS

OUTCOME MEASURES

Outcome 03-01-01 Percent of complaints answered within ten business days of receipt of complete information.

Short Definition: This measure identifies that percentage of complaints processed to completion and response within ten business days.

Purpose / Importance: The measure is an indicator of whether complaints are being investigated, researched and addressed promptly.

Source / Collection of Data: The Department receives written and telephone complaints. Complaints are required to be in writing. A log of these documents is maintained by appropriate agency staff recording the date that the complaint was received, the date that all necessary information was received from which to make a determination (which is the start of the measurement period), and the date of the letter advising the person registering the complaint as to the Department's final determination (which is the end of the measurement period).

Method of Calculation: An arithmetic calculation is made of the number of business days between the date the complaint investigation is completed or submitted to prepare an enforcement action and the date of the letter or call made to the complainant providing final determination of the matter. The number of business days so determined is compared with the ten business day goal. The year to date number of complaints, receiving a final determination letter or telephone call within ten days divided by the number of complaints received year to date is the basis of calculating the outcome measure. The resulting number is multiplied by 100 to convert it to a percentage.

Data Limitations: Complaints in particular can require significant investigation of as much as thirty days or more; therefore, the counting period for evaluating a prompt response cannot begin until all facts have been obtained from both the individual complaining and the party who was complained against. Thus a customer can view the period as too long, even though the complaint was investigated efficiently and appropriately.

Calculation Type: Non-Cumulative.

New Measure: No.

Desired Performance: Higher than target.

EFFICIENCY MEASURES:

Efficiency 03-01-01-01 Average cost per consumer complaint completed.

Short Definition: This measure indicates the average cost to process a consumer complaint to completion.

Purpose / Importance: This measure provides a comparative evaluation of the actual operating costs incurred during a period to process complaints to their resolution compared to the current period budget and prior periods. As such, the measure gives some indication of the Department's relative efficiency from one period to the next in managing its resources and controlling complaint processing time.

Source / Collection of Data: Costs come from management financial reports prepared by agency staff from USAS expenditure reports, including accounts payable. The number of complaints completed is obtained from the complaint log maintained by agency staff. Time allocations are prepared to allocate payroll costs among each direct strategy; other expenses that can be directly attributable to the strategy, such as travel, are also included in direct costs; and indirect costs are allocated to the strategies on the same basis as payroll costs.

Method of Calculation: Average cost per complaint completed is computed by adding quarter-to-date direct costs allocated to the complaint strategy, annualizing the quarterly costs, and dividing by the number of complaints projected to be completed during the period. If actual complaints completed exceed projected units, divide by the actual. Total funds expended and encumbered during the reporting period for the complaint strategy are annualized and divided by the total number of complaints projected for the year. Costs include the following categories: salaries; supplies; travel; postage; and other costs *directly* related to the complaint strategy, plus indirect costs allocated to the strategy.

Data Limitations: The number of complaints received is beyond the influence of the Department; therefore, the number of complaints processed can vary significantly from one period to another. Significant swings in number of complaints received can impact significantly both projections and allocation of staff resources to the detriment of this measure and beyond the Department's control.

Calculation Type: Non-Cumulative.

New Measure: Yes.

Desired Performance: Lower than target.

OUTPUT MEASURES

Output 03-01-01-01 Number of consumer complaints completed.

Short Definition: The number of consumer complaints against regulated entities for which all information is obtained, the investigation completed and a written response completed to the complainant.

Purpose / Importance: The measure provides an indication of the workload volume of consumer complaints received, processed and completed by the Department. The measure also provides an indication of whether these regulated entities are satisfying consumers, or not, based on the relative complaint volume between periods.

Source / Collection of Data: A document is completed by the individual receiving the complaint indicating the substance of the complaint, whether written or by telephone, and its resolution. A log of these documents is maintained by agency staff recording the date that the complaint was received. This log is the source for determining the number of complaints processed by the Department.

Method of Calculation: This is an arithmetic count of complaints received against regulated entities that were completed during the period.

Data Limitations: The measure can be useful as a measure of activity, but is not indicative of how well the agency is performing because the agency has no control over the number of complaints received.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than target.

Output 03-01-01-02 Number of informational inquiries and requests completed (phone/written).

Short Definition: The measure is a count of the total inquiries and requests received by the Department by telephone, letter or e-mail.

Purpose / Importance: The measure provides an indication of workload. The measure may also indicate trends in customer satisfaction or confusion regarding industry changes or products, based on the relative volume of inquiries between periods or inquiry topics.

Source / Collection of Data: A log of general inquiries and requests is the source for the number of inquiries and requests processed. An inquiry may be regarding statutes or regulations, status of mortgage broker or loan officer applications, information regarding the corporate history or regulatory disposition of an institution, or a complaint regarding federal savings associations, banks, credit unions, appraisers, or mortgage companies that must be referred to other jurisdictions.

Method of Calculation: The measure provides an indication of the workload volume of consumer inquiries and requests received, processed and completed by the Department. The measure also provides an indication of whether these regulated entities are satisfying consumers, or not, based on the relative inquiries and requests volume between periods.

Data Limitations: The measure can be useful as a measure of activity, but is not indicative of how well the agency is performing because the agency has no control over the number of inquiries and requests received.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than target.

APPENDIX E: WORKFORCE PLAN FY2013-FY2017

I. DEPARTMENT OVERVIEW

The Department of Savings and Mortgage Lending has two key areas of regulatory responsibility: the chartering, regulation and supervision of the state's thrift industry; and the licensing/registration and regulation of the state's mortgage industry. These two areas of responsibility cover the vast majority of residential mortgage lending in Texas.

A. DEPARTMENT MISSION

The Department of Savings and Mortgage Lending's mission is to ensure the safety and soundness of state chartered savings institutions in Texas and provide consumer protection for citizens acquiring mortgage loan products through residential mortgage loan originators, and utilizing the services of mortgage servicing companies. The Department seeks to promote and enhance the savings bank charter, residential mortgage loan originators', and mortgage servicers' operations to provide the credit necessary to support the residential housing and real estate finance needs of an expanding Texas economy.

GOVERNING LEGISLATION

Article 16, Section 16(a) of the Texas Constitution of 1876 provides that, "The Legislature shall by general law, authorize the incorporation of state banks and savings and loan associations, and shall provide a system of State supervision, regulation and control of such bodies which will adequately protect and secure the depositors and creditors thereof."

The 58th and 73rd Legislatures, respectively, enacted the Texas Savings and Loan Act (Subtitle B. Savings and Loan Associations) and the Texas Savings Bank Act (Subtitle C. Savings Banks, Finance Code, Vernon's Texas Codes Annotated) for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes.

The 76th Legislature enacted the Mortgage Broker License Act (Subtitle E. Other Financial Businesses, Chapter 156) for licensing and regulation of first lien residential mortgage brokers and loan officers doing business in Texas. The statute, as amended by the 80th Legislature, applies to all residential mortgages regardless of lien position. The statute prescribes requirements for licensing and inspecting licensees, and processing consumer complaints.

The 78th Legislature enacted the Mortgage Banker Registration Act (Subtitle E. Other Financial Businesses, Chapter 157) for registering mortgage bankers conducting business in Texas and providing their borrowers with notice of the process for filing consumer complaints.

The 81st Legislature enacted the Texas SAFE Act and other significant modifications to Chapters 156 and 157. Compliance with the federal mandates addressed by this legislation expanded the field of individuals subject to residential mortgage licensing by eliminating the de minimus level of originations, and eliminating the exemptions for individuals employed by mortgage bankers under Chapter 157, governmental entities, independent third party processors and underwriters. A final determination by the Consumer Financial Protection Bureau (CFPB) for determining the compliance of the Texas SAFE Act has been postponed to no earlier than December 31, 2012.

The 82nd Legislature enacted Senate Bill 17 creating Chapter 158 calling for the registration of non-depository third party residential mortgage loan servicers. This legislation resulted from an increasing level of concerns over mortgage servicing complaints and issues with foreclosure around the country. The statute authorizes the Department to require registrants to carry a bond or equivalent, notify serviced clients of their ability to file a complaint and to investigate any such complaints. The Department is not authorized to initiate examinations of servicing registrants but may participate in multistate examinations.

C. Strategic Structure

Goal A: Thrift Safety and Soundness. Aggressively enforce safety and soundness standards in the state chartered thrift industry and compliance with the Texas Finance Code in a manner that is constructive and maintains the interest of depositors, creditors and borrowers of savings institutions as paramount. [Texas Finance Code, Subtitle B, Savings and Loan Associations and Subtitle C, Savings Banks]

Strategy A-1-1. Thrift Examination And Supervision. Perform full and limited scope examinations and participate with federal regulators in examinations according to the priority examination schedule; monitor and enforce the safe and sound operations of state chartered savings institutions and their compliance with applicable laws and regulations.

Goal B: Mortgage Regulation. Protect Texas home buyers through fair and effective regulation of mortgage originating individuals and businesses. [Texas Finance Code, Subtitle E, Mortgage Broker License Act, Chapter 156, Mortgage Banker Registration Act, Chapter 157, Residential Mortgage Loan Servicer Registration Act, Chapter 158, Texas SAFE Mortgage Licensing Act of 2009, Chapter 180]

Strategy B-1-1. Mortgage Industry Licensing. Process, investigate and evaluate mortgage originator license applications and registrations of entities and individuals; enforce compliance with standards of conduct.

Strategy B-1-2. Mortgage Industry Examination. Ensure effective and efficient examination of mortgage originators through fair, responsible, and comprehensive investigation and enforcement of regulatory requirements regarding procedures and standards of conduct.

Strategy B-1-3. Texas OnLine. Provide for the processing of occupational licenses, registrations, or permit fees through TexasOnline. Estimated and nontransferable. (Inactive since 9/1/2010.)

Goal C: Consumer Responsiveness. Ensure responsiveness to inquiries, requests and complaints from the industry, citizens, public officials, and other state and federal governmental entities. [Texas Finance Code, Chapter 13, Department of Savings and Mortgage Lending, §13.011; Chapter 156, Residential Mortgage Loan Companies and Residential Mortgage Loan Originators, §156.301, et. seq.; and Chapter 157, Registration of Mortgage Bankers, §157.007 and §157.008, Chapter 158, Residential Mortgage Loan Servicers, §158.101-103]

Strategy C-1-1. Complaint And Inquiry Process. Provide a forum for registering complaints, responding to requests and inquiries and taking appropriate action when warranted.

Respond appropriately to requests or inquiries to obtain information regarding financial institutions and mortgage originators, giving particular priority to requests from state and federal agencies conducting civil and criminal investigation.

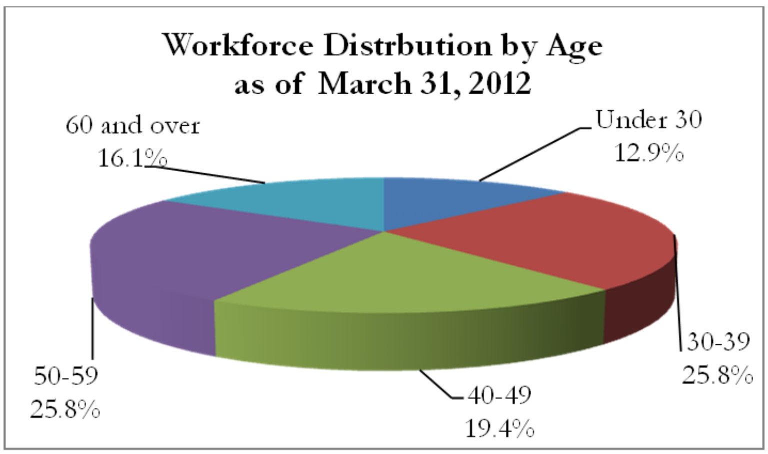
II. DEPARTMENT DEMOGRAPHICS

A. COMPOSITION OF DEPARTMENT STAFF

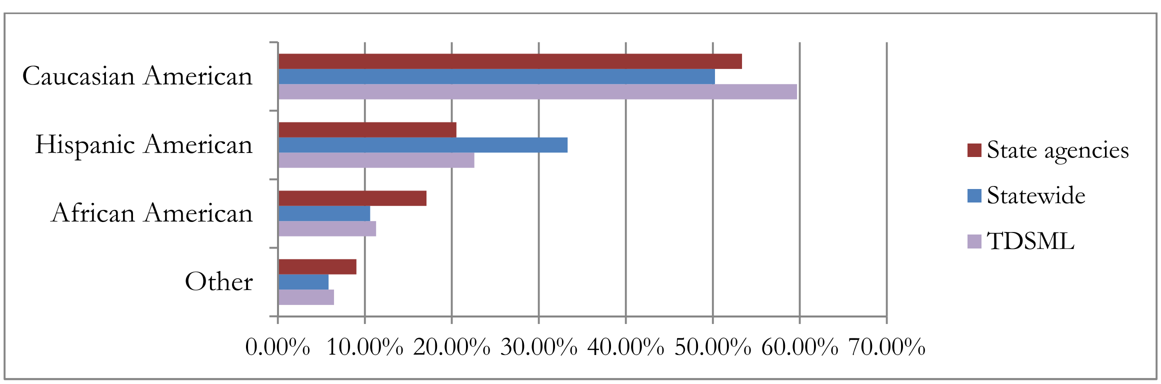
The current workforce of 62 employees is comprised of 31 females (50.0%) and 31 males (50.0%). Ten employees (16.1%) are over age 59, sixteen (25.8%) are in their 50s, twelve (19.4%) are in their 40s, and the average age of staff remains unchanged at 45 years compared to fiscal year 2010. The Department faces a massive departure of knowledge in the next ten years.

The employees' length of agency service distribution has shifted due to slow staff growth and reduced turnover rates. As a result 16% (down from 18% in fiscal year 2010) of employees have less than two years of agency service, and 60% (up from 40% two years ago) now have more than five years of service.

The chart below shows the Department staff composition by age as of March 31, 2012.



The following chart compares the agency staff composition by ethnicity as of March 31, 2012 to the statewide and state agencies workforce composition as reported by the Civil Rights Division of the Texas Workforce Commission in January 2011.

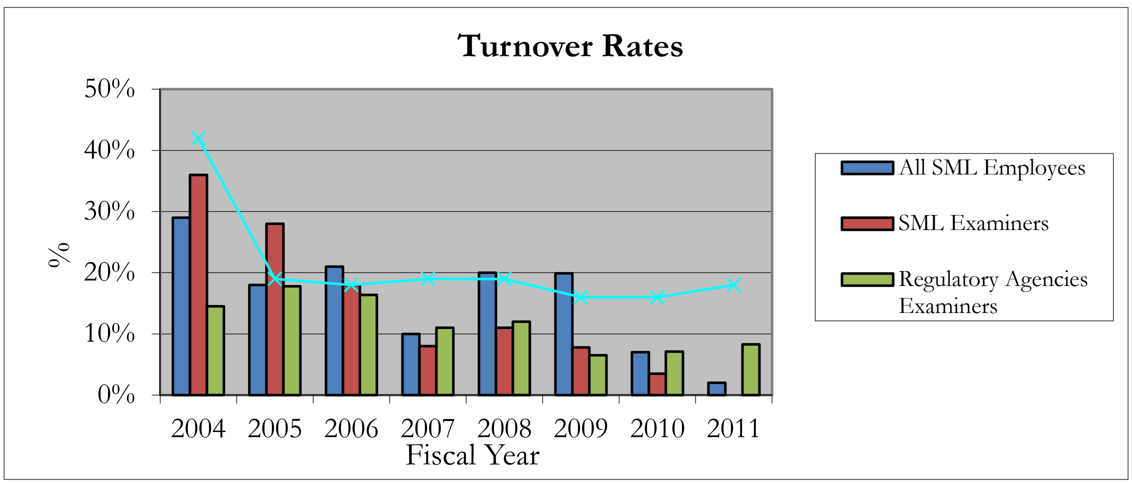


B. EMPLOYEE TURNOVER

Turnover challenges every employer, impacting recruitment, selection and training, and diminishing productivity, experience and talent. Over the years the Department has developed and adjusted its processes, training schemes, internal documentation, in order to shorten the learning curve and facilitate new employees' immersion into the Department's functions and culture. Additional efforts at employee satisfaction and culture change include expanded flex hour schedules, work from home, relaxed dress code, and implementation of the Governor's fitness program. The Department continues to search for tools and mechanisms to combat turnover in all groups of employees and to keep the levels of employee satisfaction high.

Financial examiner turnover has been of a significant concern as they perform one of the essential functions of the Department. Well-trained financial examiners are widely sought after by state regulatory agency, federal counterparts, and private sector. The issue has been analyzed and addressed continuously and as a direct result, the financial examiner turnover has decreased from 28% in fiscal year 2005 to 0% in fiscal year 2011.

The graph below compares Department turnover to statewide turnover for fiscal years 2004-2011, as well as the financial examiner turnover to regulatory agencies' financial examiner turnover. Interagency transfers are included even though the employee stayed within the state system. The exceptionally high statewide turnover in fiscal year 2004 is due to the reorganization of the health and human services agencies.



Fiscal Years 2010-11 Turnover by Length of Service

The Department lost five employees during fiscal year 2010 and fiscal year 2011. Turnover is calculated for the biennium to level the impact of the Department's history of high turnover in year one and lower turnover in year two. Employees with less than five years of experience accounted for 60% of Department turnover - a consistent trend statewide.

Length of Service	SML % of Employees	State % of Employees	% of SML Turnover	% of State Turnover
Less than 2 years	18.7	26.0	40.0	51.8
2-5 years	35.6	25.7	20.0	21.0
5-10 years	33.1	26.0	20.0	14.3
10-15 years	3.6	9.9	20.0	4.7
15-20 years	7.3	7.0	0	3.3
More than 20 years	1.7	5.4	0	4.9

Fiscal Years 2010-11 Turnover by Age

Age	SML % of Employees	State % of Employees	% of SML Turnover	% of State Turnover
Under 30 years	14.3	17.2	0.0	32.7
30-39 years	26.0	21.6	20.0	20.6
40-49 years	19.5	27.2	40.0	16.1
50-59 years	26.6	24.8	0	19
60 years and over	13.6	9.2	40.0	11.6

C. RETIREMENT ELIGIBILITY

Retirement will account for a significant number of separations over the next five years, and a critical loss of institutional knowledge and expertise in key positions. The commissioner, chief thrift examiner, general counsel, and other high level positions are currently eligible or will be eligible for retirement within five years.

By the end of fiscal year 2017, five employees will become eligible for retirement under the rule of 80, and nine more will become eligible with age 60 and five years of service. Currently, five employees are already eligible to retire under the latter rule and three employees under the rule of 80. Besides the three executives mentioned above, the potential retirees include an attorney, ten examiners, two investigators, and five administrative staff. These employees have extensive tenure with the Department and a wealth of institutional knowledge. The average state service of the potential retirees in their year of eligibility is 13 years. It is important to ensure that this knowledge and organizational experience is not lost.

During the last several years the Department has been focused on succession planning and has a detailed plan of action to replace the skill sets of retired employees.

III. THE DEPARTMENT'S FUTURE WORKFORCE PROFILE

A. WORKFORCE CHANGES

As programs become increasingly complex, necessitating process improvements and continued cross training, the Department increasingly relies on information technology to respond to customers, provide quality services, and conduct business, in the process becoming more dependent on Information Technology staff. Assessing the need for current technological knowledge is crucial to effective planning. The Department diligently monitors industry changes, identifies necessary adjustments, and uses its resources to implement programs for the benefit of the public. The Department is actively exploring and implementing technological initiatives, including:

- Ensuring continued connectivity to the FDIC examination reporting system;
- Enhancing the Department intranet to provide centralized, immediate access to important documents, tools, and training materials; and
- Increasing use of technology in examination and inspection activities.

- Challenges to the implementation of technological initiatives include:
- Implementation of the National Mortgage Licensing System & Registry (NMLSR) mandated by the SAFE Act, despite its initial expense and lack of some features necessary for effective regulatory oversight including examination, complaint, and enforcement information;
- Workforce decentralization; and
- Loss of experienced, long tenured employees in critical positions.

As Texas population continues to diversify year, the Department must tailor programs and services for citizens who do not speak or comprehend English. Increased diversity directly affects the licensing, examination, enforcement, and complaint programs, requiring additional bilingual staff to offer services in languages other than English.

B. The Changing Number of Employees

Each of the five legislatures, prior to the self-directed, semi-independent (SDSI) status being granted to the Department, has increased the Department's regulatory authority over the mortgage industry. With the growth in this program, the Department has added additional examiners, investigators, licensing technicians, accountants, attorneys, and general administrative support staff.

In fiscal year 2009, in response to the mortgage crisis and all its economic impact on mortgage lending and regulated industries, the Department reduced the number of employees corresponding to the declining licensee population.

In fiscal year 2010 and fiscal year 2011, there were minimal changes in the full-time equivalents' (FTE) count. Most program and process changes have been addressed internally by shifting employees between the different functions. Staff has remained flexible and fluid to respond to rapidly changing business needs. Employees with other primary duties currently perform budgeting and planning, purchasing and facilities management, and administrative support and human resources tasks. Investigators and mortgage loan examiners assist the Licensing division during heavy workload periods. Thrift examiners are trained to perform mortgage loan originator examinations in order to utilize time effectively.

The examination staff has been expanded to not only meet the increased requirements for mortgage loan originator and savings and loan examinations but to supplement our now maturing state saving bank examination team, but no future expansion is anticipated.

C. Future Workforce Skills Needed

The Department's most valuable resource is well-qualified, loyal employees, whose skills are critical to our ability to operate and successfully achieve our mission. General skills such as written and verbal communication, analytical reasoning, and interpersonal skills continue to be needed. Additionally, the following skills are necessary to enable the Department to perform its core business functions:

- Financial institution regulation and examination experience;
- In-depth knowledge of the depository financial and mortgage industries;
- Audit and investigative techniques;

- Knowledge of business, accounting, finance, economics and the law;
- Technical skills associated with new programs;
- Familiarity with regulatory processes, especially those necessitated by economic changes;
- Accounting, budgeting and strategic planning;
- Risk assessment modeling;
- Business process re-engineering, analysis and redesign;
- Negotiation and change management;
- Ability to interpret and apply relevant rules, regulations, and statutes;
- Information technology expertise;
- Customer service oriented;
- Clear, concise, and accurate report and technical writing;
- Effective written and verbal communications; and
- Bilingual abilities.

IV. GAP ANALYSIS

After analyzing the workforce needs of the Department, there appear to be two critical gaps between the Department's workforce supply and demand.

A. EMPLOYEES NEED ADDITIONAL TRAINING IN CRITICAL SKILLS

- A significant percentage of employees identified as eligible retirees are either in management positions or positions requiring extensive knowledge of a program. To ensure successful administration of programs without interruption, these key positions have been targeted for succession planning. Currently, the Department has adequate staff count to manage its programs, successfully cross-train and transfer knowledge.

- Three of the six executive management employees will be retirement eligible within the next five years. The financial institution, mortgage industry, legislative, management, and state reporting experience imbued in these individuals will almost certainly force the Department to compete with other state and federal agencies for a dwindling pool of persons qualified to handle the agency's intricate regulatory and reporting requirements unless cross-training and exposure of current employees is accomplished. To be successful, succession planning must include exposure to these activities, and preferably for more than one employee.

- Seven examiners (39% of the current thrift examination team), including the chief thrift examiner, are currently or will be retirement eligible within five years. The remaining thrift examination staff has an average tenure of 52 months of agency service, a dramatic increase from the 26 month average six years ago, and a direct result of the decrease in turnover. The increase in tenure, as well as the gap between employees who will soon be eligible for retirement and the tenure of remaining staff is common throughout the Department. An initiative by federal regulatory counterparts to rehire retired examiners emphasizes the importance of competitive salaries and working conditions if the Department is to attract examiners with the management and depository financial institution experience necessary to ensure a continued high level of thrift regulatory oversight. The Department’s cross-over examination program in which thrift examiners are trained for and conduct mortgage examinations and selected mortgage examiners assist with thrift examination activities is highly successful not only to manage workload and reduce travel expense, but also in alleviating employee burnout. The Department regularly conducts joint thrift and mortgage examiner training conferences.

- Sudden shifts in licensee population and program needs require skills in managing change. Managers must be able to motivate change, choose a suitable change approach, compare change initiatives to avoid failure, and define implementation strategies to support the Department’s goals. These desired skill sets must be further developed.

- The Department serves a diverse range of customers. We can best meet the needs of all customers only if we have a fully diversified and trained staff. Despite intensified effort in the hiring process, in exploring our customer base and the services they request, we expect that in the future we will not have enough employees with bilingual skills.

B. ATTRACT AND RETAIN THE RIGHT EMPLOYEES FOR THE JOB.

- The pool of qualified applicants, especially for executive management and examiner positions, is small, due in part to competition with the federal regulatory agencies’ and private sector’s ability to offer higher pay and greater flexibility. Alternative sources for acquiring experienced examiners have been implemented. We have successfully hired three seasoned commissioned examiners and have signed a contract with the Conference of State Bank Supervisors to participate in a pool of experienced examiners who are available on a temporary hiring basis to meet peak times of demand.

- Extensive travel requirements negatively impact the number of applications for positions in key program areas, particularly examiner positions.

- Developing and retaining examiner staff is key to the Department's continued ability to perform its core functions. The Department has made an extensive ongoing commitment to continuing education training to staff, particularly field examiners. This investment both in time and money accentuates the loss when examiners depart after only a few years.

V. Strategy Development

To address the gaps between the current workforce and future demands, the Department has developed the following goals for the current workforce plan.

Gap	Current employees lack critical and future workforce skills.
Goal	Further develop a competent and well-trained workforce.
Rationale	Employees are the Department's most valuable resource. Their training and development is critical to the Department's success. We continue to analyze knowledge levels and tailor training to develop competencies and prepare staff for additional responsibilities. The Department also must prioritize critical competencies to determine its ability to develop staff for anticipated vacancies.
Action Steps	• Identify year new skill sets required as a result of vacancies or program changes and expand training opportunities accordingly. • Use in house training and mentoring programs in addition to outside training to transfer knowledge. • Expand training opportunities to include programs on management skills. • Develop future leaders by creating development paths to prepare lower-level staff to move into jobs with higher-level requirements. • Develop strategies to retain knowledge by promoting the transfer of knowledge as a Department value.

Gap	Attract and retain the right employees for the job.
Goal	Become an employer of choice among Texas agencies and federal counterparts.
Rationale	Employee retention is critical to the Department's success. Working within the Department's budget and revenue collection, we must strive to attract and retain capable employees.
Action Steps	• Encourage managers to recruit, select and retain quality staff. • Recruit mid-level managers from outside the Department. • Identify year internal candidates with the qualifications to fill key positions and use mentoring programs to match seasoned employees with new ones. • Hold management accountable through performance evaluations for their outreach and retention efforts. • Use available mechanisms to hire employees at a compensation level adequate to attract them. • Use any mechanism available within the appropriation structure to reward employees with compensation adequate to retain them.

APPENDIX F: SURVEY OF EMPLOYEE ENGAGEMENT RESULTS

SEE SURVEY OF EMPLOYEE ENGAGEMENT

Savings and Mortgage Lending Department

Executive Summary

2011

EMPLOYEE ENGAGEMENT
INSTITUTE FOR ORGANIZATIONAL EXCELLENCE

REPORT ID: 450

Executive Summary
Table of Contents

Institute for Organizational Excellence
The University of Texas at Austin
1 University Station, D3500
Austin, Texas 78712

www.survey.utexas.edu
soe@uts.cc.utexas.edu
Phone (512) 471-9831
Fax (512) 471-9600

EMPLOYEE ENGAGEMENT
INSTITUTE FOR ORGANIZATIONAL EXCELLENCE

Introduction

Thank you for your participation in the Survey of Employee Engagement (SEE). We trust that you will find the information helpful in your leadership planning and organizational development efforts. As an organizational climate assessment, the SEE represents an employee engagement measurement tool based on modern organizational and managerial practice and sound theoretical foundations. In short, the SEE is specifically focused on the key drivers relative to the ability to engage employees towards successfully fulfilling the vision and mission of the organization.

Participation in the SEE indicates the willingness of leadership and the readiness of all employees to engage in meaningful measurement and organizational improvement efforts. The process is best utilized when leadership builds on the momentum initiated through the surveying process and begins engagement interventions using the SEE data as a guide. Contained within these reports are specific areas of organizational strengths and of organizational concern.

The SEE Framework initially consists of a series of items to ascertain the demography of the respondents. The purpose is to measure whether or not a representative group of respondents participated. The second section contains 71 primary items. These are used to assess essential and fundamental aspects of how the organization functions, the climate, potential barriers to improvement, and internal organizational strengths. The items are all scored on a five-point scale from Strongly Disagree(1) to Strongly Agree(5) and are averaged to produce various summary measures - Constructs, Climate indicators, and the Synthesis Score.

The SEE has 14 Constructs which capture the concepts most utilized by leadership and those which drive organizational performance and engagement. These constructs are: Supervision, Team, Quality, Pay, Benefits, Physical Environment, Strategic, Diversity, Information Systems, Internal Communication, External Communication, Employee Engagement, Employee Development, and Job Satisfaction. In the Climate section of the reports are the Climate indicators: Atmosphere, Ethics, Fairness, Feedback, and Management.

Workplace Dimensions
Survey Constructs

Work Group
Supervision
Team
Quality

Accommodations
Pay
Benefits
Physical Environment

Organization
Strategic
Diversity

Information
Information System
Internal Communication
External Communication

Personal
Employee Engagement
Employee Development
Job Satisfaction

Organization Profile

Savings and Mortgage Lending Department

Organizational Leadership:

- Douglas Foster

Benchmark Groups

The most current benchmark data are provided in your report. To get a better idea of how this organization compares to others like it, we provide three types of benchmark data: organizations with a similar size, similar mission, and organizations belonging to a special grouping.

The Benchmark Categories for this organization are:

- **Organization Size:** Size category 2 includes organizations with 26 to 100 employees.
- **Mission Category:** Mission 8 (Regulatory)
  The Regulatory category includes organizations involved in the regulation of medical, financial, and other service industries.
- **Special Grouping:** None

Survey Administration

Collection Period:
11-07-2011 through 11-18-2011

Additional Items and Categories (if applicable) may be used to target areas specific to the organization. Refer to the Appendix of the Data Report for a complete listing.

- Category 1 (2 codes)
- Category 2 (5 codes)

Survey Liaison:
Antonia Antov (512) 475-1296
Director of Administration and Finance
2601 N. Lamar Blvd., Ste 201
Austin, TX 78705

aantov@sml.texas.gov

Overall Score and Participation

Overall Score

The overall survey score is a broad indicator for comparison with other entities. The Overall Score is an average of all survey items and represents the overall score for the organization. For comparison purposes, Overall scores typically range from 325 to 375.

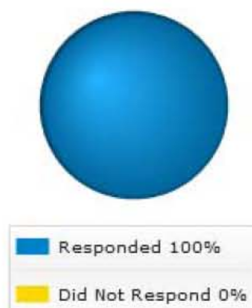
Overall Score: 382

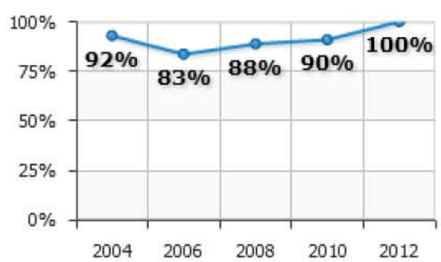
Response Rates

Overall Response Rate

Out of the 61 employees who were invited to take the survey, 61 responded. As a general rule, rates higher than 50 percent suggest soundness. Rates lower than 30 percent may indicate problems.

At 100%, your response rate is considered high. High rates mean that employees have an investment in the organization, want to see the organization improve, and generally have a sense of responsibility to the organization. With this level of engagement, employees have high expectations from Leadership to act on the survey results.





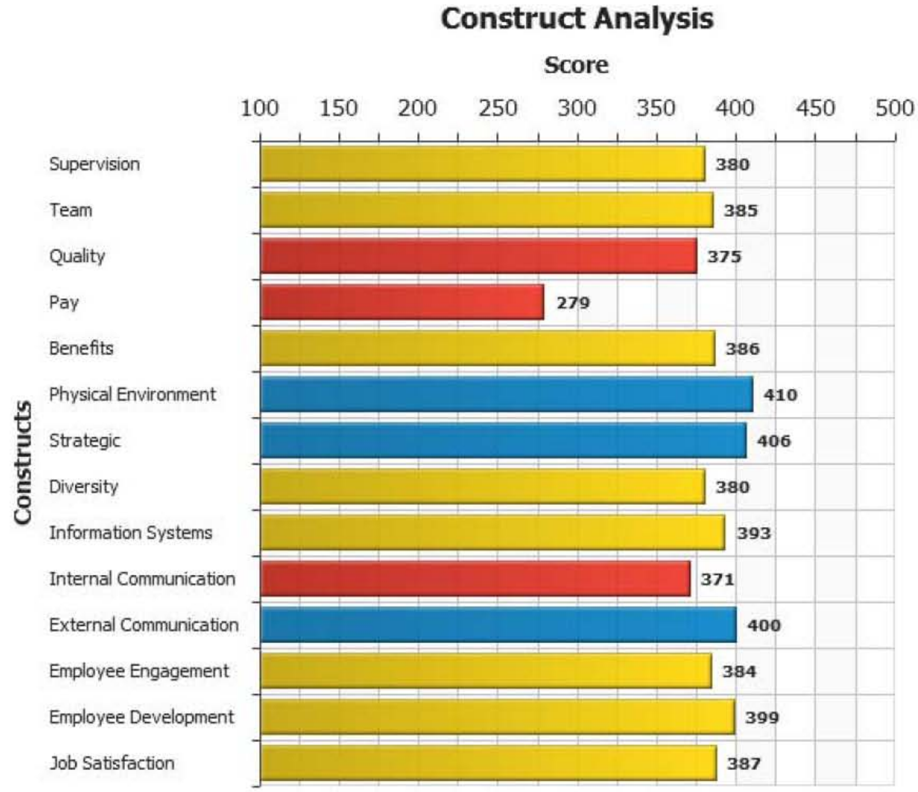
Response Rate Over Time

One of the values of participating in multiple iterations of the survey is the opportunity to measure organizational change over time. In general, response rates should rise from the first to the second and succeeding iterations. If organizational health is sound and the online administration option is used, rates tend to plateau around the 60 to 65 percent level. A sharp decline in your response rate over time can be a significant indicator of a current or potential developing organizational problem.

Construct Analysis

Constructs have been color coded to highlight the organization's areas of strength and areas of concern. The 3 highest scoring constructs are blue, the 3 lowest scoring constructs are red, and the remaining 8 constructs are yellow.

Each construct is displayed below with its corresponding score. Highest scoring constructs are areas of strength for this organization while the lowest scoring constructs are areas of concern. Scores above 350 suggest that employees perceive the issue more positively than negatively, and scores of 375 or higher indicate areas of substantial strength. Conversely, scores below 350 are viewed less positively by employees, and scores below 325 should be a significant source of concern for the organization and should receive immediate attention.



Organizational Typology: Areas of Strength

The following Constructs are relative strengths for the organization:

Physical Environment — Score:410

The Physical Environment construct captures employees' perceptions of the total work atmosphere and the degree to which employees believe that it is a 'safe' working environment. This construct addresses the 'feel' of the workplace as perceived by the employee.

High scores indicate that employees view their work setting positively. It means that the setting is seen as satisfactory, safe, and that adequate tools and resources are available.

Strategic — Score:406

The Strategic construct reflects employees' thinking about how the organization responds to external influences that should play a role in defining the organization's mission, vision, services, and products. Implied in this construct is the ability of the organization to seek out and work with relevant external entities.

High scores indicate employees view the organization as able to quickly relate its mission and goals to environmental changes and demands. It is viewed as creating programs that advance the organization and having highly capable means of drawing information and meaning from the environment. Maintaining these high scores will require leadership to continually assess the ability of the organization and employees at all levels to test programs against need and to continue to have rapid feedback from the environment.

External Communication — Score:400

The External Communication construct looks at how information flows into the organization from external sources, and conversely, how information flows from inside the organization to external constituents. It addresses the ability of organizational members to synthesize and apply external information to work performed by the organization.

High scores indicate that employees view their organization as communicating effectively with other organizations, its clients, and those concerned with regulation. Maintaining these high scores will require leadership to be alert to change and maintain strong and responsive tools to assess the external environment.

Organizational Typology: Areas of Concern

The following Constructs are relative concerns for the organization:

Pay **Score: 279**

The Pay construct addresses perceptions of the overall compensation package offered by the organization. It describes how well the compensation package 'holds up' when employees compare it to similar jobs in other organizations.

Low scores suggest that pay is a central concern or reason for satisfaction or discontent. In some situations pay does not meet comparables in similar organizations. In other cases individuals may feel that pay levels are not appropriately set to work demands, experience and ability. Cost of living increases may cause sharp drops in purchasing power, and as a result, employees will view pay levels as unfair. Remedying Pay problems requires a determination of which of the above factors are serving to create the concerns. Triangulate low scores in Pay by reviewing comparable positions in other organizations and cost of living information. Use the employee feedback sessions to determination the causes of low Pay scores.

Internal Communication **Score: 371**

The Internal Communication construct captures the organization's communications flow from the top-down, bottom-up, and across divisions/departments. It addresses the extent to which communication exchanges are open, candid, and move the organization toward its goals.

Average scores suggest that employees feel information does not arrive in a timely fashion and often it is difficult to find needed facts. In general, Internal Communication problems stem from these factors: an organization that has outgrown an older verbal culture based upon a few people knowing "how to work the system", lack of investment and training in modern communication technology and, perhaps, vested interests that seek to control needed information. Triangulate low scores in Internal Communication by reviewing existing policy and procedural manuals to determine their availability. Assess how well telephone systems are articulated and if e-mail, faxing, and Internet modalities are developed and in full use.

Quality **Score: 375**

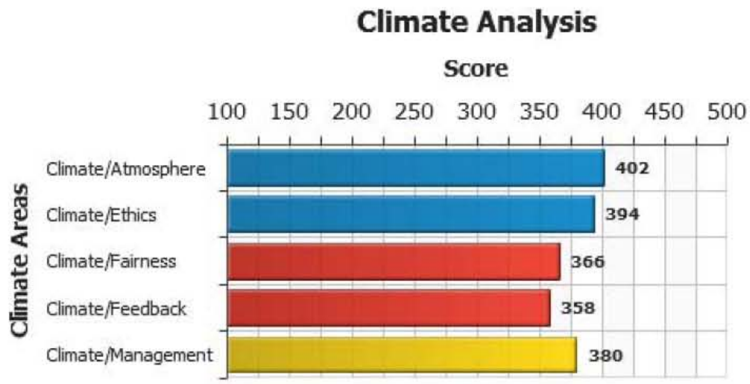
The Quality construct focuses upon the degree to which quality principles, such as customer service and continuous improvement are a part of the organizational culture. This construct also addresses the extent to which employees feel that they have the resources to deliver quality services.

High scores indicate that employees feel the organization delivers superior products and services to its customers. In general, quality is a result of understanding the needs of customers or clients coupled with a continuous examination of products and processes for improvement. Essential to maintaining high levels of quality are the clear articulation of goals, the careful attention to changes in the environment that might affect resources or heightened competition, and the vigorous participation by all members.

Climate Analysis

The climate in which employees work does, to a large extent, determine the efficiency and effectiveness of an organization. The appropriate climate is a combination of a safe, non-harassing environment with ethical abiding employees who treat each other with fairness and respect. Moreover, it is an organization with proactive management that communicates and has the capability to make thoughtful decisions. Climate Areas have been color coded to highlight the organization's areas of strength and areas of concern. The 2 highest scoring climate areas are blue (Atmosphere, Ethics), the 2 lowest scoring climate areas are red (Feedback, Fairness), and the remaining climate area is yellow (Management).

Each Climate Area is displayed below with its corresponding score. Scores above 350 suggest that employees perceive the issue more positively than negatively, and scores of 375 or higher indicate areas of substantial strength. Conversely, scores below 350 are viewed less positively by employees, and scores below 325 should be a significant source of concern for the organization and should receive immediate attention.



Climate Definitions:

Atmosphere: The aspect of climate and positive Atmosphere of an organization must be free of harassment in order to establish a community of reciprocity.

Ethics: An Ethical climate is a foundation of building trust within an organization where not only are employees ethical in their behavior, but that ethical violations are appropriately handled.

Fairness: Fairness measures the extent to which employees believe that equal and fair opportunity exists for all members of the organization.

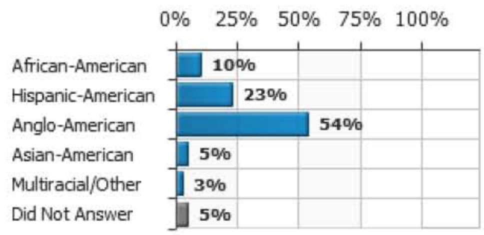
Feedback: Appropriate feedback is an essential element of organizational learning by providing the necessary data in which improvement can occur.

Management: The climate presented by Management as being accessible, visible, and an effective communicator of information is a basic tenant of successful leadership.

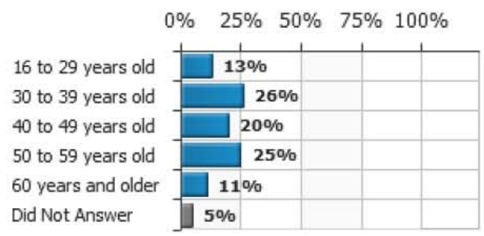
Participant Profile

Demographic data helps one to see if the Survey response rate matches the general features of all employees in the organization. It is also an important factor in being able to determine the level of consensus and shared viewpoints across the organization. It may also help to indicate the extent to which the membership of the organization is representative of the local community and those persons that use the services and products of the organization.

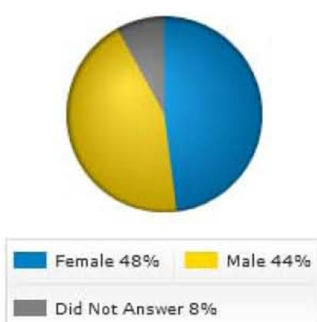
Race/Ethnic Identification
Racial/Ethnic diversity within the workplace provides resources for innovation. A diverse workforce helps ensure that different ideas are understood, and that the community sees the organization as representative of the community.



Age
Age diversity brings different experiences and perspectives to the organization, since people have different challenges and resources at various age levels. Large percentages of older individuals may be a cause of concern if a number of key employees are nearing retirement age.



Gender
The ratio of males to females within an organization can vary among different organizations. However, extreme imbalances in the gender ratio when compared to actual gender diversity within your organization should be a source of concern and may require immediate attention as to why one group is responding at different than anticipated rates.



Benchmark Data and Other Resources

Benchmark Categories:

Benchmark Data composed of the organizations participating in the survey are provided in your reports. Benchmarks are used to provide a unit of comparison of organizations of similar mission and size. If you selected to use organizational categories, internal benchmarks between categories as well as over time data illustrate differences and changes along item and construct scores. Our benchmark data are updated every two years and are available from our website at www.survey.utexas.edu.

Reporting and Other Resources:

A Data Report accompanies this summary. The data report provides greater detail than the executive summary. The data report is largely a quantitative report of the survey responses. Demographic data are presented in percentages and real numbers. Construct means and benchmark comparison numbers are provided on all variables. Item data are broken into mean, frequency counts, standard deviations, and number of respondents. Item benchmark data are also displayed.

Electronic Reports are provided in two formats. First, all executive and data reports are included in pdf files for ease in distribution and for clear printability. This file format is widely used, and a free pdf reader called Adobe Acrobat reader is available from www.adobe.com. The second type of electronic reports are in Microsoft Excel format. These reports are construct and item survey data in a flat spreadsheet format. This allows the user to sort highs and lows, search for individual items, or create custom reports from the survey data.

Using the Survey as a Catalyst for organizational improvement is essential to the survey process. The survey creates momentum and interest. At the end of the executive summary report is a series of suggested next steps to assist in these efforts.

Additional Services are available from our group. We conduct 360-Degree leadership and supervisory evaluations, special leadership assessments, customer and client satisfaction surveys along with the ability to create and administer a variety of custom hardcopy and online survey instruments. Consultation time for large presentations, focus groups, or individual meetings is available as well. For additional information, please contact us at anytime.

Next Steps: Interpretation and Intervention

After the survey data has been complied, the results are returned to the survey liaison, executive director, and board or commission chair approximately one to two months after data collection stops. These individuals are strongly encouraged to share results with all survey participants in the organization. Survey results are provided in several formats to provide maximum flexibility in interpreting the data and sharing the data with the entire organization. The quick turnaround in reporting allows for immediate action upon the results while they are still current.

The Executive Summary provides a graphical depiction of the data. Graphical data can easily be reproduced in a company newsletter or website. For additional detailed data, the Data Report is useful for examining survey data on the individual item level. Response counts, averages, standard deviations, and response distributions are provided for each item. Excel files provide electronic access to scores. Scores can be sorted in various ways to help determine strengths and areas of concern. The electronic data can also be used by Excel or other software to create additional graphs or charts. Any of these formats can be used alone or in combination to create rich information on which employees can base their ideas for change.

Benchmark data provide an opportunity to get a true feel of the organization's performance. Comparing the organization's score to scores outside of the organization can unearth unique strengths and areas of concern. Several groups of benchmarks are provided to allow the freedom to choose which comparisons are most relevant. If organizational categories were used, then internal comparisons can be made between different functional areas of the organization. By using these comparisons, functional areas can be identified for star performance in a particular construct, and a set of "best practices" can be created to replicate their success throughout the organization.

These Survey Data provide a unique perspective of the average view of all participants. It is important to examine these findings and take them back to the employees for interpretation and to select priority areas for improvement. This is an opportunity for the organization to recognize and celebrate areas that members have judged to be areas of relative strength. By seeking participation and engaging people on how the organization functions, you have taken a specific step in increasing organizational capital. High organizational capital means high trust among employees and a greater likelihood of improved efforts and good working relationships with clients and customers.

Ideas for getting employees involved in the change process:

- Hold small focus groups to find out how the employees would interpret the results
- Conduct targeted follow-up surveys to collect additional information including comments
- Provide employees with questionnaires/comment cards to express their ideas

Ideas for sharing data with the organization:

- Publish results in an organizational newsletter or intranet site
- Discuss results in departmental meetings
- Create a PowerPoint presentation of the results and display them on kiosks

Timeline

December and January: Interpreting the Data

- Data are returned to survey liaisons, executive directors and board members
- Review Survey data including the Executive Summary with executive staff
- Develop plans for circulating all the data sequentially and provide interpretations for all staff

February: Distributing Results to the Entire Organization

- Implement the plans for circulating the data to all staff
- Create 3 to 4 weekly or monthly reports or organization newsletters
- Report a portion of the constructs and items, providing the data along with illustrations pertinent to the organization
- Select a time to have employees participate in a work unit group to review the reports as they are distributed to all staff, with one group leader assigned to every group. The size of the groups should be limited to about a dozen people at a time. A time limit should be set not to exceed two hours.

March: Planning for Change

- Designate the Change Team composed of a diagonal slice across the organization that will guide the effort
- Identify Work Unit Groups around actual organizational work units and start each meeting by reviewing strengths as indicated in the data report. Brainstorm on how to best address weaknesses
- Establish Procedures for recording the deliberations of the Work Unit Group and returning those data to the Change Team
- Decide upon the Top Priority Change Topic and Methods necessary for making the change. Web-based Discussion Groups and Mini-Surveys are convenient technologies
- First change effort begins
- Repeat for the next change target

April and Beyond: Implementation and Interventions

- Have the Change Team compile the Priority Change Topics and Methods necessary for making the change and present them to the executive staff
- Discuss the administrative protocols necessary for implementing the changes
- Determine the plan of action and set up a reasonable timeline for implementation
- Keep employees informed about changes as they occur through meetings, newsletters, or intranet publications
- Resurvey to document the effectiveness of the change

APPENDIX G: REPORT ON CUSTOMER SERVICE

COMPACT WITH TEXANS

The Department's Compact with Texans and appointed customer service representative are posted on the agency website (www.sml.state.tx.us), along with the agency's mortgage hotline number (877) 276-5550.

CUSTOMERS INCLUDED IN SURVEY

- Thrift Industry – State chartered financial institutions
- Mortgage Industry – Licensed mortgage entities and individuals
- Consumer Complainants – Consumers served through the complaint and inquiry process

DESCRIPTION OF EXTERNAL CUSTOMERS AND THE SERVICES PROVIDED TO THEM

THRIFT INDUSTRY

SAFETY AND SOUNDNESS

A safe and sound thrift system helps ensure a stable economic environment for employers and jobs for their employees, while assuring a safe place for depositors' money and available credit for small business consumers and residential financing needs. The primary customer or beneficiary of the safety and soundness is the state of Texas, its citizens, borrowers, and depositors.

EXAMINATION AND SUPERVISION

There are two direct recipients or customers of examination and supervision, the FDIC and the regulated institutions. Additionally, there are indirect recipients such as attorneys, accountants and other staff who assist in preparing thrift applications. Thrift examiners conduct examinations jointly with the FDIC. It is important that the quality of the Department examination and supervision staff, their experience, training, and technological resources ensures the agency’s ability to participate fully with the FDIC on examinations and provide efficient, timely and fair evaluation of applications. The Department has successfully met this challenge as evidenced by the success of the joint thrift examination and supervisory programs. The highest expectations must be met to maintain the state's role in the dual thrift system.

Quality examinations and supervision provide management and boards of directors with an independent look at their success in complying with state and federal statutes and regulations and operating a safe and sound financial institution, ultimately benefiting the institution's customers and shareholders. Burdensome, arbitrary, or arrogant requests for information, or improper use of authority, or inconsistently applied statutes, regulations and procedures can inconvenience, disrupt and even damage institutions. Accordingly, chief executive officers of institutions under the Department's jurisdiction are the customer constituency surveyed to monitor the Department’s performance.

MORTGAGE INDUSTRY

REGULATION

Customers of the mortgage industry include all the diverse parties that participate in any way in the residential mortgage market and the secondary market for investment in such mortgages, and also the home-buying citizens of Texas seeking financing to buy real estate or refinance existing mortgage loans.

LICENSING AND EXAMINATIONS

Customers of the mortgage license and examination areas include the entities licensed or registered by the Department and consumers seeking mortgage financing. The customer base, home-buying citizens of Texas, is too broad to survey, so the Department focused its survey of customer satisfaction on a sampling of the licensed mortgage entities and individuals, who had recently gone through the licensing or examination process.

CONSUMER COMPLAINANTS

COMPLAINT AND INQUIRY PROCESS

The primary customers are consumers doing business with regulated entities or relying on their work. By enforcing the statutory experience and educational requirements and standards of conduct, the Department also serves mortgage bankers, lenders and investors, appraisers, title companies, surveyors, mortgage insurance companies, realtors, and federal agencies, such as Federal Housing Administration, Veterans Administration, and HUD. The customer base is too broad to survey, so the Department focused its survey on a sampling of complainants who had recently gone through the complaint process.

INFORMATION GATHERING METHODS, RESULTS AND ANALYSIS

The Department assesses its customer service through communication with its constituents. During the strategic planning process, the Department surveyed thrift institution CEOs, licensed mortgage entities and individuals, and persons filing complaints against regulated entities. The Department utilized an electronic survey. E-mails requesting participation in the survey were sent to the selected respondents on January 31, 2012 with a requested response date of February 29, 2012. All responses were submitted anonymously. The data from the surveys reveals that a majority of customers are satisfied with the services the Department provides. The Department is proud of its reputation as a provider of quality regulation and service to its constituents.

THRIFT INDUSTRY

The survey was sent to 100% of state chartered thrift institution’s chief executive officers and covered the full range of Department activities: examination, monitoring, enforcement and application processing. The response rate was 87%.

MORTGAGE INDUSTRY

The population included all mortgage entities that had been examined during the calendar year 2011. The survey sample of 150 licensees was chosen using a random number generator. The response rate was 43%.

CONSUMER COMPLAINANTS

The population included all complainants who had provided an e-mail address and whose complaint had been filed and resolved during calendar year 2011. The survey sample was 152 complainants. The response rate was 26%.

The state chartered thrift industry is a small population with a well-established regulatory program. Because transactions are few in number but complex, institution executives have substantial one-on-one communication with the commissioner, general counsel, examiners, and monitoring staff.

THRIFT CHIEF EXECUTIVE OFFICER SURVEY – 2012

	Questions	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Applicable
Overall Department Effectiveness:						
1	Overall, I am satisfied with the effectiveness and responsiveness of the Department.	23	4	-	-	-
	Staff--					
2	The staff is knowledgeable and able to answer my questions.	20	7	-	-	-
3	The staff is helpful, courteous, and responsive to requests.	22	5	-	-	-
4	The staff demonstrates a willingness to assist.	24	3	-	-	-
5	The staff is responsive to complaints and addresses them in a reasonable manner.	17	5	-	-	-
	Website--					
6	The website provides the information I need.	4	23	-	-	-
7	The website is easy to use and well organized.	4	23	-	-	-
8	The website contains clear and accurate information.	5	22	-	-	-
	Communications--					
9	Telephones, letters and e-mails are answered within a reasonable period.	18	7	-	-	-
10	Responses to my questions or concerns meet my needs.	18	9	-	-	-
11	Information published by the Department is clear, thorough, accurate, and understandable.	13	14	-	-	-
12	Published materials, primarily bulletins and newsletters, meet my institution's needs.	13	13	1	-	-
	Overall Composite Results	57.10%	42.59%	0.32%	0.00%	0.00%

		Strongly Agree	Agree	Disagree	Strongly Disagree	Not Applicable
Examination and Supervision:						
13	The scope and goals for each examination are clearly communicated to management prior to the start of the examination.	15	12	-	-	-
14	Examiner requests for information are timely and reasonable.	14	13	-	-	-
15	Examiners conduct themselves professionally.	20	7	-	-	-
16	Examiner communication with management during the examination meets my needs.	19	7	1	-	-
17	Examiners are informed on current industry issues, adequately trained, and qualified.	15	11	1	-	-
18	Examiner findings and concerns are clearly communicated at exit meetings.	15	12	-	-	-
19	Examiner conclusions are well-supported.	9	17	1	-	-
20	Examiner recommendations are clear and reasonable in the circumstances.	10	16	1	-	-
21	Examination time frames are reasonable.	11	16	-	-	-
22	Reports of examination are consistent with findings discussed at exit meetings.	13	13	1	-	-
23	Reports of examination are received timely.	12	13	1	1	-
24	Supervisory action and correspondence is consistent with examination findings.	13	13	-	-	-
Examination & Supervision Composite Results		51.39%	46.44%	1.86%	0.31%	0.00%
Corporate Activities						
25	Correspondence with the Department regarding routine business matters is handled promptly and effectively.	18	9	-	-	-
26	Responses to my questions or requests for interpretation (written or verbal) of applicable statutes and regulations is timely and can be relied upon to be accurate.	15	12	-	-	-
27	My calls, e-mails, or letters are routed to the appropriate person.	16	11	-	-	2
28	If you have filed an application or requested supervisory approval for matters subject to regulatory discretion:, answer the following:					
	a. The staff was accessible and provided helpful assistance in complying with requirements.	13	5	-	-	1
	b. Responses to my inquiries were timely, appropriate, and helpful.	13	4	1	-	-

	c. The process was efficient and professional.	13	5	-	-	-
	d. Requests for additional information are reasonable and appropriate.	12	5	-	-	1
Corporate Activities Composite Results		64.1%	32.69%	0.64%	0.00%	2.56%

Comments:

I appreciate my experience with the staff of the Texas Department of Savings and Mortgage Lending. The department has been professional to work with and staff has demonstrated a high level of support for the success of the bank and industry while fulfilling their mission of prudent regulatory oversight.

We have had a great relationship with the Department. We respect the Commissioner and staff for their support of our industry and bank. They try to do what is in the best interest of the financial industry within the laws. But they take a very reasonable and common sense approach, which is not prevalent in many governmental agencies.

Our experiences with the Department have been overwhelmingly positive. The capabilities and responsiveness of the examiners and headquarters leadership and staff is outstanding.

The Department is supportive and knowledgeable about what a community bank is and how it needs to operate. The Commissioner and all other staff members seem to care about the success of their banks. However, the FDIC seems to be more concerned with a much more objective approach wherein it seems the Department's voice is oftentimes not heard too well.

The department has been a strong positive force in support of the banking industry while challenged by the most difficult of times. I personally do not know where we would be without the professionalism of this department, but I do know we would not be where we are today. Thank you for standing firm for what you deem is right for banks in Texas.

Your group is doing a great Job.

Examiners are not open to different business practices other than their preferred method. This is outside of the scope of following rules and regulations. While professional I had an examiner state the examination team did not understand our small town mentality. That was uncalled for and not a comment to be made by a Department employee. If I had a bank employee make that comment to a customer I am sure I would lose the customer and the employee would be looking for another job.

Our bank greatly appreciates TDSML's spirit of cooperation and support. We view TDSML as a true partner.

We feel like we have reestablished a good working relationship with TDSML compared with prior management.

We enjoy being a part of the TDSML, and highly regard you as management tool for our institution. Ya'll do a great job.

We have been very satisfied with the professionalism and expertise exhibited by the Department and its staff.

The Department does a good job.

We converted to a State Savings Bank Charter on July 1, 2011. The conversion process was extremely smooth. We corresponded with various members of the Department's staff during the conversion. I always found them to be professional, informative and helpful. We were examined almost immediately after conversion. The Department's examiners went out of their way to make sure we were informed of the various differences in regulations and requirements that we would now be subject to. We are very pleased with our choice of regulators.

The TDSML staff are very experienced and responsive. The Department is proactive in communicating industry changes and expectations.

I have found that almost everyone at the department to be fair in their evaluations and very quick to respond to any questions or explanations that I have or need. The Commissioner has been most professional and accessible when I have called regarding an issue. I look at the department as a resource and appreciate their willingness to assist in open communication for the good of the bank.

The survey period for mortgage brokers and loan officers did not suffer as much from volume of transactions and major legislative changes as did the prior survey period. The positive trend continued with all measured areas attaining 89% or higher positive feedback.

MORTGAGE BROKER AND LOAN OFFICER SURVEY – 2012

	Questions	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Applicable
1	Overall, I am satisfied with the effectiveness and responsiveness of the Department.	22	35	5	2	-
	Staff					
2	The staff is accessible and provides helpful assistance in complying with licensing requirements.	26	28	5	2	-
3	The staff is knowledgeable and able to answer my questions.	27	30	3	-	1
4	The staff is helpful, courteous, and responsive to requests.	26	32	33	-	-
5	The staff demonstrates a willingness to assist.	25	32	3	-	1
6	The staff is responsive to complaints and addresses them in a reasonable manner.	20	25	3	1	12
	Website					
7	The website provides the information I need.	12	32	12	4	1
8	The website is easy to use and well organized.	12	0	12	5	2
9	The website contains clear, up-to-date, and accurate information.	16	30	8	4	3
	Communications					
10	Telephones, letters, faxes, and e-mails are answered within a reasonable period.	12	32	10	4	3
11	Responses to my questions or concerns address my situation.	20	36	4	1	-
12	Information published by the Department is clear, thorough, accurate, and understandable.	13	35	9	4	-
	Overall Composite Results	31.43%	47.21%	14.56%	3.67%	3.13%

		Strongly Agree	Agree	Disagree	Strongly Disagree	Not Applicable
License Processing						
13	Requests for information were clear and timely.	17	39	2	1	2
14	My license was issued in a reasonable period after all required information was submitted.	24	28	3	3	3
15	The process was efficient and professional.	20	36	2	2	1
	License Processing Composite Results	33.33%	56.28%	3.83%	3.28%	3.28%
Field Examination of Loan Files						
16	The scope and goals of the examination were clearly communicated prior to the start.	28	25	3	4	1
17	The examiners conducted themselves professionally, are informed on current industry issues, and adequately trained and qualified.	35	20	-	3	3
18	Examiner findings conclusions are well-supported and concerns are clearly communicated at exit meetings.	28	25	2	3	3
	Field Examination Composite Results	49.73%	38.25%	2.73%	5.46%	3.83%

Comments:

The whole licensing process is a burden to me because I am a one person shop and have very little business, however, EVERY time I have called with questions, the NMLS staff have been superb. EVERY TIME I hang up the phone very pleased with the treatment and help I received. I truly have always been amazed ... troublesome licensing, but wonderful people!

Due to errors in one second mortgage loan, our ratings were severely affected by one loan. Although, the examiner thought we made significant improvements in many areas and thought we should get a rating of 3, the way the review was written lead the Commissioner to give us a rating of 4. No credit was given to us for the many improvements in other areas. It is my firm belief, we would have received a rating of 3 without the errors in the only 2nd Mortgage file we had in the entire review period.

I wish the information on the website was easier to find. It's not that it isn't there, it's just organized in such a way that's difficult to find and/or understand. The information that is available is very official. It's written by attorney's and reads as such. I wish there were more examples and easier to understand explanations. By the way . . . Could you guys please put something on the website that tells everyone exactly how you wish for us to organize our files. I talk to other brokers and bankers and it seems that no one has a clear answer and the "official regulations" are lacking in clarity. If we had clear uniform expectations that we knew you wanted I'm positive the level of compliance would dramatically increase.

Better support and assistance would be valuable from the State. It seems that ONLY when there is an audit do you learn about what is needed. Getting info from the website is a nightmare!

Why can't there be annual non-audit reviews options to TEACH? How else do we learn?

The continued Ed classes are not valuable. .It would be a

GREAT time to teach the new forms or new guidelines like real estate brokers with TREC.

Process is confusing when combined with the NMLS. Both need to be more integrated. I understand states have different guidelines but it would be so much simpler if renewal was only one for both.

Emails are not answered in a timely manner. I can't call beyond 12:00pm because nobody is there to answer the lines and when I call in the morning, I'm on hold for at least an hour if not more, I've got work to do other than be on hold and to have someone answer and I'm on the phone for five minutes...ridiculous!!!

I have found the department to be helpful at all times.
the worst WEBSITE ever

Just build a new one and start over there are too few tabs and too many click here to get there then click there it's so stupid

Keep it simple

I found the examiner to be extremely helpful and caring. Last year was a rather challenging year trying to implement the many changes correctly, and she seemed to really try hard to even communicate new information as it became available. I thoroughly appreciated her accessibility as well as her willingness to help.

Thanks for your efforts in keeping the ones out of our industry that do not deserve to be in it!

This was the best and most professional we have ever had.

Wasting time on a guy who does not represent the industry. Moreover, I think I should not be required to be a licensee.

The examiner was very good and fair. Very knowledgeable and very interesting individual.

It would be nice if we received via email regular updates as to what new regulations we are to adhere to.

Asking the examiner a question like "where do I find that?". They are NOT supposed to show you where. Need a better quality control plan?? Great show us an example of one you like. A clear list of what you want. We got dinged for a supposedly out of date booklet that the publisher says -"has NOT been updated because the changes were so minor the regs say we don't have to update".

Our examiner was excellent and professional.

Our hours of operations are 8am to 5pm and consumers are able to reach our employees by phone during that time period. In phoning the state of Texas if you have an issue that comes up @ 2pm you have missed the window of 8am to 12pm to speak with an individual, that must change to accommodate your consumers the lenders. It is very much an inconvenient to wait nearly an entire day to speak with an individual when your email system is not a prompt response. This practice is very inconvenient. Please consider the people that require your assistance regarding licensing issues.

Would like more notification on changing forms and requirements. Some examples of compliances issues that are the most common. An email newsletter from the Department from time to time might be helpful.

I have always had a very positive experience with staff. You all do a great job.

Licensing and exam process went very smooth. Thanks........

Any in depth statistical analysis of the surveys returned by complainants would be suspect. First, and most important, the outcome and resulting satisfaction is highly dependent on variables outside agency control, such as jurisdiction or lack of regulatory oversight authority. Second, this group is assumed to have no repeat contact or ongoing relationship. Some complainants submit more than one complaint; after random selection of survey recipients, duplicates are eliminated.

CONSUMER COMPLAINT SURVEY – 2012

	Questions	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Applicable
1	Overall, I am satisfied with the effectiveness and responsiveness of the Department.	8	9	3	19	-
	Staff					
2	The staff was accessible and provided helpful assistance.	6	10	7	13	2
3	The staff was knowledgeable and able to answer my questions.	5	11	4	11	7
4	The staff was helpful, courteous, and responsive to requests.	5	14	5	9	5
5	The staff demonstrated a willingness to assist.	6	11	5	13	3
	Website--					
6	The website provided the information I needed.	7	17	7	3	4
7	The website was easy to use and well organized.	7	15	9	2	5
8	The website contains clear and accurate information.	5	16	8	3	6
	Communications--					
9	Telephones, letters, and e-mails were answered within a reasonable period.	5	15	6	11	-
10	Responses to my questions or concerns met my needs.	6	8	5	17	1
	Overall Composite Results	15.83%	33.25%	15.57%	26.65%	8.71%
11	If the Department determined that your complaint was outside its jurisdiction or authority, was an explanation given or were other resources or sources of potential help provided? (Referred to another state or federal agency.)	Yes 8	No 12			N/A 17
Complaint Processing:						
12	Requests for information were clear and timely.	6	9	4	14	4
13	My complaint was resolved within a reasonable period after all required information was submitted.	4	9	3	16	5
14	The process was efficient and	6	11	7	13	-

	professional.					
	Complaint Composite Results	14.41%	26.13%	12.61%	38.74%	8.11%
Toll-free number 1-877-276-5550		YES	NO			N/A
15	Did you use the Department's toll-free hotline?	9	28	-	-	-
16	If not, were you informed about the Department's toll-free hotline?	5	20	-	-	12

Comments:

This agency was not able to help me. I never got to the root of the issue which was why my PMI was so high and how it is determined. No one can tell me or answer. I just have been told "Oh you pay alot" and that is it. No solution none what so ever. I have contacted everyone and I thought this agency looked over the dealings of what mortgage companies do and if it is legal or not. I pay 730.80 a month in PMI only.

I did not receive a response to my inquiry/complaint. I don't have any reason to believe the department has an interest in enforcement of the published rules or protection of the public.

Mi esposo murió y me esforse para que mi hijo con síndrome de Down quien tiene otras necesida des especiales tuviea un techo X van a vender la casa por que me dijeron que por no haber cambios en mis ingresos no calificamos [*My husband died and I tried hard to keep a roof over my son who has Down Syndrome and who has other special needs company X is going to sell the house they tell me that there are no changes in my income and do not qualify.](The Department translated the comment and redacted the names of companies and individuals).*

My case was totally disregarded. I feel it is very unfair to have Mortgage lenders do what this one did to me and be backed up by your department.

Very slow response, did not follow through on deadline dates, then decided they could not help me with no suggestions on where to go next.

After I filed a complaint with the state agency, the mortgage lender emailed and called me to reach an agreement; they agreed to pay me all of the money I had been out, which they never offered me before I filed the complaint. Thanks for putting the pressure on them!

Expected a response to second letter and received nothing.

None at this time.

I was/am being screwed by my mortgage company and could not get any help from you. What exactly do you do without tax dollars?

I would like this matter resolved, I felt like there weren't strong actions taken with my situation . You allow a person that committed a crime to continue to use her mortgage license, for all we know I'm not the only one that this has happened too. I state again that I was unpleased with how things turned out, it affected my credit rating even more with what this lady did, this person submitted paper work knowing that I was unaware of what was going on. I hope this matter gets solved one day.

I requested a one on one meeting but that never happened! I believe that I still have a valid complaint but I was just ignored.

I feel the Department could have and should have done much more to defend/enforce my issue. I feel the department did the minimum to close out the issue. As such, what should have been done is the department should have taken a much stronger and active stance against the complaintant to assist me. My issue revolved around being unfairly taken advantage of by an out of state mortgage company and the department did nothing to assist me. To be honest I was really disappointed with the department.

The staff who assisted me were helpful and responsive, unfortunately they were not able to require that my mortgage company respond to my complaint since it is outside the jurisdiction of this agency.

I am still awaiting information about my complaint. It has been over seven months sice I I heard anything. I remember being told it was being handed over to jurisdiction or enforcement section of the department. I am glad you sent me this survey because this remind me to call your Department again since they have forgotten me.

awful response, awful agency

My issue has still not been resolved and not made contact with anyone, they are still adding an additional amount to my mortgage, stating I'm delinquent and refusing to answer any letters, email in regards to find out why they are destroying my credit, they have refused to provide the reason for an increase on a fixed conventional loan. I can't refi nor sell due to this issue and I can't partner into another mortgage to get out of this hell they have created.

Never heard back about my complaint about company A and their faulty loan processing and foreclosure of my property. *(The names of companies and individuals were redacted by the Department)*

From my experience and personal research discussing my issue with professionals, it is clear that Bank X receives payment regarding the loan I reported as mortgage fraud. I had to deal with their legal department covering up the matter by shuffling, losing, and not sending documents I needed for verification purposes protecting my legal interests. I seen and experienced first had how attorneys in my situation participated covering up the matter through statements made in an effort to allow the loan to fall into foreclosure status which is affecting the economy as a whole. I have learned from experience the problem is within the lending institution and powers that be. Why have laws to report crimes if the criminals reported are protected by the lending institution from a business stand point. Wrong is wrong and accountability is accountability. From my experience, i can say that I live in a society that bares the phrase "Kings and peasants" or "Master and servants" I have learned that i fall on the peasant and servant side of the economy publicly speaking. *(The names of companies and individuals were redacted by the Department)*

I am very satisfied because the person who attended me spoke spanish.

We submitted a complaint and several months later we received a letter saying that our complaint did not have merit upon initial review and we would have to go to court in Austin if we wanted to continue to pursue this matter. Taking several days off and traveling to Austin is not an option, so we were forced to drop our complaint. No one ever called to get our side of the story and I have no idea what the other side said. We face a decade or more of financial hardship due to the misconduct of the lender we were dealing with. We were disappointed that our case was not given more attention. The only positive thing I saw come from this was that particular mortgage broker is no longer employed with the company. I am hopeful that she was fired over this incident.

It seemed to me that the website was not particularly clear about the types of complaints that the department could handle. I was referred to the department by a federal agency for help, but it was not the proper place. Ultimately I was unable to do anything but report the company to the BBB, and that was unproductive. Mine was not a homeowner's complaint and there seems to be no help for investors that run into questionable mortgage lending practices.

I was very pleased with the results of the investigation; the individual in question did us wrong!

I received an excellent service from the department. My claim was handled in a very professional manner and the entire process was completed in a very short period of time.

I don't feel as though there was enough attention given to my complaint.

They completely failed to answer my complaint. They forwarded my paperwork to the other party and asked the other party to comment. The other party had no comment. So they closed my complaint. I included several professional opinions including another broker and an attorney, both indicating a major error by my lender which caused me substantial expense but your "consumer protection" agency does not appear to have even read the complaint. I am absolutely disgusted at this agency's failure to handle my complaint.

My case concerns an illegal LLC, named X, who illegally purchased a loan from the now defunct Y, who was sued for such things as "preying on the elderly. My late Mother, consolidated some bills, because of illness. She was over charged by thousands Oct 2004. The company bought loan Jan 05. All paperwork WRONG. The State of Texas says, "We have no justification, an LLC cannot "own a loan or Mortgage in Texas. Sorry. I was paying for full coverGE iNSURANCE THRU the company , they failed to place correctly before Hurricane Ike, now my home after 3 yrs, is full of lead, mold, I have upper respiratory infection, electrical problems, plumbing and Now the FTC is investigating, but I am dying. The company sends bills alleging over 600.00 in "inspection" fees", they have Never been here, I have nowhere Else to live and I want my home repaired current estimate over 62.000.00 Mold and lead, airborne contaminates. *(The names of companies and individuals were redacted by the Department)*

I was disappointed with the outcome and the minimal action taken against the mortgage agent who knowingly violated the law, but I realize it's not my decision and the staff was helpful and professional regardless.

APPENDIX H: SDSI VISION, MISSION, PURPOSE, AND GOALS

VISION –

As a Self-Directed, Semi-Independent, (SDSI) agency, we envision a more effective, responsive, and accountable system for the oversight of our regulated industries.

MISSION –

To enable the SDSI agency to respond more effectively and proactively to the changing needs of our regulated entities, the agency, and the public.

PURPOSE –

The SDSI status demonstrates the effectiveness of operating independently of the appropriations process. Additionally, it demonstrates that an agency operating independently can become more accountable and responsive to the stakeholders and the legislature.

GOALS –

- Provide high quality administration through effective programs and services
- Conduct business in a timely, efficient, and cost effective manner
- Strengthen the public's trust and confidence in the regulated entities
- Improve communication and customer service to all stakeholders
- Protect the public interest through fair and forthright enforcement activities
- Improve operational efficiencies by sharing best practice between the SDSI agencies
- Provide for long term planning to be responsive to a changing global financial environment
- Develop metrics for continuous self-assessment