AGENCY STRATEGIC PLAN

FOR FISCAL YEARS 2009 - 2013

BY THE

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Finance Commission of Texas

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STATE VISION, MISSION AND PHILOSOPHY

VISION

"Working together, I know we can address the priorities of our citizens. As my administration works to create greater opportunity and prosperity for our citizens, making our state and its people truly competitive in the global marketplace, we must remain focused on the following critical priorities:

- Assuring open access to an educational system that not only guarantees the basic core knowledge necessary for productive citizens but also emphasizes excellence and accountability in all academic and intellectual undertakings;

- Creating and retaining job opportunities and building a stronger economy to secure Texas' global competitiveness, leading our people and a stable source of funding for core priorities;

- Protecting and preserving the health, safety, and well-being of our citizens by ensuring healthcare is accessible and affordable and by safeguarding our neighborhoods and communities from those who intend us harm; and

- Providing disciplined, principled government that invests public funds wisely and efficiently."

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.

State Priority Goals

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:

Goal: Economic Development

"To provide an attractive economic climate for current and emerging industries that fosters economic opportunity, job creation, capital investment, and infrastructure development by: promoting a favorable and fair system to fund necessary state services; addressing transportation needs; promoting a favorable business climate; and developing a well trained, educated, and productive workforce."

Benchmarks-

- Per capita gross state product
- Texas unemployment rate
- Median household income
- 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-

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

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; ensuring the state's bonds attain the highest possible bond rating; and conservatively managing the state's debt.

Benchmarks-

- Total state spending per capita
- Percent 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
- Affordability of homes as measured by the Texas Housing Affordability Index

AGENCY MISSION AND PHILOSOPHY

MISSION

The Texas Department of Savings and Mortgage Lending's mission is to ensure the safety and soundness of state chartered savings institutions in Texas and continue to promote and enhance the savings bank charter 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 brokers, and mortgage bankers 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.

EXTERNAL / INTERNAL ASSESSMENT

AGENCY OVERVIEW

The Department 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 73rd and 58th Legislatures, respectively, enacted the Texas Savings Bank Act (Subtitle C. Savings Banks, Finance Code, Vernon's Texas Codes Annotated) and the Texas Savings and Loan Act (Subtitle B. Savings and Loan Associations) for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes. Although there are no remaining state savings and loan associations in Texas, the Texas Savings and Loan Act remains in effect.

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.

REVENUE AND RESOURCES

The Department is self-funding, self-leveling and therefore has no impact on the state budget (Finance Code Section 13.008(a)). Collected fees and assessments cover all direct and indirect operating costs. For thrifts, assessments, the largest source of revenue, are adjusted quarterly to ensure that revenue collections cover, but do not exceed, costs associated with regulation. For mortgage originators, fees are set at the beginning of each biennium in alignment with expected industry size and authorized appropriations. This approach allows revenue collections to adjust in response to changes in industry size and supports implementation of the contingency appropriations and FTEs for mortgage broker and thrift regulatory response, if needed and authorized. The Legislature has always been very supportive of our regulatory needs. This continued support is vital as we face challenges in the regulated industries.

MORTGAGE INDUSTRY

LICENSEES. The Department currently licenses approximately 22,000 mortgage brokers and loan officers, down from the peak near 30,000 in FY 2005. Many former licensees have migrated to mortgage banker companies or other exempt entities, while others found they could not profitably compete and elected to exit the industry entirely. Only recently have new license applications not exceeded expectations. During FY 2006 and 2007 new applications averaged 450 per month; however, new applications dropped precipitously to 130 per month in FY 2008. Although in the past the influx was offset by licensees who chose not to renew, the current imbalance is expected to lead to contraction in the industry. While the number of licensees has diminished, the application process has become more complex, challenging the resources allocated to licensing. Concerns over predatory lending, abusive lending practices, mortgage fraud, and increasing foreclosure rates have heightened, necessitating more regulatory scrutiny and detailed reviews. The most recent changes that impacted the licensing process include: changes in educational requirements, as well as specific educational content; and the introduction of entity mortgage broker licensing. The Department is statutorily self-funding, self-leveling, but because of the decline in licensing revenue, has been cautious about filling vacant positions. Given the high level of non-compliance reported in examinations and continuing high levels of consumer complaints, the Department's contingency appropriations rider is an integral part of fulfilling its mandate. With prior approval by the Finance Commission, revenue certification from the Comptroller of Public Accounts, and barring objection by the Legislative Budget Board and the Office of the Governor, the rider allows the Department to engage staff available through the rider to adequately address oversight and enforcement concerns.

LEGISLATION AND RULES. The 80th Legislature enacted H.B. 1716, exempting from licensing exclusive independent contractors working for registered financial services companies, with the result that one mortgage broker and approximately 1,800 sponsored loan officers from Primerica Financial Services Home Mortgages, Inc., either surrendered their licenses or became inactive. An additional 1,000 mortgage brokers are expected to exit the system when State Farm International Services, Inc., completes their registration. H.B. 2783 was also enacted, requiring company (i.e., entity) names to be licensed. The Department estimates there are 2,000 unique entities originating mortgage loans. Almost 1,800 entity applications had been submitted as of mid-April, 2008. Other H.B. 2783 provisions include: additional authority for the Commissioner to deny a renewal application; rule-writing authorization on the education program; increased educational requirements for mortgage brokers and loan officers; and expedited loan officer applications under certain circumstances. The Legislature also enacted H.B. 716, requiring that each home loan applicant be notified of penalties for making false or misleading written statements, establishing a residential mortgage fraud task force, requiring the reporting of suspected fraudulent activity, and making other statutory changes to combat mortgage fraud.

As the Department nears the end of nine years of mortgage broker industry oversight, we continue to analyze the governing statute, Finance Code Chapter 156, and its underlying regulations, to determine where improvements may be made to protect the home-buying public from the abuses revealed by complaints and inspections. Current federal initiatives related to a national mortgage licensing system may materially impact the scope of our oversight and require legislative action to forestall federal preemption.

MORTGAGE ORIGINATOR DEMOGRAPHICS. The mortgage broker industry has been credited with originating almost 70 percent of the mortgages in the United States. Preliminary results from licensees' annual reports indicate that Texas brokers originated $28 billion in residential mortgages in 2007, compared to $38 billion in 2006 and $37 billion in 2005. Although Texas has not experienced the same severity in housing market conditions as much of the country, originations have significantly slowed while delinquencies and foreclosures have increased. Through March 2008, mortgage originator demographics were as follows:

- 21,889 individual mortgage brokers and loan officers are licensed.
- 375 mortgage bankers are registered with 3 pending approval. Initially the Department anticipated 1,200 mortgage banker registrations. After four years history and extensive research, the current number appears to be realistic.
- 1 financial services company is approved with 1 pending approval.
- 1,659 financial services company agents have been approved with 291 pending approval.
- 1,518 entity mortgage broker licenses have been issued with 99 pending approval.
- 130 new license applications have been received monthly since September 1, 2007.
- 82% of license renewal applications are received through TexasOnline.
- 5,176 licensees were examined during FY 2007.
- In the first six months of FY 2008, the Department handled over 50,000 inquiries, mostly telephone and email; the number is expected to exceed 80,000 for the year.

EDUCATION INITIATIVES. One of the most important steps in reducing non-compliance and abusive practices is enhancing education. The Department focuses its education efforts on two groups - industry and consumer. Each industry education provider's course material is comprehensively evaluated to assure meaningful and necessary information is conveyed for pre-licensing examinations and continuing education courses. The objective is to ensure that each licensee gains a solid understanding of applicable state and federal statutes and regulations as well as ethical conduct and acceptable standards of business conduct. To ensure uniformity in content and delivery, the Finance Commission adopted a major revision to the regulation clarifying education program requirements. The Department also partners with providers to reach current and potential licensees on issues of importance. For example, the Department recently requested that all educational offerings during calendar year 2008 include at least five minutes on the provisions of the newly enacted H.B. 716. In addition, the Commissioner and senior staff conduct presentations to industry participants and licensees designed to enhance communication between regulator and the mortgage industry, raise awareness of the need for quality education, and to learn first-hand from attendees the issues needing more emphasis.

The Department uses its website and major news media to facilitate consumer education and convey consumer precautions and tips when applying for a mortgage loan. Several investigative reports and high profile 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. During FY 2008, budgetary pressures and other priorities have forced curtailment of staff presentations except at events with a guaranteed sizable audience.

MORTGAGE BROKER INSPECTION PROGRAM. The unique opportunities for financial success in the mortgage loan industry attract newcomers and too frequently lure those with less than stellar business ethics to abuse home-buying consumers. On-site inspections and consumer complaint investigations indicate approximately 83% of licensees generally comply with state and federal statutes and regulations; the remaining 17% do not, and as much as a quarter of this group has been found to be engaged in activities considered abusive, and in many cases predatory.

Both the 78th and 79th Legislatures granted additional staffing for inspections, recognizing their importance in addressing mortgage abuse. In FY 2003, the inspection program was placed under the direction of the Deputy Commissioner – Examination, who also directed the thrift examination program, in order to capitalize on synergies between the examination and inspection programs, increase knowledge and resource sharing, provide more consistent handling of similar issues, facilitate training on common issues, and provide cross-training to thrift examiners on mortgage broker compliance issues. There are currently fifteen mortgage broker examiner positions authorized. Significant strides have been made since FY 2003 in addressing examination enforcement of non-compliance. The program has been further enhanced by continually reviewing inspection policies and procedures, and intensifying the training program to ensure consistent inspection results, timely and effective reporting, and prompt corrective or enforcement action to address concerns.

With 5,119 (90% of the industry) licensed mortgage brokers, excluding State Farm brokers, inspected through February 29, 2008, consistent results have been revealed. Seventeen percent of licensees were rated in the two lowest rated categories in the inspection rating system. The remaining 83% were rated in the top three categories where no regulatory enforcement action is taken. Serious cases of mortgage abuse are identified as a result of the inspection program and complaint investigations. These cases typically involve systemic deficiencies in the licensee's operations that result in hundreds or even thousands of dollars in unnecessary and often unearned fees being paid in mortgage transactions by Texas consumers.

The Department believes that the inspection and enforcement programs are the most effective way of identifying and changing the business practices of abusive mortgage brokers or removing them from the industry. Information gathered through inspections has resulted in significantly more enforcement orders against mortgage brokers. These enforcement actions are designed to correct areas of abuse in a broker's operations and serve as a foundation for restitution to affected consumers. Once noncompliant or abusive brokers are identified, the Department has authority to require semiannual follow-up inspections at the broker's expense by an approved third party to ensure the broker has eliminated abusive practices and is in compliance with all applicable state and federal laws related to a mortgage organization.

THRIFT INDUSTRY

SOUNDNESS. Generally, the Texas thrift industry is sound, well-capitalized, well-managed and profitable. However, constant pressures are brought to bear by the national mortgage market.

REGULATORY ENHANCEMENTS. Since the 73rd Legislature established the state savings bank charter in 1993, fourteen de novo savings banks have opened, and seven commercial banks, six federal savings associations, and all state chartered savings and loan associations have converted to the charter. The 79th Legislature enhanced the charter to attract de novo institutions as well as Texas based mergers and acquisitions. Since then, eight de novo state savings banks have opened and three financial institutions have converted from other charters. Only one state savings bank has voluntarily converted out of the system because of a desire to participate in interstate branching through a federal charter. The economic recession and equity market downturn beginning in 2000 reduced new charter, merger, and acquisition activities, but charter activity has increased again in recent years, both into and out of the state thrift system. Discussions continue with parties interested in both de novo charters and charter conversions and sustained but modest growth is anticipated over the next biennium. Addressing federal preemption and promoting state level advantages such as accessibility and responsiveness are important, proactive courses of action in building allure for Texas based financial institutions.

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. The $84.3 billion Texas thrift industry includes many of the largest institutions domiciled in Texas (size rank as of December 31, 2007), including: [1] USAA Federal Savings Bank ($30.2 billion); [2] Guaranty Bank ($16.7 billion); [3] Franklin Bank, SSB ($5.7 billion); and [4] Beal Bank, SSB ($1.2 billion). Key thrift industry statistics as of December 31, 2007 follow:

- The Texas thrift industry includes 47 state and federal savings banks and savings associations with total assets of $84.3 billion.
- The state chartered thrift industry includes 26 institutions with total assets of $10.0 billion, representing 11.8% of total Texas thrift assets.
- Twenty-four state chartered thrifts are 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 a loss in calendar year 2007, five of which are de novo charters beginning operations during the year. Net income decreased 64% primarily due to shifting priorities in the two largest institutions.
- All state chartered institutions remained "well capitalized" but economic pressures have negatively impacted capital and profitability and may persist as national housing markets and the economy deteriorate.

STATE CHARTERED THRIFT INSTITUTIONS

Data as of:	12/07	12/06	12/05	12/04	12/03
Active Charters	26	21	20	22	23
Total Assets (Billions)	$10.0	$9.4	$8.7	$13.0	$17.8
Net Income (Millions)	$75.6	$211.8	$206.6	$747.9	$550.2
Number Profitable/Total Charters	19/26	20/21	19/20	20/22	22/23
Tier 1 Leverage Capital - Lowest	6.9%	7.0%	6.3%	6.9%	6.3%
Tier 1 Leverage Capital - Average	28.7%	12.7%	11.5%	10.7%	9.9%
Tier 1 Leverage Capital - Highest	195.8%	42.0%	31.6%	25.3%	20.2%
Average Risk-Based Capital	45.9%	19.3%	13.1%	18.1%	17.9%

The Texas thrift industry is expected to expand through conversions of existing financial institutions and de novo savings banks. During calendar year 2007 a federal thrift institution and a state commercial bank applied for conversion to a state savings bank. Five de novo state savings banks began operations during 2007, and one de novo state savings bank began operations subsequent to year end. Community oriented institutions continue to be acquired by larger financial institutions, creating an opportunity for new community financial institutions to take their place. In that environment, the Department expects continued interest in chartering new locally owned and operated de novo institutions. The flexible savings bank charter with its community bank orientation can serve the needs of communities of every size.

Despite significant deterioration in the 1-4 family national mortgage market, the state chartered industry non-performing assets as a percent of total assets has remained stable, holding at 1.3% as of December 31, 2007, compared to 1.2% in 2006. Classified assets increased over the past year from an average 11.6% to 14.7% of Tier II capital. Maintaining asset quality has been a significant positive factor in the industry's profitability but financial institutions must be closely monitored given the current economic instability and the likelihood of further national deterioration. The ratio analysis below is as of December 31, 2007

	Banks			Thrifts		
Number of Institutions------------- →	**State Chartered Banks 330**	**Texas National Banks 282**	**All Texas Banks 612**	**State Chartered Thrifts 26**	**Texas Federal Thrifts 21**	**All Texas Thrifts 47**
% of Unprofitable Institutions	9.70%	7.09%	8.50%	26.92%	23.81%	25.83%
% of Institutions with Earnings Gains	59.39%	63.48%	61.27%	46.15%	33.33%	40.43%
Yield on Earning Assets	7.07%	7.16%	7.10%	7.71%	6.72%	6.83%
Net Interest Margin	4.02%	4.31%	4.13%	3.74%	2.67%	2.79%
Return on Assets	1.22%	1.31%	1.25%	0.79%	0.61%	0.63%
Return on Equity	10.89%	11.07%	10.96%	5.70%	7.97%	7.52%
Net Charge-offs to Loans	0.24%	0.19%	0.22%	0.27%	0.51%	0.48%
Earnings Coverage – Net Loan C/Os	12	16	13	6	5	5
Loss Allowance to Loans	1.07%	1.12%	1.09%	0.97%	1.04%	1.03%
Loss Allowance / Noncurrent Loans	131.96%	185.57%	149.12%	48.60%	85.00%	66.86%
Noncurrent Assets+OREO to Assets	0.65%	0.45%	0.57%	3.40%	0.89%	1.19%
Net Loans and Leases to Core Deps	120.40%	99.92%	111.52%	139.99%	135.09%	135.67%
Equity Capital to Assets	11.09%	11.90%	11.42%	13.77%	7.57%	8.31%
Core Capital (Leverage) Ratio	9.33%	9.02%	9.21%	11.74%	7.77%	8.23%

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

CONSUMER PROTECTION AND COMPLAINT RESOLUTION

COMPLAINTS. As awareness of the Department's complaint resolution process spreads, the volume of consumer complaints and the level of effort required to reach resolution has heightened enforcement efforts. These efforts may continue to expand despite a stable or declining licensee base. The Department opened a record 1,002 complaints during FY 2007 and disposed of 1,015 complaints, marking the third consecutive year in which the number of dispositions exceeded new complaint intake. The investigative staff has been recruited from applicants with substantial industry experience. This experience, combined with enhanced compliance knowledge, makes for a highly competent investigator staff. Nevertheless, the Department continues to be challenged because of the limited number of investigators and an increased number of complex complaints. The complaints caseload also presents additional challenges for examinations and legal staff.

The last three 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, as well as providing more inspectors to increase the number and frequency of inspections. Even with additional staff, the Department faces serious challenges given the large number of licensees it regulates and the number and complexity of consumer complaints it must investigate and resolve. Enforcement is a very time consuming and staff intensive effort with license denials, appeal hearings, district court appeals, referrals to and coordination with the Texas Attorney General's Office, and the related follow-up processes. The ability to increase enforcement activities results in reducing mortgage loan costs for Texas consumers by methodically eliminating illegal, unearned, and unjustified fees.

Based on complaint activity, mortgage bankers appear to be more compliant than mortgage brokers, but recent federal initiatives may dictate more regulatory oversight of all mortgage originators at the state level. Congressional efforts presently underway address these concerns, calling for regulation on a broader scale, and may force the state to respond accordingly. Specific exposure to the current Texas regulatory structure may come from minimum national licensing requirements that would require all individuals engaged in residential mortgage lending to be licensed. Although Texas' mortgage broker licensing program is expected to exceed any minimum federal standard, the mortgage banker registration program would not. As an alternative to federal preemption and loss of all state involvement in residential mortgage licensing the Texas Legislature will have the opportunity to consider several courses of corrective action, among them repealing the Mortgage Banker Registration Act and removing the mortgage banker exemption from the Mortgage Broker Licensing Act.

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.

EXTERNAL FACTORS

TEXAS INITIATIVES AND CONDITIONS

HOME EQUITY. In 2003, amendments to Texas Constitution Article XVI, Section 50 altered home equity lending provisions. Two amendments impact the Department. Section 50(a)(6)(P)(vi) authorizes mortgage brokers to make home equity loans. Section 50(u) authorizes the Legislature to delegate authority to interpret home equity provisions of the Constitution to one or more state agencies. The Legislature amended the Finance Code, delegating interpretation authority to the Finance Commission for all lenders except credit unions and to the Credit Union Commission for credit unions. Section 50 was further amended in 2007 to clarify the section. The Finance Commission and Credit Union Commission (the Joint Financial Regulatory Commission or "JFRC") exercise the interpretative authority using the notice and comment procedures of the rulemaking sections of the Texas Administrative Code.

An agency staff working group develops home equity interpretations for the JFRC and adopted 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 process is not static. The Department monitors litigation relating to home equity lending and developments in the home equity market, and 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 to be invalid by a Texas district court and are currently on appeal. Some of these disputed interpretations were addressed in the 2007 amendments to Section 50. This litigation warrants careful monitoring.

ECONOMIC CONDITIONS. The overall economic environment for Texas financial institutions and mortgage lending is expected to remain stable if the deteriorating national economy does not bleed over and recent interest rate cuts remain unchanged. Economic growth is expected and unemployment rates are well below other parts of the country, although sharply increased food and energy costs may dampen near term growth

The Texas real estate market has generally avoided steeply declining property values, having skipped the housing market bubble experienced in other states. Historically low mortgage rates have provided some stability in residential real estate. Foreclosures, typically a lagging indicator of economic conditions, are high in most major metropolitan areas of the state, but appear to have stabilized at or near a peak. With comparatively positive systemic indicators such as low unemployment and no real estate pricing bubble to cause depreciation, foreclosures should continue along historical individual circumstances such as loss of income, marital status, or health. Although individual institutions have experienced asset quality deterioration, there is only nominal general financial industry decline at this time. The institutions that stuck to lending in Texas are faring well, although mortgage origination volumes have declined. Mortgage originations and home sales may remain stable, but levels will decline as the volume of refinancing is now past.

The Texas Comptroller of Public Accounts predicts 3+% growth for the Texas economy and 2.8% nationally through 2011. This growth rate is not expected to generate significant inflation. The generally favorable economic data on Texas must be placed in the context of the significant decline in housing starts and the national economic downturn. Higher mortgage interest rates impact home construction and depress real estate market values, but population growth potentially offsets these effects. The Comptroller forecast of 1.5% annual population growth through 2011 should support moderate opportunities for home builders, suppliers, and lenders as the expanding population's housing needs are met. Housing occupancy levels in all state regions have fluctuated modestly over the past two years, with multi-family occupancy increasing from a low of 88% for Ft. Worth in 2006 to a statewide average of 90% in 2007. Home building permits and sales have declined by 37% since 2006, but not as steeply as the national numbers. The Comptroller's full economic forecast can be found at www.cpa.state.tx.us/finances.

The Texas economy and its future development remain vulnerable to the credit quality weakness of its citizens. With an average statewide credit score of 667, Experian's national index ranks Texas last in state average credit scores and 25 points below the national average. This has huge implications to the availability and affordability of credit to Texans.

The recent market rate decline has put short-term pressure on interest margins and bank profits, particularly for shorter term or adjustable rate investments. However, the overall capital levels of the institutions under the Department's jurisdiction provide a strong foundation to safeguard the state thrift system. Since 1992, Texas thrifts have maintained a healthy return on assets in changing interest rate environments, including the 1994-1995 volatile 200 basis point up and down swing and again during the Fed tightening of 2000-2001. However, the Federal Reserve Board is facing the return of fears over stagflation for the first time in 30 years. The national economy has never before been held captive to so many international constraints as the dollar's value plummets, natural resource costs surge, and the national debt is increasingly funded by rate conscious foreigners. There is no easy monetary policy answer to deal with the simultaneous recessionary and inflationary pressures that the nation faces today.

Overall, the Texas forecast is for slower, more sustainable, economic growth in an environment of low inflation and modest unemployment. The Dallas Federal Reserve Bank's Texas Leading Index suggests slowing job growth (2.1% in 2008 compared to 3.3% in 2007), but a recession remains unlikely. Energy prices are a positive for local production and supporting industries, but a negative for other industries dealing with price pressures on their own products as well as consumer disposable income being devoted to energy expenses. Other sectors of manufacturing construction, sales, and employment remain a steady strength to the state economy.

MARKET CONDUCT. In recent years the Texas economy prospered, fueled by several factors, including low interest rates. Rates continue to be historically favorable, but rising delinquencies and foreclosures, energy costs, and other inflationary factors have increased mortgage market yield demanded by investors, and fixed rates have increased in recognition of additional risk. As markets tighten, originators become more creative and aggressive to increase or maintain market share, causing greater regulatory concern. Most mortgage lenders, whether in insured depository institutions, mortgage brokerage, or mortgage banking, possess high business standards and do an excellent job in serving their clientele, but some do not.

Even in the stronger Texas market, loan originations are expected to decline or hold at the current reduced level as the national economy deteriorates. Originators who flooded into the industry during the boom years face tougher, more aggressive competition. As expected in competitive markets, applications for new licenses have dropped, and marginal operators are exiting the market. Unfortunately, increased competition may lead to deceptive practices and fraud as licensees see their income shrink and turn to more aggressive means to maintain income. Applicants for new licenses undergo a rigorous review to ensure they meet all requirements of the MBLAct. The review includes verification and/or assessment of: personal financial net worth (mortgage brokers); civil litigation involving the applicant; criminal history background information provided by the Texas Department of Public Safety and the Federal Bureau of Investigation (FBI); company and assumed names used to originate loans; proper U.S. Department of Homeland Security work authority if identified as a legal alien; other regulatory agency bans, disciplinary actions, or revocations; and loan origination experience and education.

FORECLOSURE. Historically, loss of income, health, or marital status have been leading factors in foreclosure. Income loss, as indicated by unemployment rates, is the most significant. Texas currently compares favorably with 4.3% unemployment, below the national average of 4.9%, and well below states such as Michigan (7.1%) and Ohio (5.5%), which are experiencing some of the highest foreclosure rates in the nation. Property value increases in recent years in California, Arizona, Nevada, and Florida have been another major contributor to foreclosures. The run-up led to speculative over-building, followed by the current devaluations. Texas lenders and consumers are in an enviable environment of relatively low unemployment and stable or appreciating property values that helps buffer individual difficulties.

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. Licensees originated 251,693 loans amounting to over $38 billion in calendar year 2006 and 161,847 loans amounting to over $28 billion in 2007.

Texas is fortunate not to be included in Mortgage Asset Research Institutes, Inc.'s ("MARI") March 2008 list of the top ten mortgage fraud states. Conversely, the FBI's 2006 publication "Financial Crimes Report to the Public" stated, "Data from FY 2005 suspicious activity reports, FBI pending mortgage fraud cases, Federal Housing Authority insured loans defaulting between October 1, 2001 and September 30, 2003, and 2005 MARI data, reveals the top 16 states for Mortgage Fraud activity. States documented by three or four sources include California, Colorado, Florida, Georgia, Illinois, Michigan, and Texas." A January 2008 FBI press release states, "Texas remains one of seven states that are hot spots for traditional mortgage fraud."

Two basic varieties of mortgage fraud exist. In the more common "fraud for property", also called "fraud to qualify" or "fraud for housing", mortgage originators or borrowers may misstate income, credit history, that property is owner occupied rather than investment property, appraisal value, etc. to qualify a buyer for a mortgage. The originator typically derives no benefit beyond normal fees, and the borrower normally intends to repay the loan. This fraud potentially threatens efficient mortgage market functioning and presents additional risk for lenders because borrowers do not meet underwriting guidelines, but trends follow historical patterns and the incidence does not fluctuate greatly.

The second fraud scenario, posing the greater risk to lenders, is "fraud for profit", and typically involves conspiracy between mortgage professionals: originators, real estate agents, title company escrow officers, and/or appraisers. In addition to the tactics outlined in "fraud for property", in this scenario, promoters often induce naïve consumers to become "straw borrowers" and buy property at highly inflated prices with mortgages well in excess of true market value. Consumers are led to believe that promoters will "manage" the property as investment property, and provide rental income sufficient to cover the debt. In actuality, the promoters siphon large sums from new loan proceeds through hidden disbursements at closing or disguised payoffs on fictitious liens. Within months the loan is in default and the borrower suffers foreclosure and ruined credit. The lender discovers the collateral is worth significantly less than the loan amount and generally incurs the economic loss on the loan. The more stringent underwriting standards now in effect may help curb this type of fraud, although the pressure to commit fraud increases as licensees seek ways to maintain income.

Claims of falsification of borrower information, the use of "straw borrowers", and other loan scams comprise about 30% of all complaints. Complaints also arise when mortgage originators engage in cooperative activities with real estate brokers, appraisers, contractors, or investors. These cases are complex and complicated to unravel, 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, Federal National Mortgage Association ("Fannie"), Housing and Urban Development ("HUD"), and related agencies may improve the overall effectiveness of all agencies. Addressing mortgage fraud is a Department priority. The agency devotes considerable resources to combating fraud, cooperating with federal and state law enforcement agencies independently or through the Mortgage Fraud Task Force.

PREDATORY LENDING. The State Auditor's Office audited the Department (report number 07-023) in early FY 2007 to determine its effectiveness in protecting consumers from predatory lending. Their overall conclusion confirmed an effective license application process, but determined that inspection procedures and staffing levels were not adequate. Recommendations included increasing the frequency of inspections, taking the extra step of looking for evidence of predatory mortgage lending practices, such as arranging loans without regard to the borrower's ability to repay. The audit recognized the agency's limited authority as most lenders are not regulated by the Department. Further, our ability to add staff was revenue restricted due to reaching the statutory cap on licensing fees. The audit report stated, "Therefore, the Legislature would have to increase or eliminate this cap on the license fees before the Department could hire additional examiners. Applying additional appropriated resources toward inspections of mortgage brokers would allow the Department to improve its protection of consumers." The Department has taken significant steps to meeting all of the recommendations in the audit. However, due to legislative oversight and the current state of the mortgage industry, funding issues have not been corrected and additional staff cannot be added.

FEDERAL AND NATIONAL ISSUES CONCERNING THRIFT INSTITUTIONS

PREEMPTION. In 1994 Congress expanded interstate branching for depository institutions, and in 1999 expanded product lines in which financial companies could directly compete. As a result of these changes and other market driven factors, the financial services industry evolved from local markets primarily served by locally based competitors to a national market with financial services conglomerates offering products and competing in interstate markets. These companies push for uniform statutes and regulations to facilitate interstate competition and ease entry into new state markets. Preemption impacts the Department's oversight of the state chartered thrift industry as outlined below:

- **STATE LICENSING AND FEDERAL CHARTER PREEMPTION.** National banks chartered by the Office of Comptroller of the Currency ("OCC") and federal thrifts chartered by the Office of Thrift Supervision ("OTS") are permitted to conduct any activities permitted by their federal charter in their separately state chartered operating subsidiaries. Both the OCC and the OTS have taken aggressive positions that these state chartered subsidiaries enjoy the same federal preemption privileges accorded their federally chartered parents. The OCC and OTS contend that federal preemption exempts the operating subsidiaries not only from all state licensing requirements, but also state usury laws and other consumer protection statutes. In 2004 the OTS extended its preemption reach to include exclusive agents originating mortgage loans for federally chartered thrifts. Businesses seeking the reduced regulatory oversight that federal preemption provides them directly impact the Department's operations. In March 2008, State Farm International Services, Inc. applied as a Financial Services Company which would eliminate approximately 1,000 licensed mortgage brokers from the Department's direct oversight. In February 2008 Beal Bank, SSB, a long standing state charter voluntarily converted to a federal savings bank charter for the ease with which they can branch into multiple states.

- **EXPANSION OF BANKING ACTIVITIES, POWERS AND PREEMPTION.** The Federal Reserve Board continues to expand the definition of activities which are financial in nature and may be engaged in by financial institutions and their operating subsidiaries. Some industry members are pressing for further expansion of permitted activities including the ability for financial services companies to expand into real estate brokerage.

INTERSTATE BANKING. Federal thrift institutions have been authorized to engage in interstate branching and banking since 1982, based on federal preemption of state branching laws. In 1994, Congress expanded interstate branching for all depository institutions. While state chartered depository institutions are permitted to engage in interstate banking, it remains easier and simpler for institutions interested in interstate operations to do so with a federal or national charter. With a federal charter, an interstate operation has only one primary regulator rather than a variety of state regulators. Texas is one of only four states (Arizona, Arkansas and Florida) where more than 50 percent of FDIC insured deposits within the state are controlled by out of state banks. No Texas state savings charters operate with out-of-state branches; however, Franklin Bank SSB, Houston operates numerous loan production offices in multiple states. Expanded authority and flexibility in interstate branching was the sole reason given by Beal Bank, SSB, Plano, TX, for becoming the first voluntary departure from the state system.

CHARTER CONSOLIDATION. The consolidation of financial services companies provides both challenges and opportunities for thrift institutions. As Texas chartered thrifts grow into regional institutions with branches in diverse geographical markets, they become attractive targets for acquirers, which may lead to charters exiting the state thrift system through conversion to a federal bank or thrift charter. On the other hand, the preference of many consumers to deal with a community depository institution provides de novo chartering opportunities.

CAPITAL STANDARDS. Adoption of risk-based capital standards under Basel II has been very deliberate over the past several years. However, recent worldwide financial market disruption and several large banks' need for major recapitalization have brought implementation into question. Under Basel II, the methodology for calculating risk based capital for large international banking institutions is different from that typically used by domestic community oriented depository institutions. Banks using Basel II would use internal risk measurement systems to determine risk-weighted asset amounts for: general credit risk (including wholesale and retail exposures); securitization exposures; equity exposures; and operational risk. The bifurcated capital standard raises concerns that banks operating under Basel II rules will be able to grow with lower capital requirements than financial institutions operating under the general risk-based capital rules, placing smaller institutions at a competitive disadvantage.

DEPOSIT INSURANCE. The Federal Deposit Insurance Reform Act of 2005 addressed many long-standing issues, including merger of the bank and savings association insurance funds, increasing retirement account deposit coverage in insured depositories to $250,000, and indexing the insurance level to inflation. Another provision seeks to resolve the perceived inequity in any new insurance premiums between institutions that helped recapitalize the insurance funds and institutions chartered subsequent to 1996 that have not paid premiums into the fund.

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 and 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 include 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. Regulators may thus focus resources on institutions that may present managerial, capital, or other issues of supervisory concern, reducing regulatory burden on small, well-capitalized, and well-managed institutions. Only two state thrift institutions benefited from this change, so staffing relief did not occur.

FEDERAL REGULATOR STAFFING. This year, the FDIC and OTS reversed the previous several years' trend of consolidating regional offices and reducing staffing, and have sought to rehire retirees. Despite this, their examination procedures and time spent on examinations have not increased because federal examiners in Texas have been reassigned to states experiencing more severe banking conditions. This change has increased demands on staff examining institutions jointly with federal regulators. If banking conditions outside Texas continue to put pressure on federal regulators, the Department will need to expand its staff to ensure effective oversight of the state thrift system.

The federal regulatory agencies' initiative to conduct full examination procedures with increased time on-site at the bank for even well-rated and well-managed institutions could also affect staffing needs for thrift examiners. The Department has a highly qualified but small number of examiners, and in most examinations, provides staffing nearly equal to that of the FDIC. With the growth of the mortgage broker examination program, we have been fortunate to hire three former FDIC commissioned safety and soundness examiners or examiners from other states. In short term staffing shortages, these examiners can be shifted from mortgage broker inspections to help the Department meet its joint examination obligations with federal regulators. Additionally, one mortgage broker examiner is cross-training as a safety and soundness examiner.

CONTINGENCY APPROPRIATIONS RIDER FOR REGULATORY RESPONSE – THRIFT. Especially in the current economic environment and considering the federal regulator examination staffing changes outlined above, the thrift contingency appropriations rider provides important flexibility to achieve the Department's goal of ensuring the continued safety and soundness of state chartered thrift institutions. It is critical that this contingency appropriation authority remain available to the Department.

NATIONAL ORGANIZATION 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 Texas Savings and Mortgage Lending Commissioner currently serves as the 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 the states' perspective on such issues as the proposed consolidation of federal bank and thrift regulators, and the merger/conversion of mutual savings banks.

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/acquisition trend continues, providing new opportunities for the formation of independently owned local 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.

DUAL CHARTER AVAILABILITY. As is the case at the federal level with the OCC and OTS, Texas has separate regulators for banks and thrift institutions. Both the state of Texas and the federal government recognize the benefits of separate regulation and specialized knowledge in the bank and thrift regulators. The Department continues to hear from prospective charter applicants that this choice benefits them in developing their business plans.

FEDERAL MORTGAGE INDUSTRY INITIATIVES AND ISSUES

PREDATORY LENDING, SUBPRIME MORTGAGES, NONTRADITIONAL MORTGAGE PRODUCTS. National legislation has been introduced to address predatory lending and problems in the subprime markets. The Home Ownership Preservation and Protection Act of 2007 (S.B. 2452), introduced in December 2007, would impose a fiduciary obligation on mortgage brokers and duty of good faith and fair dealing for originators. The bill would require a net tangible benefit to borrowers on high-cost refinancing and prohibit prepayment penalties and yield spread premiums on subprime or nontraditional (interest-only or payment option) mortgages. The U.S. House of Representatives passed the Mortgage Reform and Anti-Predatory Lending Act of 2007 (H.R. 3915). This bill would impose a net tangible benefit standard for refinanced loans and require national licensing and registration of originators if not provided for by the states.

Since January 2007, the FDIC has issued publications regarding predatory lending, subprime mortgages and nontraditional mortgage products. The FDIC states it will combat predatory lending through vigorous safety and soundness and compliance examinations and enforcement, industry outreach, and adult financial education programs. Their report, "Final Illustrations of Consumer Information for Nontraditional Mortgage Products", is designed to assist institutions in implementing the consumer protection portion of the report "Guidance on Nontraditional Mortgage Product Risks." Another report outlines risk management practices for adjustable rate mortgages including: ensuring institutions do not engage in predatory lending; assessing borrower ability to repay the fully indexed loan rate; and accepting stated income or reduced documentation only if mitigating factors clearly minimize the need for direct verification of repayment capacity. The FDIC encourages institutions servicing mortgage loans to pursue strategies to mitigate losses while preserving affordable, sustainable mortgage obligations.

GOVERNMENT SPONSORED ENTERPRISES ("GSES"). To the extent that GSEs expand their role beyond their historical purpose of promoting home ownership with specialized programs for first time and disadvantaged home buyers, they profoundly impact the mortgage industry. Despite resistance to any change, the U.S. House of Representatives passed a bill tightening regulation of the GSEs almost a year ago, but the bill stalled in the Senate. In April 2008 reform returned to the forefront with assurances that the GSEs would maintain sufficient capital. The tension stems from the need for better accountability and strength vying with the need to expand the powers and size of the GSEs to help with the current housing crisis. Fannie and Federal Home Loan Mortgage Corporation ("Freddie") recently promised to raise capital above their required reserve level of 2.5% of assets, only half the ratio required of commercial banks. The GSEs currently hold or guarantee $5 trillion worth of mortgages, about 80% of the market. Current losses are significant, $3.6 billion in the fourth quarter of 2007 for Fannie and $2.5 billion for Freddie.

REAL ESTATE SETTLEMENT PROCEDURES ACT REFORM. In 2004, HUD withdrew its proposed revisions to RESPA regulations. In March 2008, HUD reissued proposed revisions amidst controversy as to whether any clarity to consumers would be achieved. HUD and industry factions continue to be at odds as to the nature of the reforms. Trade groups continue to express displeasure with the requirement that yield spread premiums must be disclosed. With the proposals once again raising objections and the current administration waning, it seems likely that anything implemented will be the result of a new administration that may start from scratch.

Concentrations in Commercial Real Estate ("CRE"). In March 2008, the FDIC re-emphasized the importance of strong capital and adequate allowances for loan and lease loss levels ("ALLL"), and robust credit risk-management practices for institutions with concentrated CRE exposures. The FDIC directed institutions to consult the 2006 CRE and ALLL guidance published by the FDIC, OCC, and the Board of Governors of the Federal Reserve. Institutions with concentrations of CRE should increase or maintain strong capital levels, ensure that ALLL is appropriate, manage construction and development and CRE loan portfolios closely, maintain updated financial and analytical information, and bolster the loan workout infrastructure.

Contingency Appropriations Rider for Regulatory Response – Mortgage Broker. Especially in the current economic environment, the mortgage broker contingency appropriations rider provides important flexibility to achieve the Department's goal of protecting Texas home buyers through fair and effective regulation of mortgage originating individuals and businesses. It is critical that this contingency appropriation authority remain available to the Department.

Uniform Licensing. As mortgage originators expanded into multi-state operations, they pushed for uniformity in state licensing laws. The Conference of State Bank Supervisors ("CSBS") and American Association of Residential Mortgage Regulators ("AARMR") convened a work group of industry representatives, trade associations, and state regulators to develop a uniform license application and a national mortgage originator database, a task complicated by significant differences in state licensing statutes. The National Mortgage Licensing System ("NMLS") went "live" in January 2008 with seven states participating and an additional six states scheduled to go up in July 2008. The Department participated in the work group to ensure that the Texas viewpoint was adequately represented, and we continue to participate by attending meetings and conference calls, and responding to questions and surveys initiated by CSBS and AARMR. The Department must remain active in this project so that if Texas determines to participate in the future, Texas statutes and regulatory philosophy are or can be incorporated into the system. If the Department participates in the NMLS, major portions of Texas licensing law would require amendment. For example, under Texas law mortgage bankers are only registered, whereas the NMLS requires them to be licensed. The NMLS mandates a one year license renewal effective December 31 each year while Texas law allows for a two-year license term due on the original license anniversary date. Moreover, processing fees over and above what is authorized under Texas law would be passed down to the applicant and/or renewal licensee. The Department has already been asked to provide $500,000 in initial development costs with the amount expected to grow as the system matures. While the NMLS does capture basic licensing requirements, it does not currently incorporate other functions necessary for effective regulatory oversight including examination, complaint, and enforcement information. Our management database system already meets or exceeds most standards identified but, depending on the outcome of pending national legislation which mandates use of the system, if the Legislature does not expand the Department's regulatory oversight over mortgage bankers, Texas could face federal preemption of all existing non-depository mortgage regulation.

Geographic Considerations. Mortgage originators' geographic opportunities are generally focused in the state's larger communities, with the largest concentration of population and housing growth in the Dallas/Fort Worth, Houston and San Antonio/Austin areas.

NATIONAL ORGANIZATION SUPPORTING STATE REGULATION. AARMR serves a purpose similar to that described above for ACSSS for mortgage broker regulators. The Commissioner and Director of Licensing are active in AARMR, and the Department not only contributes to, but receives significant benefit from, its training programs, particularly those related to identification and investigation of mortgage fraud. The group takes an active role in providing the banking committees of Congress with the states' perspective on mortgage industry issues.

MORTGAGE BROKER ADVISORY COMMITTEE. The Mortgage Broker Advisory Committee ("MBAC") was established by the MBLAct. Their powers and duties include: advising the Commissioner with respect to rules, procedures, and form and content of applications and other documents required by the agency; and interpretation, implementation and enforcement of the MBLAct. Of the committee's six members, four are appointed by the Commissioner and two by the Texas Real Estate Commission. Members are to be from the 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 broker rules to the Finance Commission for publication or adoption, the Commissioner meets with the MBAC, considering their comments and recommendations, and reporting the results of such deliberations to the Finance Committee. A record vote is taken on some issues presented to the MBAC and the Commissioner informs the Finance Commission of the results. MBAC record votes are only a recommendation and do not supersede the rulemaking authority of the Finance Commission.

BEYOND BORDERS

REGULATING IN REMOTE LOCATIONS. The global economy deeply impacts the financial services industry. Some financial services companies are taking advantage of low-cost labor in developing countries and exporting customer service centers, call centers, loan processing centers, and other "back office" tasks. Regulators of mortgage originators are particularly concerned about the security of private financial information, compliance with domestic consumer protection and disclosure laws, access to documents and records, and enforcing regulatory requirements where acts occur outside the United States. The Department has received multiple inquiries relating to call centers and processing centers to be located in India. Examination and enforcement of mortgage originators with limited physical presence but large volumes of loan originations in Texas is also complicated by limited access to records and serving out-of-state process.

INTERNAL FACTORS

STRUCTURE AND OPERATIONS OF THE DEPARTMENT

STAFF OVERVIEW. The Department has benefited from staffing increases granted by the 78th, 79th, and 80th Legislatures to address additional legislative charges, growth in the regulated populations, non-compliance levels identified by inspections, and the volume of consumer complaints received by the Department. Of 72 authorized FTEs, 15 are dedicated to depository institution regulation, 36 to mortgage originator regulation, 13 to consumer protection and enforcement, and 8 to administrative support.

As of April 14, 2008 the Department has a well trained, highly competent staff of 62. Only eight of the current staff is 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 examining, supervising and chartering thrifts; licensing, registering, and inspecting mortgage originators; or investigating consumer complaints and enforcing the statutes administered by the Department. A more detailed analysis of the current staff is provided in Appendix F, the 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 1999-2007

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**	23,911	504	27	$8,800	72

* FTEs for FY 2005 include 15 contingency positions activated mid-year.
**First two quarters of the fiscal year.

STAFF ORGANIZATION. An organizational chart is provided in Appendix B. Key positions and divisions are described below:

- Commissioner – The Commissioner is a hands-on chief executive officer and active regulatory participant with a strong focus on maintaining regulation which 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.

- General Counsel – The General Counsel provides a full range of legal services to the agency; 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.

- Director of Licensing – The Director of Licensing is responsible for all aspects of mortgage originator licensing and registration; coordinates approval of education providers and courses, and pre-testing requirements; and works closely with the Commissioner and General Counsel to educate the industry and provide guidance to applicants regarding the requirements of the mortgage regulation statutes and related rules.

- Chief Administrative Officer – The Chief Administrative Officer is the chief financial and accounting officer; is responsible for accounting, human resources, strategic planning, and budgeting; and oversees administrative and technology functions.

- Chief Attorney for Thrifts – The Chief Attorney for Thrifts directs off-site monitoring of thrift institutions; coordinates regulatory approvals regarding institution activities and processing of thrift applications; works with the Commissioner, General Counsel, and Chief Thrift Examiner to ensure efficient and effective regulation; and monitors compliance with state and federal laws and adherence to safe and sound practices by thrift institutions.

- Chief Thrift Examiner – The Chief Thrift Examiner 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.

- Chief Mortgage Broker Inspector – The Chief Mortgage Broker Inspector coordinates, directs, and performs inspection activities related to mortgage brokers; drafts, and negotiates agreed orders resulting from inspections and monitors compliance with enforcement actions; and monitors mortgage originator compliance with state and federal laws.

- Executive Assistant to the Commissioner – The Executive Assistant to the Commissioner coordinates administrative functions, including switchboard, reception, filing, mail services, and other administrative services; serves as records manager and safety coordinator; and provides administrative support and assistance to the Commissioner as needed.

- Thrift Regulation.

(A) Thrift Examination – Thrift examiners, individually or in teams, perform either full scope independent or joint on-site safety and soundness examinations of financial institutions, under the guidance of the Chief Thrift Examiner, 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 routinely 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). The appropriations act includes a contingency appropriation rider that is available based on a finding of need by the Finance Commission, certification of revenue by the Comptroller, and concurrence by the Governor's Office and the Legislative Budget Board. This rider provides important flexibility to add up to seven FTEs in FY 2008 and ten in FY 2009, if needed to provide effective response to unexpected regulatory problems or significant growth in the size or number of state chartered savings institutions under the Department's jurisdiction.

(B) Off-Site Monitoring and Supervision – The Chief Attorney for Thrifts provides guidance to two examiners who serve as supervisory analysts. Each analyst coordinates off-site 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.

- Mortgage 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 data base; document images all applications; serves as primary contact with applicants during the application process; and assists the Director of Licensing as needed. One FTE assists the Director of Licensing in approving continuing education providers and courses. One investigator FTE focuses on criminal history-related activities of applicants and licensees, including: processing DPS and FBI reports; communicating with applicants and licensees on additional information requests and results of investigations; and investigating suspected unlicensed activity and documentation fraud uncovered during the license application process. One FTE assists in the management and oversight of the Department's database.

Mortgage Broker Inspection – Mortgage broker inspectors conduct compliance examinations of licensees for compliance with the MBLAct and assist complaint investigators with field investigations as needed. The Chief Mortgage Broker Inspector supervises, trains, and coordinates schedules of inspectors. The appropriations act includes a contingency appropriation rider that is available based on a finding of need by the Finance Commission, certification of revenue by the Comptroller, and concurrence by the Governor's Office and the Legislative Budget Board. This rider provides flexibility to add up to 29 FTEs in FY 2008-2009, if growth in the number of licensees or increased incidents of regulatory concern generates a need for additional resources to adequately regulate the industry.

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 MBLAct, and state chartered savings institutions. The Department has statutory authority to initiate its own complaint investigations. Two enforcement attorneys, directed by the General Counsel, prepare cases for administrative hearings, and prepare various enforcement orders including orders to: cease and desist; take affirmative action; and pay restitution and/or administrative penalties.

SELF-FUNDING, SELF-LEVELING STATUS, OPERATING EXPENDITURES, APPROPRIATIONS, AND REVENUE. Departmental appropriations of $4,409,669 and $4,355,666 for FY 2008 and FY 2009, respectively, exclude pass through appropriations such as employee benefits. If the Department activates its contingency riders, an additional $2,189,600 and $2,416,200 is available in FY 2008 and FY 2009, respectively. The method of finance is totally from general revenue, although a small amount of appropriated receipts is collected. As required by the General Appropriations Act, Article VIII, Special Provisions, all agency expenses are funded by fees collected from the regulated industries. In the past, in keeping with our goal of consumer protection, we deposited administrative fines and penalties collected from the mortgage broker industry in the Mortgage Broker Recovery Fund. That practice was discontinued in FY 2008 because the fund reached its statutory limit in August 2007. Criminal background check fees collected on new license applications are re-appropriated for payment to the DPS and FBI.

Although the Department is self-funding, self-leveling, in FY 2006-2007, mortgage brokers paid more than $1 million in licensing fees into general revenue after covering all direct and indirect costs of regulation. The excess revenue resulted from license application volume exceeding estimates. From inception through March 2006, the Department processed more than 56,000 applications for a mortgage broker or loan officer license, and currently has around 23,000 active licensees, compared to a maximum estimated population of 5,500 licensees when the program began in FY 2000. The Department has undertaken several major efforts to improve efficiency in addressing the volume of activity related to mortgage broker licensing such as: using temporary workers when appropriations and FTE limitations permit; expanding website applications with a searchable licensee data base, downloadable applications, and frequently asked questions; and, pioneering in eGovernment with a highly successful license renewal application hosted by the TexasOnline portal and online registration for mortgage bankers. For the first two quarters of FY 2008, 82% of license renewals were processed through TexasOnline.

STAFFING, COMPENSATION, AND TURNOVER. The Department has authority for 72 FTEs in FY 2008-2009, but additional FTEs are available (36 in FY 2008 and 39 in FY 2009) through the thrift and mortgage broker contingency riders. Salaries represent approximately 70% of total expenditures and criminal background checks and travel costs each account for another 7%. Performance has been much improved by additional FTEs granted by the last three legislatures, and we are now adequately staffed in the mortgage broker inspection and consumer protection areas. Reducing staffing would almost certainly substantially degrade consumer protection.

Filling vacancies is complicated by current salary levels and, to a lesser degree, travel requirements. Particularly for thrift examiners, who travel extensively and work jointly with FDIC examiners, salaries below those paid by the examined institutions and the FDIC can lead to employee dissatisfaction and turnover. The Department's examiner salaries are not competitive with either private industry compensation or other state or federal regulatory agencies that employ financial examiners. This inequity could prove disastrous if the Texas economy begins to mirror the national economy. Significant deterioration in the regulated industries or a major piece of legislation could leave the agency unable to hire or retain examiners and therefore unable to achieve its goals of ensuring financial institution safety and soundness or protecting home buyers through effective regulation of mortgage originators. The Department will submit an exceptional request for appropriations for examiner salary increases in its FY 2010-2011 LAR.

The Department has taken several steps to increase employee satisfaction and reduce turnover. One time merit increases are given when revenue or appropriations do not allow for regular merit increases. Flexible schedules have been optional for all employees since 2003 and a telework policy was implemented in 2008. Thrift examiners work four ten-hour days each week, saving one night's travel cost and reducing turnover by allowing examiners more time at home. A business casual dress code was implemented several years ago and the dress code was further relaxed in 2008. Employee feedback is solicited through regular employee attitude surveys. The results indicate generally high satisfaction with working conditions except for salary levels.

OUT-OF-STATE TRAVEL CAP. The Department has operated under a legislatively imposed limit on out-of-state travel since FY 2002. Though the Legislative Budget Board has granted waivers (up to a certain level) in some years, the delay between application and approval has resulted in cancelling or postponing travel and negatively impacted the Department's ability to meet its mission. Virtually all out-of-state travel consists of training and meetings with counterpart regulators in other states and focuses on enhancing consumer protection and regulation. Now that an Article IX rider has considerably relieved out-of-state travel restrictions, the Department is able to obtain training and conduct exams out-of-state without fear of exceeding the travel cap.

SUPPORT HISTORICALLY UNDERUTILIZED BUSINESSES. Modular furniture, technology, space reconfiguration, maintenance contracts and printing services constitute the bulk of HUB eligible purchases. It is Department policy to obtain two bids from HUBs for purchases subject to the bidding process. Purchases not subject to bidding are minimal and include primarily supplies, utilities, postage, and delivery services. Actual HUB purchases represented 20% of the Department's purchases in FY 2007 and 32% in FY 2006. In addition to direct purchases, the Department reimburses both the Texas Facilities Commission and Department of Banking for a proportionate share of common services and maintenance for the Finance Commission Building.

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 useable space, including areas shared with the other Finance Commission agencies. Thrift examiners and mortgage inspectors are headquartered at their personal residences.

State chartered savings institutions are grouped as follows: Dallas/Ft. Worth area - 4; Houston area - 5; Austin area – 4; East Texas - 3; West Texas and Panhandle - 4; South Texas - 2; Central Texas - 4. Most thrift examiner travel is overnight and examiners are in travel status for a significant amount of the time. Travel to far flung 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, when possible, examiners are hired from regions similar to the geographic groupings of the financial institutions under the Department's jurisdiction.

Mortgage broker licensees do business in all areas of the state but are concentrated in major population centers: 38% in the Houston Standard Metropolitan Statistical Area ("SMSA"); 33% in the Dallas/Fort Worth SMSAs; and 16% in central Texas (San Antonio and Austin SMSAs). Inspectors are concentrated in these areas to increase efficiency and reduce travel cost. Mortgage broker inspector travel is frequently short distance, day travel but travel to East and West Texas, the Panhandle and the Rio Grande Valley requires overnight travel and airfare to the more distant locations. Longer distance travel is planned in blocks to reduce travel expenses.

INFORMATION SYSTEMS. Agency operations are not capital asset intensive. Personal computers are upgraded as needed. Acquisitions are coordinated with the Department of Information Resources ("DIR"). Each examiner uses a laptop computer, scanner, and printer and dial-up 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 Microsoft Access to compile essential information on state chartered savings institutions and develop quarterly monitoring reports to facilitate regulation. We expect to upgrade computer equipment for examination staff and office desk top functions in the FY 2010-2011 biennium 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, sharing a T1 connection, router, fire wall and VPN concentrator with the Office of Consumer Credit Commissioner. Proprietary database software from a third-party vendor, The Semarca Corporation (Semarca), has been customized for the mortgage regulation function, including licensing, registration, enforcement actions, consumer complaints, criminal history, education, and fee information. Crystal Reports software is used to select and sort database elements to meet almost any management reporting or analysis need.

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

The Department was one of the earliest participants in TexasOnline. Although not statutorily required to participate, the Department implemented an online license renewal application. The acceptance rate has been exceptional. The first year, over 55% of all license renewals were over TexasOnline and current participation is 82%. When mortgage banker registration was implemented in FY 2004, the Department began accepting registration through the ePay system.

The Department's home page (www.sml.state.tx.us) informs citizens and other constituents of the agency's functions and responsibilities. Application forms and charter and licensing information may be downloaded. Job openings and links to employment application forms are provided. Constituents can easily contact the Department by e-mail. Links to TexasOnline and ePay; online mortgage broker annual report filings; downloadable applications and forms; responses to frequently asked questions; pertinent statutes, rules and policies; enforcement actions; and searchable databases of mortgage originators and education courses facilitate regulation. 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 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.

- ❑ 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, mandate efficient operations. 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.

- ❑ Staff is strongly committed to the dual thrift system and an efficient consumer, small business, and residential mortgage lending system that serves consumer needs and provides positive benefits to the state economy.

- ❑ The agency 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, remaining consistently on target with its budget estimates.

- As a self-funding, self-leveling agency, the Department has more freedom to provide cost effective regulation.

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

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

WEAKNESSES

- The Department is also facing a serious issue with four of six senior managers eligible for retirement within two years. Although staffing was increased by the last five Legislatures, training time undermines efficiency.

- The size of the state chartered thrift industry, shrinking mortgage originator population, and the related limitation of resources leave the Department more vulnerable to the effects of staff turnover at a time when global, national and state economic conditions, especially in the mortgage industry, make additional regulatory resources advisable.

- The 2007 SAO audit cited inadequate resources to meet an acceptable examination schedule. Through legislative oversight, the cap on renewal loan officer license fees was not raised. That oversight, combined with the precipitous drop in new applications, led to a significant revenue decline, precluding the hiring of additional mortgage broker inspection staff authorized under the contingency rider.

- Staff compensation levels and travel requirements compared to industry opportunities create a disparity that aggravates and contributes significantly to staff turnover.

OPPORTUNITIES

- Depending on the outcome of pending national legislation, the Department may have an opportunity to expand regulatory oversight over mortgage bankers. Failing expansion, Texas could face federal preemption of all existing non-depository mortgage regulation.

- The Texas savings bank charter provides a viable state thrift alternative and the opportunity to rebuild a safe and sound state thrift system that meets the needs of Texas citizens for consumer, small business and residential real estate credit.

- The Department was an early participant in TexasOnline and ePay, providing license renewals and registrations over the Internet. We continue to explore ways to use the Internet to deliver convenient and economical service to the citizens of Texas.

AGENCY GOALS 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. [Subtitle B, Savings and Loan Associations and Subtitle C, Savings Banks, Texas Finance Code]

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
01-04-01-04	Number of applications processed

EFFICIENCY MEASURES

01-01-01-01	Assets examined per examiner day
01-01-01-02	Average number of days to analyze monthly and quarterly financial data
01-01-01-03	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. [Subtitle E, Mortgage Broker License Act, Chapter 156, and Mortgage Banker Registration Act, Chapter 157, Texas Finance Code]

OUTCOME MEASURES

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

OUTPUT MEASURES

02-01-01-01 Number of new licenses issued and mortgage originators approved
02-01-01-02 Number of licenses renewed and mortgage originators reapproved
02-01-01-03 Number of mortgage bankers registered

EFFICIENCY MEASURES

02-01-01-01 Average cost per licensee and mortgage originator approved
02-01-01-02 Percent of new licenses issued and mortgage originators approved within 10 days

EXPLANATORY MEASURES

02-01-01-01 Total number licensees and mortgage originators approved

STRATEGY 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.

OUTPUT MEASURES

02-01-02-01 Number of originators or licensees inspected

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

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.; and Chapter 157, Mortgage Bankers, §157.007 and §157.008]

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)

EFFICIENCY MEASURES

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

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 most effective means for the state 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 number of such contracts issued by the Department is few, we will continue our concerted effort to maximize such utilization.

TECHNOLOGY INITIATIVE ALIGNMENT

TECHNOLOGY INITIATIVE 1

UNIFORM NATIONAL MORTGAGE LICENSING SYSTEM ("NMLS"). A background description of this information technology initiative is presented on page 21 of this document.

RELATED AGENCY OBJECTIVE. This initiative relates to Goal 2, Objective 1 - Ensure timely and efficient processing of applications for residential mortgage broker and loan officer licenses and renewals through fair, responsible, comprehensive evaluation and investigation of applicants within statutory time frames and enforce regulatory requirements regarding education, experience and conduct.

RELATED SSP STRATEGY. Strategy 1-4. Leverage shared applications and processes where common business needs exist. The common business needs are not among Texas state agencies, but are common to agencies in all states which regulate mortgage originators. Unlike Texas, many states had outdated or otherwise inadequate mortgage originator licensing databases. These states were eager to participate in the NMLS.

STATUS. As described on page 21, these activities are potentially planned, depending on the outcome of pending national legislation which may mandate use of the system.

ANTICIPATED BENEFITS. If the Department participates in the NMLS, it will have immediate access to the records of mortgage originators conducting business in other states. This benefit is offset by the buy-in price of the system, by the need for legislative changes to the Texas licensing statute if participation is mandated, 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: If the Department participates in the NMLS, it will have immediate access to the records of mortgage 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

The Commissioner placed a copy of the previous strategic plan on a shared drive and, after making initial changes, assigned sections to division directors. Each division director 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. 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.

Every employee was requested to read the draft strategic plan and provide input. The draft plan was e-mailed to the members of the Mortgage Broker Advisory Committee and representatives of the thrift and mortgage origination industries and their comments were incorporated into the plan.

The chairman of the Finance Commission appointed three member strategic planning sub-committees to participate in the process in each of the three Finance Commission agencies. The draft plan was e-mailed to the Department's three assigned strategic planning sub-committee finance commission members and the chairman of the Finance Commission at the same time it was sent to industry representatives. 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 20, 2008 meeting.

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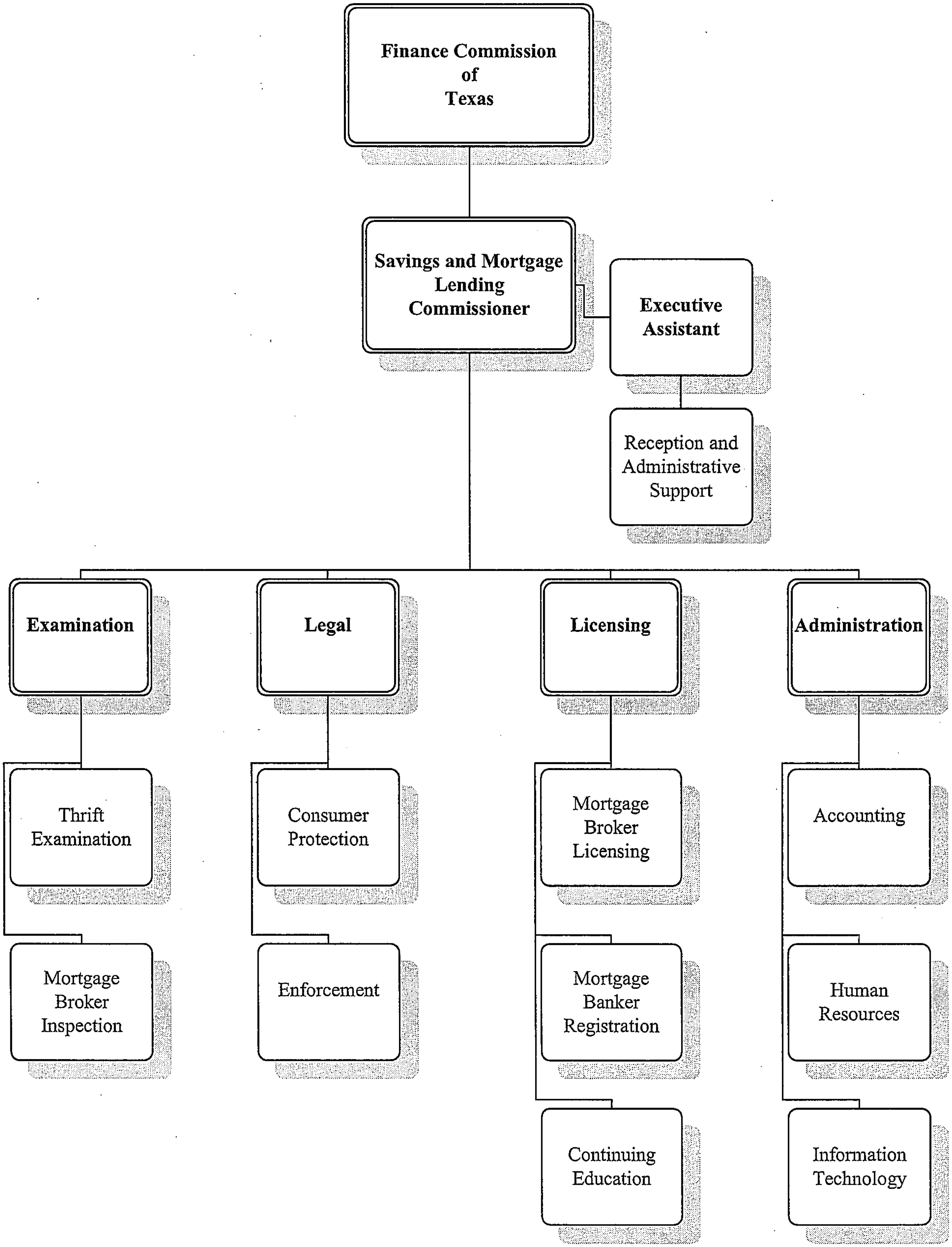
APPENDIX B
ORGANIZATION CHART



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APPENDIX C
OUTCOME MEASURES

Goal–Strategy–Outcome	Description	2009	2010	2011	2012	2013
	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	65%	75%	80%	90%	90%
A-01-03	Percent Assets in Safe and Sound Savings Institutions	65%	75%	75%	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	85%	85%	85%	85%	85%
B-01-02	Percent of Originators and Licensees Who Renew Online	75%	75%	75%	75%	75%
	CONSUMER RESPONSIVENESS					
C-01-01	% of Complaints, Requests and Inquiries Answered within Ten Business Days	85%	85%	85%	85%	85%

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APPENDIX D
MEASURE DEFINITIONS

GOAL A: THRIFT SAFETY AND SOUNDNESS

<u>Outcome 01-01-01</u> **Percent of state chartered savings institutions receiving examinations as required by priority schedule.**

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

<u>Purpose / Importance:</u> 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.

<u>Source / Collection of Data:</u> 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 $250 million in asset size or more, rated composite CAMELS 1 or 2, are examined every 12 months. Institutions less than $250 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 $250 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 examined every 6 months with an annual full scope examination and a second examination of sufficient scope to address regulatory concerns.

<u>Method of Calculation:</u> 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. An examination is considered complete on the date it is received in the Austin office.

<u>Data Limitations:</u> None.
<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 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 Financial Monitoring Report.

<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 01-01-03</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 Financial Monitoring Report.

Data Limitations: 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 01-01-04 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 Financial Monitoring Report prepared by agency staff from quarterly call reports submitted by each institution. The number of examiner days available is calculated 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 Financial Monitoring Report 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 financial monitoring system 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 financial monitoring system reports cannot be produced until all call reports are received. Data input of the information in the call reports into the financial monitoring system and data verification normally requires up to seven business days.

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 monitoring report 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.

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 Financial Monitoring Report ("FMP"). The FMP 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 Financial Monitoring Report ("FMP"). The FMP 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 (e.g., Year 2000 examinations in FY1999).

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. An agency employee prepares a memorandum to the Commissioner describing any circumstance of an institution failing minimum capital requirements, experiencing significant asset growth, or conducting any activity in unauthorized or prohibited areas. These memoranda serve as the basis for calculating the number of instances reported for this measure. These memoranda are kept in a file supporting the number of instances discovered.

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.

<u>Outcome 02-01-02</u> Percent of licensees and mortgage originators who renew online.

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

<u>Purpose/Importance:</u> 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.

<u>Source/Collection of Data:</u> 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.

<u>Method of Calculation:</u> 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.

<u>Data Limitations:</u> None.
<u>Calculation Type:</u> Non-Cumulative.
<u>New Measure:</u> No.
<u>Desired Performance:</u> 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.

<u>EXPLANATORY MEASURES</u>

<u>Explanatory 02-01-01-01</u> Total number of licensees and mortgage originators approved.

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

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

<u>Source/Collection of Data:</u> 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.

<u>Method of Calculation:</u> 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.

<u>Data Limitations:</u> None.

<u>Calculation Type:</u> Non-Cumulative.
<u>New Measure:</u> No.
<u>Desired Performance:</u> Higher than target.

Output Measures

<u>Output 02-01-01-01</u> Number of new licenses issued and mortgage originators approved.

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

<u>Purpose/Importance:</u> 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.

<u>Source/Collection of Data:</u> 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.

<u>Method of Calculation:</u> 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.

<u>Data Limitations:</u> None.

<u>Calculation Type:</u> Cumulative.
<u>New Measure:</u> No.
<u>Desired Performance:</u> Higher than Target.

<u>Output 02-01-01-02</u> Number of licenses renewed and mortgage originators reapproved.

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

<u>Purpose/Importance:</u> 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.

<u>Source/Collection of Data:</u> 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, requests or inquiries answered within ten business days of receipt of complete information.

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

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

Source / Collection of Data: The Department receives written and telephone complaints and inquiries that are combined for purposes of this measure. 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). Inquiries may be written or by telephone. For telephone contacts, the subjects of conversations and the number of contacts are documented.

Method of Calculation: An arithmetic calculation is made of the number of business days between the date the complaint or inquiry 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, requests or inquiries receiving a final determination letter or telephone call within ten days divided by the number of complaints, requests and inquiries 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 and inquiry 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.

<u>Output Measures</u>

<u>Output 03-01-01-01</u> Number of consumer complaints completed.

<u>Short Definition:</u> 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.

<u>Purpose / Importance:</u> 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.

<u>Source / Collection of Data:</u> For telephone requests and inquiries, a document is completed by the individual receiving the complaint or inquiry indicating the substance of the conversation and its resolution. A log of these documents is maintained by agency staff recording the date that the complaint, request, or inquiry was received. This log is the source for determining the number of complaints, inquiries and requests processed by the Department.

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

<u>Data Limitations:</u> 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.

<u>Calculation Type:</u> Cumulative.
<u>New Measure:</u> Yes.
<u>Desired Performance:</u> 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, 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: Yes.
Desired Performance: Higher than target.

APPENDIX E
IMPLEMENTING THE TEXAS TRANSFORMATION

1. Has the agency considered use of managed services in order to focus more on its business needs?

   The Department has very modest information technology ("IT") expenditures. The TEXAN system and Department of Information Resources ("DIR") are used for telecommunication, and DIR's negotiated contracts are used for IT acquisitions. Additional managed services have not been necessary.

2. Does the agency leverage and obtain additional value from the Information and Communications Technology (ICT) Cooperative Contracts program; for example, by further negotiating not-to-exceed pricing?

   The Department is a small agency (72 authorized FTEs) and IT expenditures are limited, with the result that vendors are reluctant to discount prices. DIR's negotiated contracts are used for IT acquisitions.

3. Describe the agency's strategies to align with the State Enterprise Security Plan (http://www.dir.state. tx.us/pubs/securityplan2007/index.htm).

   The Department takes computer security seriously and works hard to ensure the safety of its electronic data. The agency has promulgated internal security policies which are communicated to all employees. The Department uses a firewall and spam filter and internal blocking to limit external access, and undergoes annual risk assessments and regular IT audits by the outside auditor and annual penetration tests by DIR.

4. Describe the agency's policies, practices and programs, implemented or planned, that comply with relevant statutes and administrative rules to ensure the privacy of confidential data. Consider federal privacy requirements (e.g., the Health Insurance Portability and Accountability Act or the Family Educational Rights and Privacy Act) that apply to the agency. List the organizational units (program, offices, IT, legal, etc.) that manage privacy functions. Describe any future plans for improvement.

   Other than social security numbers and the results of criminal background checks on its licensees and employees, the Department gathers almost no confidential information. The agency is careful to ensure the privacy of its constituents, safeguarding and restricting access to the two items listed above, and carefully redacting such information in addition to email addresses when information is released outside the agency.

5. What current practices or plans are in place to improve usability and searchability of the agency's Web content? (2007 SSP, Strategy 4 1)

   The Department provides a searchable database of its licensees on its website. The website is currently being redesigned and improved searchability is a goal of the revision team.

6. What current practices or plans are in place to improve life cycle management of agency data and information? Include the agency's approach and ability to meet future open records and e-discovery requests. (2007 SSP, Strategy 4-1)

   The Department uses a document imaging system, shared with the Department of Banking and Office of Consumer Credit Commissioner, to store and retrieve information. The licensing division and thrift institution examination and supervision staff have imaged all historical files and image current files daily. Historical enforcement and complaint files are currently being imaged. The agency has always been able to respond to open records requests within statutory timeframes.

7. Describe agency methods and standards (federal, state, industry), implemented or planned, intended to enhance data sharing (i.e., improve interoperability) with other entities. (2007 SSP, Strategy 4-2)

   The Department uses interoperability whenever possible to facilitate reporting. Although not statutorily required to participate, the Department implemented an online license renewal application through TexasOnline in 2001. Within the last two years, the agency has established processes for electronic transfer out of information necessary for child support enforcement and collection of student loans, and transfer in of criminal background information and immigrant status. For years, thrift examiners have used file exchange with FDIC examiners, and had access to the FDIC for bank peer data, call report data, federal examination history on savings institutions, and other information.

8. Does the agency have any plans to simplify or reduce the number of existing software platforms (e.g., operating systems, application development environments, database systems, office suites, other COTS applications)? If no, is the agency fully leveraging its technology to support both its current and future business environment?

   The Department has a simple IT structure. The agency uses Microsoft products for daily activities. To facilitate joint examinations with the FDIC, thrift examiners use FDIC software in conducting examinations and compiling examination reports. Proprietary database software from a third-party vendor, The Semarca Corporation, has been customized for the mortgage regulation function, including licensing, registration, enforcement actions, consumer complaints, criminal history, education, and fee information. Crystal Reports software is used to select and sort database elements to meet almost any management reporting or analysis need.

The Department may eventually be forced to participate in a National Mortgage Licensing System ("NMLS") which went "live" in seven states in January 2008. If the Department participates in the NMLS, major portions of Texas licensing law would require amendment. The Department has already been asked to provide $500,000 in initial development costs with the amount expected to grow as the system matures. While the NMLS does capture basic licensing requirements, it does not currently incorporate other functions necessary for effective regulatory oversight including examination, complaint, and enforcement information. Our management database system already meets or exceeds most standards identified but, depending on the outcome of pending national legislation which mandates use of the system, if the Legislature does not expand the Department's regulatory oversight over mortgage bankers, Texas could face federal preemption of all existing non-depository mortgage regulation.

9. Describe any current or planned activities targeted at reducing the environmental resource consumption of technology equipment (recycling, consolidating, virtualizing, buying energy efficient equipment, etc.).

   The Department protects the environment by purchasing Energy Star products. CRT monitors have been replaced with flat screen monitors and toner cartridges are recycled and replaced with recycled cartridges. When the agency disposes of IT equipment, it is transferred either to other state agencies or to the Department of Criminal Justice for the refurbishment program used to train prisoners.

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APPENDIX F
WORKFORCE PLAN FY 2009-2013

I. AGENCY OVERVIEW

The Department 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. AGENCY 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 continue to promote and enhance the savings bank charter to provide the credit necessary to support the residential housing and real estate finance needs of an expanding Texas economy.

B. 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 73rd and 58th Legislatures, respectively, enacted the Texas Savings Bank Act (Subtitle C. Savings Banks, Finance Code, Vernon's Texas Codes Annotated) and the Texas Savings and Loan Act (Subtitle B. Savings and Loan Associations) for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes. Although there are no remaining state savings and loan associations in Texas, the Texas Savings and Loan Act remains in effect.

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.

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. [Subtitle B, Savings and Loan Associations and Subtitle C, Savings Banks, Texas Finance Code]

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. [Subtitle E, Mortgage Broker License Act, Chapter 156, and Mortgage Banker Registration Act, Chapter 157, Texas Finance Code]

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.

STRATEGY 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.

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

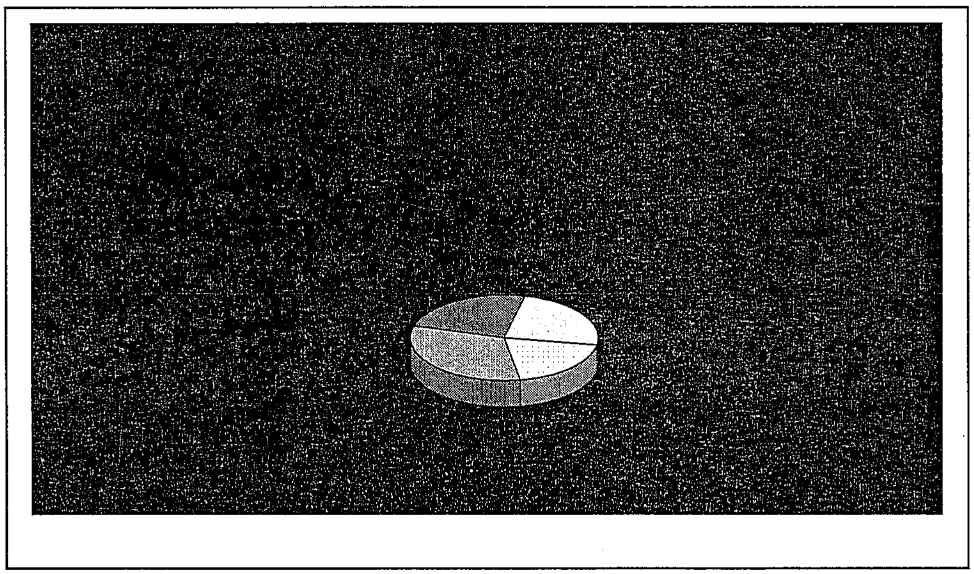
GOAL C: CONSUMER RESPONSIVENESS. Ensure responsiveness to inquiries, requests and complaints from the industry, citizens, public officials, and other state and federal governmental entities. [Texas Finance Code-Chapter 13, Savings and Loan Department, §13.011; Chapter 156, Mortgage Brokers, §156.301,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

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.

II. AGENCY DEMOGRAPHICS

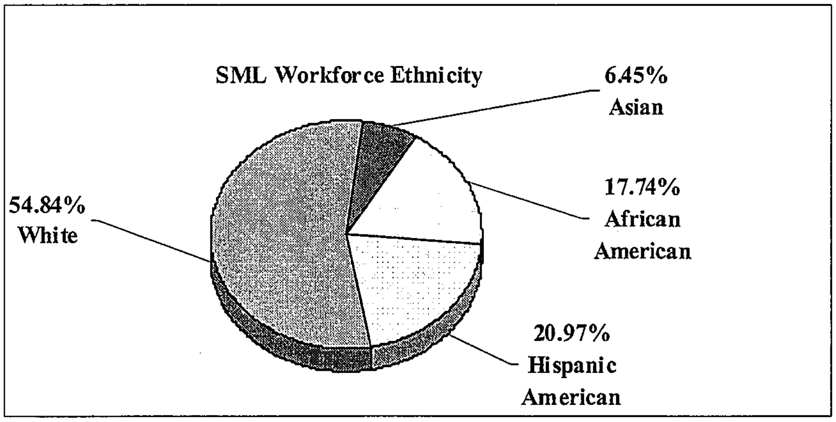
A. COMPOSITION OF AGENCY STAFF

The following chart profiles agency staff as of April 30, 2008. The current workforce of 62 employees is comprised of 37 females (59.7%) and 25 males (40.36%). Four employees (6.5%) are over age 60, sixteen (25.8%) are over age 50, fifteen (24.2%) are in their 40s, and the average age of staff is 43 years. The Department will face a massive departure of knowledge in the next ten years. Due to growing FTEs and reduced turnover, the disparity in agency longevity has grown; 21.0% (up from 15.1% two years ago) of employees have less than one year of agency service, but 22.6% (up from 15.1% two years ago) now have more than five years service. Although the 23 field examiners have impressive relevant experience, either auditing or working in the regulated industries, seven have less than two years agency experience, and only four have more than five years. The newness of the mortgage regulation programs has caused rapid growth in authorized FTEs every biennium beginning in FY 2000-01. With 72 authorized FTEs the agency now has access to adequate staffing, but turnover combined with the time taken to fill vacant positions and a decline in revenue, has plagued the agency with FTE levels below the cap. The Department has filled the gap with temporary employees whenever feasible.



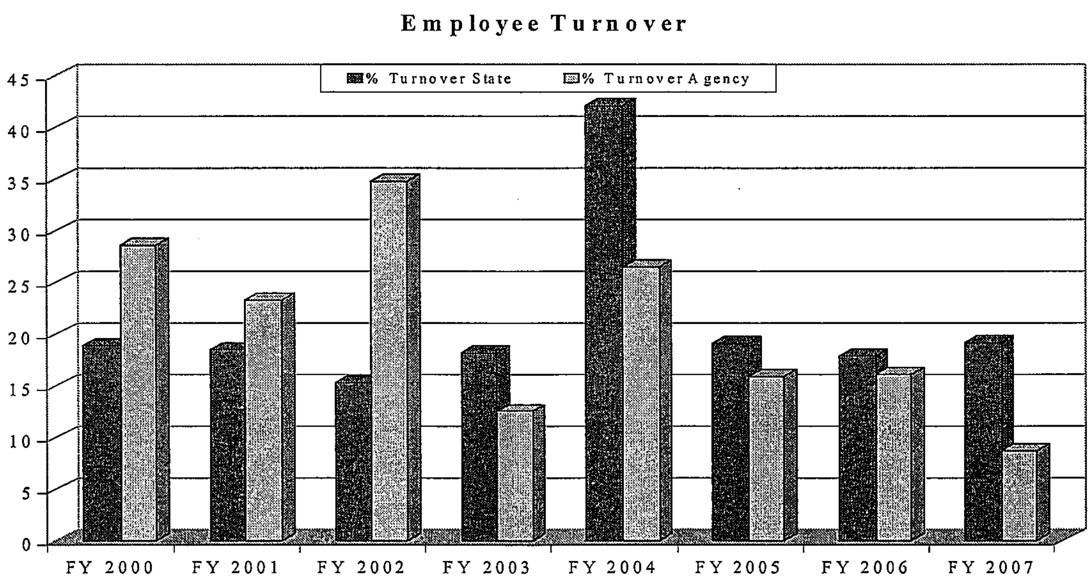
The following table and chart compare the percent of African American and Hispanic American employees as of April 30, 2008 to the statewide civilian workforce as reported by the Civil Rights Division of the Texas Workforce Commission in January 2007.

Job Category	% African American		% Hispanic American		% Female	
	SML	State	SML	State	SML	State
Officials/Administrators	0	6.6	0	14.2	0	37.3
Professionals	9.7	8.3	9.7	13.4	57.1	53.2
Technical Support	0	12.4	0	20.2	0	53.8
Administrative Support	8.1	11.2	11.3	24.1	76.5	64.7



B. EMPLOYEE TURNOVER

Turnover challenges every employer, impacting recruitment, selection and training, and diminishing productivity, experience and talent. The Department enjoyed exceptionally low turnover before the FTE growth generated by the advent of mortgage regulation. Beginning with the mortgage broker licensing program in FY 2000, turnover exploded, generally trending higher the first year of a biennium as new or expanded programs and additional FTEs were absorbed and then dropping in the second year as new staff was trained and settled into programs. The agency has developed new processes and reorganized, using additional staff, increased training, and other internal changes to combat turnover. FTE growth from FY 2000 to FY 2007 was spread across functional areas as follows: complaint resolution, 700%; mortgage regulation, 536%; thrift regulation, 38%; and administration, 20%. The graph below compares agency turnover to statewide turnover for FY 2000-2007. Interagency transfers are included because the negative effects of turnover are experienced regardless of the former employee's destination. The exceptionally high statewide turnover in FY 2004 is due to the reorganization of the health and human services agencies.



	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Authorized FTEs	22	22	31	36	55	71	63	63
% of Growth	29%	0%	41%	12%	53%	29%	-11%	0%

Fiscal Year 2006-07 Length of Service and Agency Turnover

Employees with less than five years of experience accounted for 100% of agency turnover. Turnover is particularly high among short service administrative and complaint investigation staff due to low salaries and a heavy workload and among field examiners due to salary levels and extensive travel. 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.

Length of Service	SML % of Employees	State % of Employees	% of SML Turnover	% of State Turnover
Less than 2 years	37.4	36.5	50.0	63.8
2-5 years	43.8	27.4	50.0	20.0
5-10 years	6.9	18.1	0	9.3
10-15 years	10.2	12.2	0	5.0
15-20 years	1.7	5.8	0	1.9

Fiscal Year 2006-07 Age and Agency Turnover

Employees under the age of 40 comprised 50.0% of the Department's turnover.

Age	SML % of Employees	State % of Employees	% of SML Turnover	% of State Turnover
Under 30 years	23.1	15.5	11.1	35.6
30-39 years	21.6	23.9	38.9	23.6
40-49 years	25.9	29.1	27.8	17.7
50-59 years	21.0	25.1	16.7	16.3
60 years and over	8.4	7.1	5.5	6.8

C. Retirement Eligibility

Retirement will account for a significant number of separations over the next three years, and a critical loss of institutional knowledge and expertise in key positions. The commissioner, chief fiscal officer, director of licensing, and chief thrift examiner are eligible for retirement within five years, leaving only two executive management positions (general counsel and chief mortgage broker examiner) ineligible. By the end of fiscal year 2013 seven employees will become eligible for retirement under the rule of 80, and eleven more will become eligible with age 60 and five years service. Besides the four executives mentioned above, the potential retirees include an attorney, seven examiners, and two investigators. These employees have extensive tenure with the Department and a wealth of institutional knowledge. It is important to ensure that this knowledge and organizational experience is not lost. In the past the Department has sometimes opted to reorganize to compensate for retirements and terminations because of the concentration of specialized knowledge in so few individuals and the difficulty of finding replacements with the same skill sets. Reorganization is likely to be the best option for dealing with at least some future separations for the same reason.

III. THE DEPARTMENT'S FUTURE WORKFORCE PROFILE

A. WORKFORCE CHANGES

As programs become increasingly complex, necessitating process improvements and continued cross training, the agency increasingly relies on information technology to respond to customers, provide quality services, and conduct business, in the process becoming more dependent on IT staff. Assessing the need for current technological knowledge is crucial to effective planning. The agency 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:

- Improving licensing database functionality to provide faster, more accurate information;
- Ensuring continued connectivity to the FDIC examination reporting system;
- Enhancing the agency 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:

- The national mortgage licensing system currently being rolled out in other states may be mandated for Texas, 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, 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 last five legislatures has increased the state's regulatory coverage of the financial services industry by adding FTEs to the mortgage originator regulation program. With the growth in this program, the Department has added additional examiners, investigators, licensing technicians, accountants, attorneys, and general administrative support staff. Employees with other primary duties currently perform budgeting and planning, purchasing and facilities management, and human resources tasks.

C. FUTURE WORKFORCE SKILLS NEEDED

The Department's most valuable resource is its 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 services 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 orientation;
- 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 agency'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 must be targeted for succession planning. Previously the staff was stretched just to perform necessary tasks without taking additional time for training of replacements and FTE caps had negatively impacted the Department's ability to effectively cross-train. With the additional FTEs granted during recent legislative sessions, the Department now has adequate authorized FTEs to manage its programs, but the more tenured staff still has difficulty finding time to cross train new employees.

- Four of the six executive management employees will be retirement eligible within the next three years. The financial institution, mortgage industry, legislative, management, and state reporting experience imbued in these individuals will almost certainly force the agency 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. The agency tested its preparedness in FY 2008 when the commissioner, general counsel, and executive assistant all left state employment within a 45 day period. Operations continued uninterrupted during the three months it took to fill the positions. The new commissioner and general counsel were promoted from within and their former duties have been distributed to their replacements.

- Seven examiners (30% of the current examination team), including the chief thrift examiner, will be retirement eligible within five years. The remaining examination staff has an average tenure of 36 months of agency service, a dramatic increase from the 26 month average two years ago, and a direct result of the decrease in turnover. The increase in tenure, as well as the dramatic gap between employees who will soon be eligible for retirement and the tenure of remaining staff is common throughout the agency. Average tenure is especially important because, as noted above, 100% of FY 2006-2007 turnover was in staff with less than five years agency experience. A recent initiative by federal regulatory counterparts to rehire retired examiners emphasizes the importance of competitive salaries and working conditions if the agency 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 broker examinations and selected mortgage broker 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 broker examiner training conferences.

- Growth in the programs administered by the Department requires skill 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 agency'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.

- 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.

Younger employees (by age and length of service) are not staying with the agency. This group is driven by salary. The rate at which younger, less tenured employees are leaving affects the agency's ability to position key staff members for promotion, career development, and succession planning.

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 agency'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. The FDIC provides the premier training in financial regulation free of tuition and lodging in Washington DC, but the precipitous drop in revenue during FY 2008 restricts the Department's ability to fully participate.
Action Steps	• Identify 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 reduce training costs and combat turnover. • Expand training opportunities to include programs on management skills. • Develop future leaders by creating development paths to prepare lower-level examiners to move into jobs with higher-level requirements. • Develop strategies to retain knowledge by promoting the transfer of knowledge as an agency value.

Gap	Attract and retain the right employees for the job.
Goal	Become an employer of choice among Texas agencies.
Rationale	Employee retention is critical to the Department's success. Working within the strictures of the appropriation process 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 agency. • Identify 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. • Consider developing a pay differential for multi-lingual staff. • Use any mechanism available within the appropriation structure 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.

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APPENDIX G
SURVEY OF ORGANIZATIONAL EXCELLENCE

The Survey of Organizational Excellence

Savings and Mortgage Lending Department

Executive Summary

2007

Executive Summary
Table of Contents

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School of Social Work
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Austin, Texas 78712

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Phone (512) 471-9831
Fax (512) 471-9600

450 -Savings and Mortgage Lending Department

Introduction

Thank you for your participation in the Survey of Organizational Excellence (SOE). We trust that you will find the information helpful in your leadership and organizational development efforts. Acting as a powerful wave of change, the SOE is important in both the public and private sectors. The number of surveys distributed over the last 10 years has increased three-fold. Both organization and employee response has been tremendous. Such participation indicates the readiness, indeed the eagerness, of employees to engage in meaningful work to improve the organization.

Organizational Leadership must build on this wave of engaged employees and begin initiatives to improve services and benchmark results against outstanding organizations. Above all, the Survey is not about just collecting data or fulfilling some type of compliance, but about promoting excellence through participation and accountability. The Survey reinforces the vital role every employee must play to the fullest at all times. The Survey emphasizes continuous thinking to formulate better, more efficient ways of getting work done. Finally, the Survey calls for candor among all employees towards building a quality organization.

The Survey Framework assesses, at its highest level, five workplace dimensions capturing the total work environment. Each workplace dimension consists of survey constructs. The survey constructs are designed to profile organizational areas of strength and concern so that interventions are targeted appropriately.

Survey Dimensions and Constructs

Dimension I Work Group	Dimension II Accommodations	Dimension III Organizational Features	Dimension IV Information	Dimension V Personal
Supervisor Effectiveness Fairness Team Effectiveness Diversity	Fair Pay Physical Environment Benefits Employment Development	Change Oriented Goal Oriented Holographic Strategic Quality	Internal Availability External	Job Satisfaction Time and Stress Burnout Empowerment

Your Reports Include:

An Executive Summary is provided in this document. The summary contains graphical representations of data from the organization as a whole or in the case of executive summaries for category codes, data specific to that category code. Your organization may or may not have elected to use category codes. In each executive report there is a demographic profile of the organization along with high order analysis of survey data on the construct and dimension level. Both organizational strengths and areas of concern are presented along additional narrative and analysis. Relative benchmark data is also pulled in for comparison purposes.

Introduction (cont.)

A Data Summary accompanies this report. The data summary provides a greater detail than the executive summary. The data summary 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 is broken into mean, frequency counts, standard deviations, and number of respondents and item benchmark data are also displayed.

Electronic Reports are provided in two formats. First, all executive and data summary 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 types of electronic reports are in Microsoft Excel format. These reports are constructs 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.

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 illustrates differences and changes along item and construct scores. Our benchmark data are updated every two years and are available from our website at www.orgexcel.net. The most current benchmark data are provided in your report.

Using the Survey as a Catalyst for organizational improvement is essential to the survey process. The survey creates momentum and interest. Towards the end of the executive summary report is a series of suggested next steps to assist in these efforts. Also, we have captured several presentations from other organizations that have used the data in strategic planning, organizational improvement, and employee engagement initiatives. These presentations are provided in streaming video from our website at www.orgexcel.net by clicking on the Best Practices link.

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.

Your Comments are Important to us. We welcome your comments (positive or negative) regarding the Survey, the level or type of service provided by our office, or suggestions you may have for ways we can improve our products or services. Comments can be sent directly to me or to the Survey's Principal Investigator, Dr. Michael L. Lauderdale at the UT School of Social Work, 1925 San Jacinto Blvd., Austin, TX 78712.

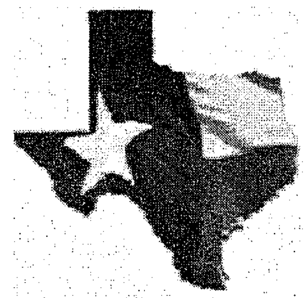
Organization Profile

Savings and Mortgage Lending Department

Organizational Leadership:

ID: 450

- Danny Payne, Commissioner
- John Snider, Chair of Finance Commission of Texas



Benchmark Categories:

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. Visit www.survey.utexas.edu for a complete list of benchmark groups and scores.

Organization Size: Size category 2 includes organizations with 26 to 100 employees.

Mission Category: Regulatory (Mission 8)
The Regulatory category includes organizations involved in the regulation of medical, financial, and other service industries.

Special Grouping: SSATF: Small State Agency Task Force: Agencies with 100 or fewer FTEs excluding higher education and agencies headed by an elected official.

Survey Administration Profile:

Collection Period:
10/1/2007 - 10/20/2007

Additional Items and Categories:
Organizations can add customization by creating additional items tailored to the organization and categories for employees to identify with.

Refer to the Appendix of the Data Report for a complete list of categories and additional items.

Collection Method:
All employees took the survey online.

Survey Liaison:

Margaret Wofford (512) 475-1356
Chief Administrative Officer
Savings and Mortgage Lending Department
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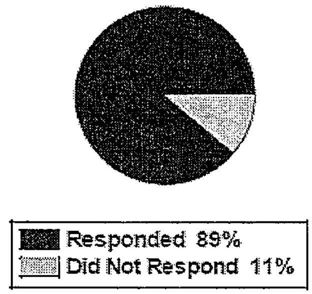
Austin, TX 78705

mwofford@sml.state.tx.us

Response Rates

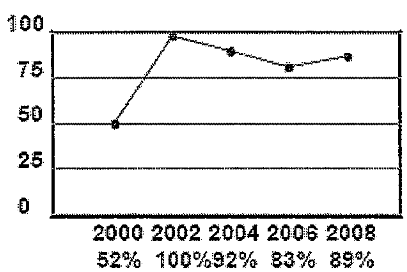
Overall Response Rate

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. Low response rates can mean several things. There simply may not have been enough effort in making certain employees know the importance of completing the Survey. At a more serious level, low rates of response suggest a lack of organization focus or responsiveness. It may suggest critical levels of employee alienation, anger or indifference to organizational responsibilities.



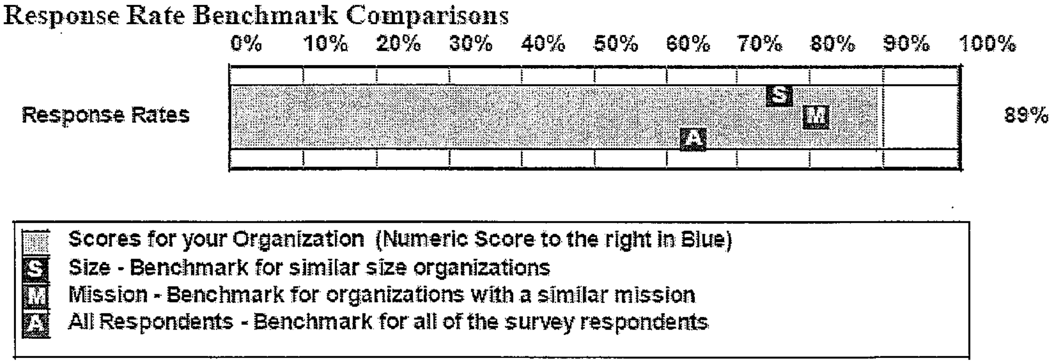
Out of the 62 employees who were invited to take the survey, 55 responded. As a general rule, rates higher than 50 percent suggest soundness. Rates lower than 30 percent may indicate serious problems. At 89%, your response rate is considered high.

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, rates tend to plateau above the 50 percent level. Sharp declines in participation suggest some form of general organizational problem is developing. Your response rate is higher than it was for the previous survey.

Response Rate Benchmark Comparisons



Regional Distribution Map and Benchmarks

Regional Distribution Maps are available to organizations with a large number of employees working in several regions throughout the state. Regional Distribution Map (if applicable) and Regional Benchmark Map will be available in the near future.

Survey Framework and Scoring

The Survey assessment is a framework that consists of survey items, constructs, and dimensions. Each level of the framework provides insight into the workings of an organization.

Items

At the most basic level there are survey items, which provide specific feedback. For each item, employees are asked to indicate how strongly they agree or disagree that the item describes the organization. Possible responses include: (1) strongly disagree; (2) disagree; (3) feel neutral; (4) agree; (5) strongly agree; and, (not scored) don't know/not applicable. Any survey item with an average (mean) score above the neutral midpoint of "3.0" suggests that employees perceive the issue more positively than negatively. Scores of "4.0" or higher indicate areas of substantial strength for the organization. Conversely, scores below "3.0" are viewed more negatively by employees. Items that receive below a "2.0" should be a significant source of concern for the organization and should receive immediate attention.

Constructs

The survey constructs are designed to broadly profile organizational strengths and areas of concern so that interventions may be targeted appropriately. Survey constructs are developed from a group of related survey items. The construct score is calculated by averaging the related item scores together and multiplying that result by 100. Scores for the constructs range from a low of 100 to a high of 500. An item may belong to one or several constructs, however, not every item is associated with a construct.

Dimensions

The framework, at its highest level, consists of five workplace dimensions. These five dimensions capture the total work environment. Each dimension consists of several survey constructs. The dimension score also ranges from 100 to 500 and is an average of the construct scores belonging to the dimension.

Survey Dimensions and Constructs

Dimension I Work Group	Dimension II Accommodations	Dimension III Organizational Features	Dimension IV Information	Dimension V Personal
Supervisor Effectiveness Fairness Team Effectiveness Diversity	Fair Pay Physical Environment Benefits Employment Development	Change Oriented Goal Oriented Holographic Strategic Quality	Internal Availability External	Job Satisfaction Time and Stress Burnout Empowerment

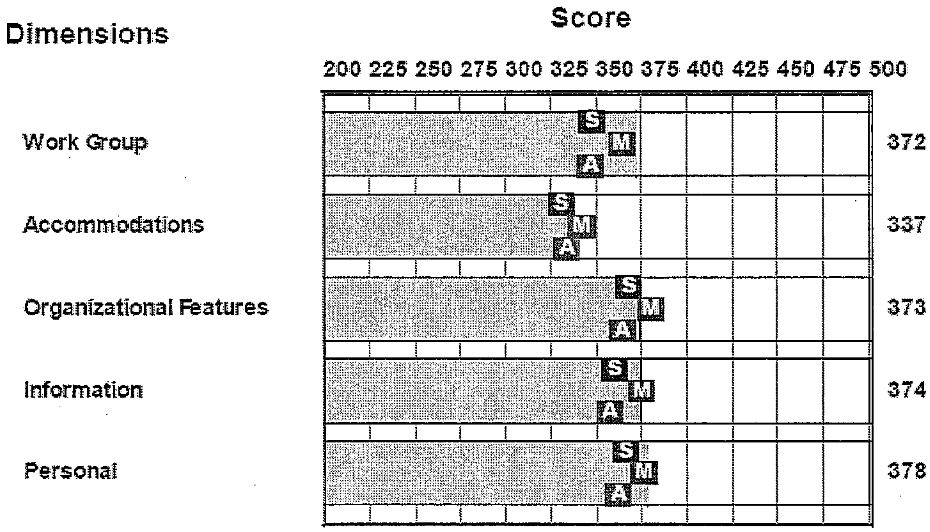
Over Time and Benchmark Data

Comparison scores are provided when available. One of the benefits of continuing to participate in the survey is that over time data shows how employees' views have changed as a result of implementing efforts suggested by previous survey results. Additionally, benchmarks help to illustrate how this organization is performing relative to organizations of similar size, organizations with similar missions and to the performance of all organizations that participated in this survey.

Dimension Analysis

In order for organizations to improve, there is a need to compare performance with other organizations. This comparison process is called benchmarking. The Survey provides a number of convenient and useful comparisons. The number of employees in an organization is one important characteristic of any organization. Large organizations with multiple locations in which any employee will know only a few of the members are different from organizations where most interaction is face-to-face and people know each other well. A second kind of benchmark focuses upon organizations that perform similar functions. The nature of an organization's work can have an impact on organizational features and employee experiences. Lastly, a benchmark is provided for a comparison against all other organizations that have taken the Survey in the current time frame.

The data in this table are composed of the organization's scores for this iteration of the Survey and comparison data from the latest benchmark scores. The scores for the organization appear to the right.

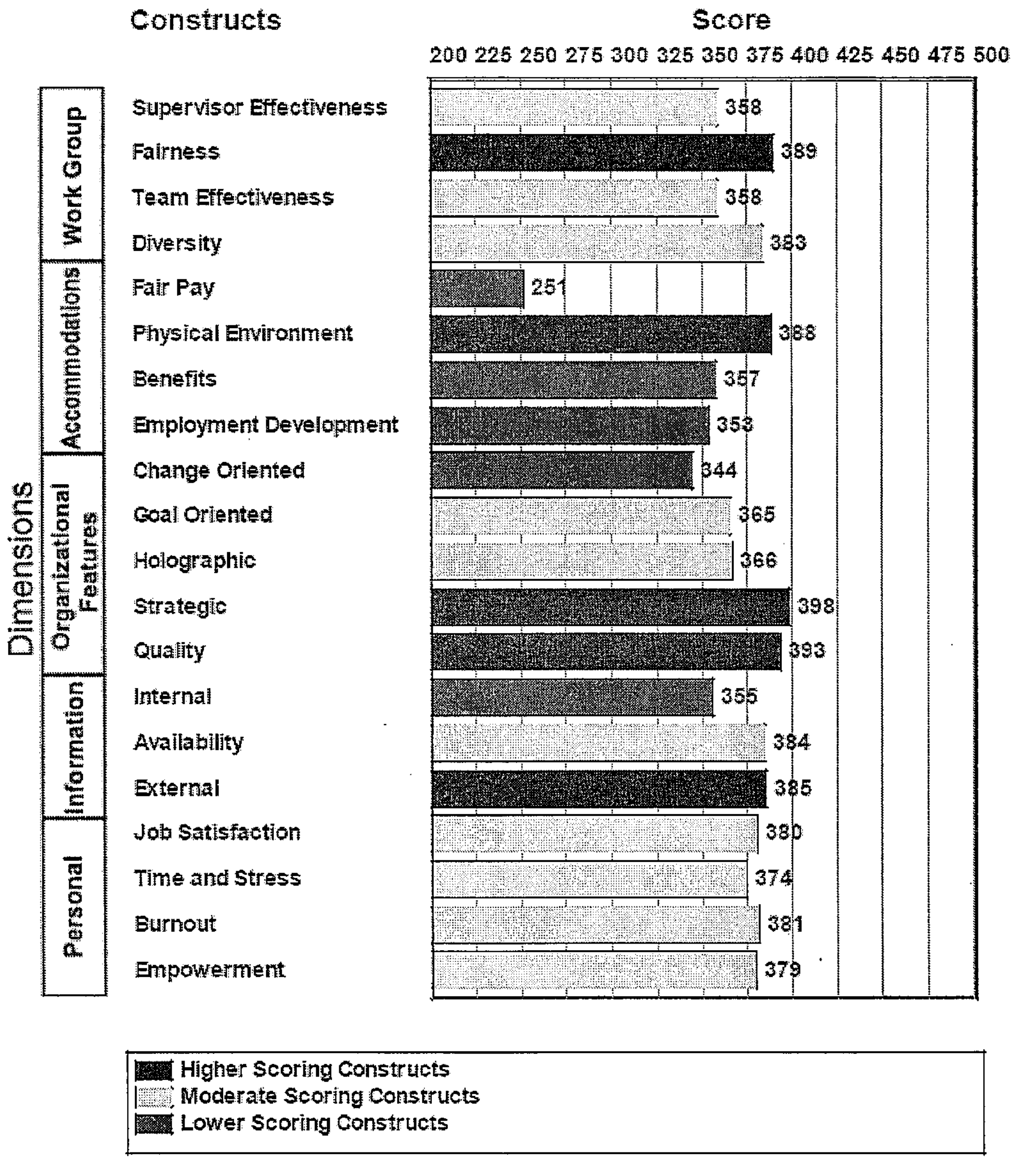


Scores for your Organization (Numeric Score to the right in Blue)
S Size - Benchmark for similar size organizations
M Mission - Benchmark for organizations with a similar mission
A All Respondents - Benchmark for all of the survey respondents

Construct Analysis

Constructs have been color coded to highlight the organization's areas of strength and areas of concern. The 5 highest scoring constructs are blue, the 5 lowest scoring constructs are red, and the remaining 10 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 300 suggest that employees perceive the issue more positively than negatively, and scores of 400 or higher indicate areas of substantial strength. Conversely, scores below 300 are viewed more negatively by employees, and scores below 200 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:

Strategic **Score: 398**

General Description: The Strategic (Strategic Orientation) 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.

Average scores suggest that employees feel there is room for improvement in how the organization interprets and understands the environment. Likely there is a concern that some programs are less relevant than in the past and that some processes do not seem knit into an overall vision. In general problems with Strategic Orientation stem from these factors: employees having a limited grasp of the goals of the organization, high levels of "silos", organizational components that function in isolation from other organizational processes, and the nature of the specific work being performed. Remedying Strategic Orientation requires careful study to determine the correct causative factors but assessing environmental understandings is the starting point. Conduct and compile customer assessments and review findings with staff at all levels. Benchmark processes with similar and competitive organizations. Use the employee feedback sessions to make a more complete determination for the causes of low Strategic Orientation scores.

Quality **Score: 393**

General Description: 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.

Quality comes from attention to detail, customers and overall effort. Average scores mean that there is important room for improvement. In general quality is a result of understanding the needs of customers or clients coupled with a continuous and zealous examination of products and processes for improvement. Achieving quality requires the full and thoughtful attention of all members of the organization. Essential to maintaining high levels is clear articulation of goals, careful attention to changes in the environment that might affect resources or heightened competition and vigorous participation by all members. Leadership must maintain a clear articulation of the importance of quality and the role of everyone in achieving quality. Improvement is best addressed by developing clear standards of quality at all levels, urging employee assessment and feedback, and creating measures of quality for all work.

Organizational Typology: Areas of Strength

Relative Strengths Continued:

Fairness **Score: 389**

General Description: The Fairness construct measures the extent to which employees perceive that a level playing field exists for all members of the organization and that judgment of performance is based on fair, open, and job-based criteria. This Construct helps organizational leaders determine the extent to which employees perceive their general experience in the organization as positive.

Average scores suggest that room for improvement exists and lack of attention can lead to dropping scores. No area in an organization is more important and often more resistant to change than the middle areas of the organization. Problems with fairness can come from many causes and may suggest a number of remedies. Part of the follow up to the Survey when data are returned is to discuss the results with employees and secure more elaborate explanations of important issues. In general Fairness perception stems from these factors: hiring, work assignment, promotions, the selection, support and training of supervisors, the maturity and experience of employees and the nature of the specific work being performed. Remedying Fairness requires careful study to determine the correct causative factors. Triangulate low scores in Fairness with Supervisory Effectiveness by reviewing how supervisors are selected and their training. Use the employee feedback sessions to make a more complete determination for the causes of low Fairness scores.

Physical Environment **Score: 388**

General Description: 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.

Average scores suggest that room for improvement exists and lack of attention can lead to dropping scores. Attention may be needed to quality and amount of office space, equipment, parking and the location of facilities.

Organizational Typology: Areas of Strength

Relative Strengths Continued:

External **Score: 385**

General Description: 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.

Average scores suggest that immediate consideration needs to be made to improve tools and process for external communication. In general External Communication is a function of these factors: nature of the organization's services or products and those who use the products, types of technology deployed for communication and knowledge of the organization of the needs of those who use its services. Remedying External Communication requires careful study to determine the correct causative factors. Carefully examine the customer base, operating hours of the organization, location of offices and knowledge of contact personnel with customer needs.

Organizational Typology: Areas of Concern

The following Constructs are relative areas of concern for the organization:

Fair Pay **Score: 251**

Source of Concern

General Description: The Fair 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 can come from many causes and may suggest a number of remedies. Part of the follow up to the Survey when data are returned is to discuss the results with employees and secure more elaborate explanations of important issues. Failure to successfully remedy Fair Pay problems is one of the more serious mistakes that leadership can make. These scores suggest that pay is a central concern or reason for satisfaction or discontent. Problems with pay can come from two or three causes and may suggest a number of remedies. In some situations pay does not meet comparables in similar organizations. In other cases individuals may perceive that pay levels are not appropriately set to work demands, experience and ability. At some times cost of living increases may cause sharp drops in purchasing power and employees will view pay levels as unfair. Remedying Fair Pay problems requires a determination of which of the above factors are serving to create the concerns. Triangulate low scores in Fair Pay by reviewing comparable positions in other organizations and cost of living information. Use the employee feedback sessions to make a more complete determination for the causes of low Fair Pay scores.

Change Oriented **Score: 344**

General Description: The Change Oriented construct secures employees' perceptions of the organization's capability and readiness to change based on new information and ideas. It addresses the organization's aptitude to process information timely and act upon it effectively. This Construct also examines the organization's capacity to draw upon, develop, and utilize the strengths of all in the organization for improvement.

Average scores suggest that room for improvement exists and lack of attention can lead to organizational stasis. Problems with low change orientation can come from many causes and may suggest a number of remedies. Typically the organization is isolated or maintains a culture that feels that the organization and its activities are unique. This vitiates needed comparison or benchmarking processes. Remedying Change Orientation requires opportunity for study and comparisons with other organizations. Visits to other organizations, participation in accreditation processes and developing external advisory boards can help open the organization and increase readiness to change.

Organizational Typology: Areas of Concern

Relative Areas of Concern Continued:

Employment Development **Score: 353**

General Description: The Employment Development construct is an assessment of the priority given to employees' personal and job growth. It provides insight into whether the culture of the organization sees human resources as the most important resource or as one of many resources. It directly addresses the degree to which the organization is seeking to maximize gains from investment in employees.

Average scores suggest that employees feel that minimum needs are being met for personal development and enhancement of job skills. Scores at this level provides opportunities for the organization to increase the ability and satisfaction of employees through training and educational opportunities.

Internal **Score: 355**

General Description: The Internal Communication construct captures the flow of communication within the organization from the top-down, bottom-up, and across divisions or departments. It addresses the extent to which communication exchanges are open and candid and move the organization toward goal achievement.

Average scores suggest that room for improvement exists and lack of attention can lead to dropping scores. Employees feel that information does not arrive in a timely fashion and often it is difficult to find needed facts. In general Internal Information 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. Remedying Internal Communication requires careful study to determine the correct causative factors. 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. Use the employee feedback sessions to make a more complete determination for the causes of low Internal Communication scores.

Organizational Typology: Areas of Concern

Relative Areas of Concern Continued:

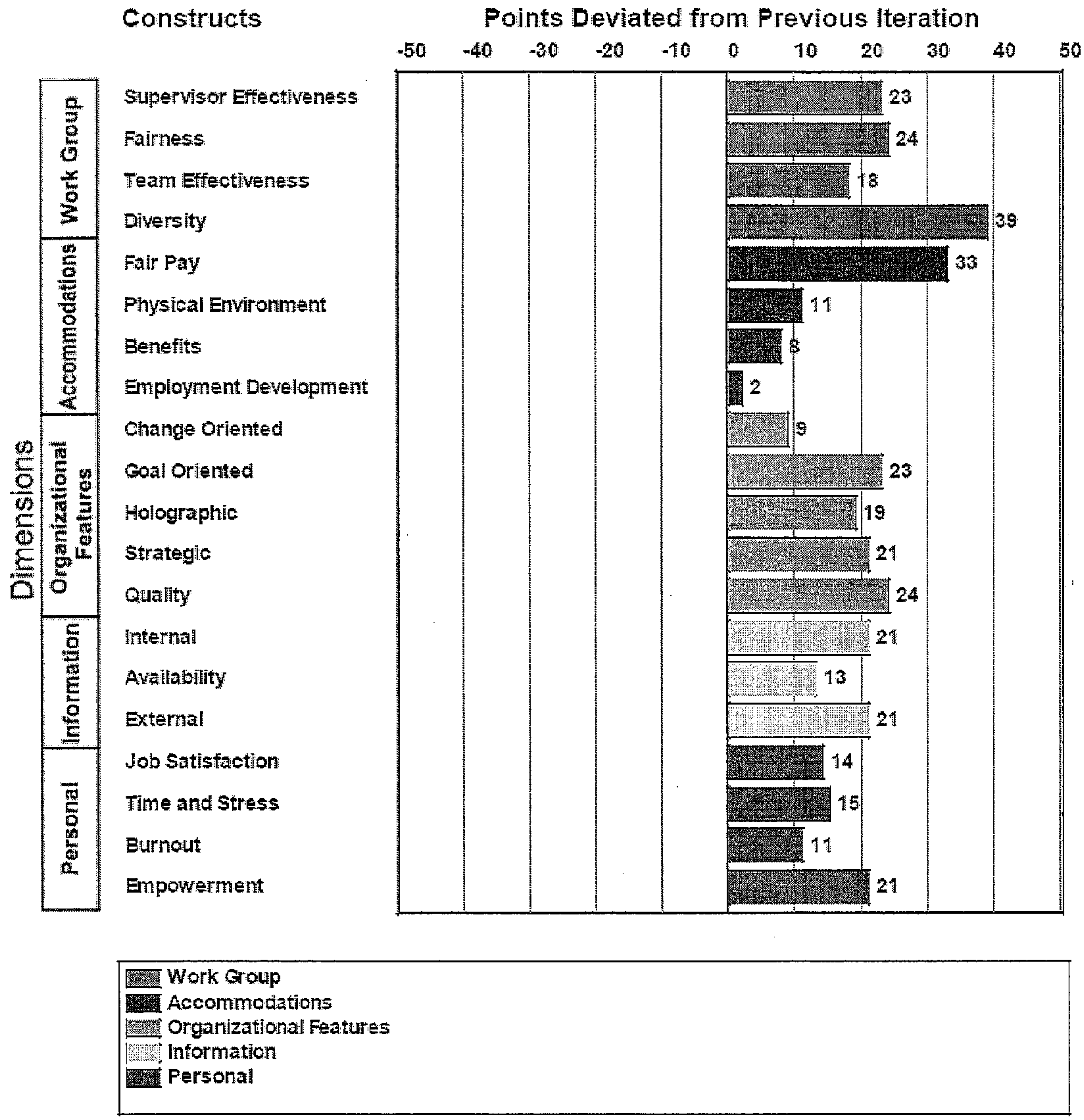
Benefits **Score: 357**

General Description: The Benefits construct provides a good indication of the role the benefit package plays in attracting and retaining employees in the organization. It reflects comparable benefits that employees feel exist with other organizations in the area.

Average scores suggest that room for improvement exists and lack of attention can lead to dropping scores. Benefits are often not viewed as motivators for employees but more as hygiene factors. This means employees will become restless, upset and dissatisfied when benefits are perceived as less than needed or fair. Part of the follow up to the Survey when data are returned is to discuss the results with employees and secure more elaborate explanations of important issues. In general concerns about benefits stem from these factors: level and type of benefits available, the cost and employees being able to understand and use the benefits package. Remedying concerns about benefits requires data collection from employees and competitive organizations to determine the correct causative factors. Use the employee feedback sessions to make a more complete determination for the causes of low Benefits scores.

Organizational Change: Performance Over Time

One of the benefits of continuing to participate in the survey is that over time data shows how employees' views have changed as a result of implementing efforts suggested by previous survey results. Positive changes indicate that employees perceive the issue as adequately improved since the previous survey. Negative changes indicate that the employees perceive that the issue has worsened since the previous survey. Negative changes of greater than 50 points and having 10 or more negative construct changes should be a source of concern for the organization and should receive immediate attention.



Analyzing Over Time Data

Over Time Data adds another dimension to an organization's scores. By viewing data from multiple iterations of the survey - static data suddenly is capable of tracking effectiveness of previous action plans and catching declining trends before they become critical. Identifying areas for future action plans becomes more obvious and employees can visually confirm the benefits of being proactive in their organization.

Changes

Organizational change occurs whether or not leadership plans for it. Planning for change puts the control in the hands of the organization. By using the results of the survey and employee feedback, organizations can encourage positive growth trends in their survey scores. A lack of planning can lead to haphazard fluctuations in scores over time.

This organization experienced positive growth in 20 out of the 20 constructs in comparison to the last iteration of the survey. The constructs with the most positive growth are: *Diversity, Fair Pay, Quality, Fairness, and Goal Oriented*. Together, these constructs were identified by employees as having the most significant improvement compared to the previous iteration of the survey. The constructs that showed the least amount of improvement or a decrease in score are: *Employment Development, Benefits, Change Oriented, Physical Environment, and Burnout*. These constructs may or may not be the lowest scoring constructs, but definite attention should be given to these constructs when considering which areas to focus efforts upon improving.

Determining Causes

This is a turbulent time for many organizations, however this year will prove as an important benchmark year as the economy starts to recover. Any number of events both within and outside of leadership control can affect scores. While score changes cannot be attributed directly to one particular event, it is worthwhile to consider all possibilities and use the most likely culprits as a starting point for developing action plans and encouraging positive trends. Consider any recent events that might have affected the scores for a particular construct. Have there been changes in leadership, policy, or procedure? Has there been any restructuring or layoffs? Were any action plans put into place based on the results of the last survey?

The *Data Report* provides detailed data on each of the survey items and constructs including descriptions and item-construct relationships. Examine the over time data for the individual items that make up a construct to try to isolate contributing factors. Once you have a list of factors, hold a focus group consisting of a diverse group of employees and try to get a better feel for why the employees responded the way they did. You may find that there are many other complex factors at work, but having a pre-compiled set of possible factors will provide a sound starting point.

Continuing Trends

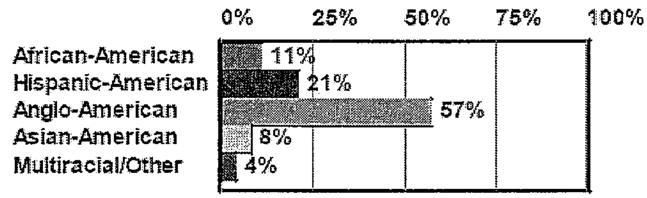
No matter how high a score, there is always room for improvement. Get the entire organization involved in deciding on which constructs to concentrate efforts for improvement. Brainstorm ideas on how improvements can be made and how every employee can have a chance to contribute suggestions. A questionnaire, customized online survey, or departmental meeting may prove effective for collecting ideas. Each organization is unique and has a great amount of untapped resources in its employees. Using employees to solve problems and make organizational improvements is a natural solution - who else knows the organization better?

Participant Profile

Demography data help 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. Charts and percentages are based on valid responses. Slight variations from the Data Aggregation Report are due to respondents who chose not to answer particular demographic items.

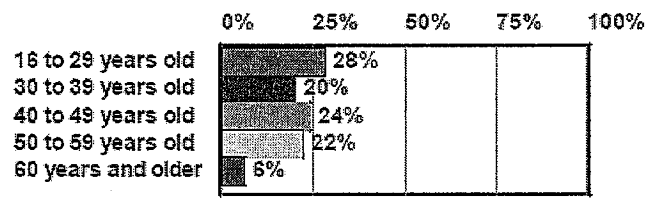
Race/Ethnic Identification

Diversity within the workplace provides resources for innovation. A diverse workforce helps insure that different ideas are understood, and that the community sees the organization as representative of the community.



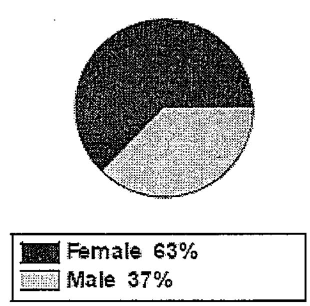
Age

Age Diversity contributes to having a well-balanced workplace. Different age groups bring different experiences and perspectives to the organization. Large percentages of older individuals may be a cause of concern if a number of key employees are nearing retirement age. Seek ways to preserve the culture and experiences these individuals have brought to the organization. Be mindful that people have different challenges and resources at various age levels and should see that leadership incorporates these understandings.



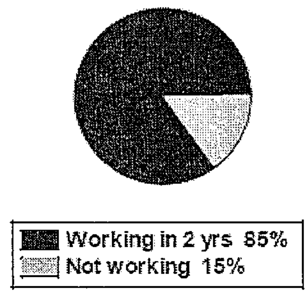
Gender

The ratio of males to females within an organization can vary among different organizations. However, extreme imbalances in the gender ratio should be a source of concern for the organization and may require immediate attention. Give consideration to the types of work being performed and be open to unintentional bias in job and employee selection as well as promotion consideration.

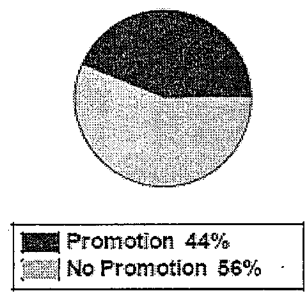


Participant Profile

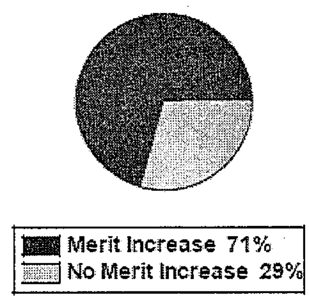
Employee Retention
The percent of employees that see themselves working for this organization in two years is a good indicator of how well the organization is doing at retaining its employees. Very low retention should be a source of concern and may require immediate attention.



Promotion
The percentage of employees that receive a promotion can vary among organizations. While organizational growth may increase the likelihood of promotional opportunities, organizations should not simply wait for growth. Low percentages may indicate that current employees do not compete well for promotional opportunities. This would urge study of the Employee Development Construct to gauge the level of employee interest.



Merit Increase
The percentage of employees that receive a merit increase can vary between organizations. Low percentages may indicate that employers need to review expectations of current employees and those efforts that seek to increase performance.



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 month 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 that took the Survey. It is important to examine these findings and take them back to the employees for interpretation and to select priority areas for improvement. This also provides 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 small customized 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

October and November: Interpreting the Data

- Data is 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 providing interpretations for all staff

December: 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 Questions, providing the data along with illustrations pertinent to the organization
- Select a time to have every employee 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.

January: 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 topic

February 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 H
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 hot line number (877) 276-5550.

INVENTORY OF EXTERNAL CUSTOMERS CHOSEN FOR SURVEY BY STRATEGY

STRATEGY	EXTERNAL CUSTOMERS SURVEYED
A-1-1 Thrift Examination and Supervision	State chartered financial institutions
B-1-1 Mortgage Broker Licensing	Licensed mortgage brokers and loan officers
B-1-2 Mortgage Broker Examination	Licensed mortgage brokers
B-1-3 Texas Online	None
C-1-1 Complaint and Inquiry Process	Complainants

DESCRIPTION OF EXTERNAL CUSTOMERS AND THE SERVICES PROVIDED TO THEM

GOAL: THRIFT SAFETY AND SOUNDNESS. The primary beneficiary or customer of the Department's thrift safety and soundness goal is the state of Texas and its citizens, borrowers and depositors. 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.

STRATEGY: THRIFT EXAMINATION AND SUPERVISION. There are two direct recipients or customers of examination and supervision, the FDIC and the regulated institutions, plus other indirect recipients such as attorneys, accountants and others who assist in preparing thrift applications. Thrift examiners conduct examinations jointly with the FDIC. It is important that the quality of our 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. We must meet the highest expectations for this strategy to maintain the state's role in the dual thrift system.

For each institution that is a regulatory customer, the strategy must be thorough and substantive, balancing safety and soundness with the institution's need for minimal regulatory burden. 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 we survey to monitor our performance.

GOAL: MORTGAGE REGULATION. Customers of the mortgage regulation goal 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.

STRATEGY: MORTGAGE BROKER LICENSING. Customers of the mortgage broker licensing strategy 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 the mortgage broker and loan officer survey of licensees. We also rely on the survey of consumer complaint processing to assess consumer satisfaction with the licensing system and our handling of their complaints.

STRATEGY: MORTGAGE BROKER EXAMINATION. Customers of this strategy are essentially the same as for the licensing strategy, plus licensees who receive an examination. The customer base, Texas' home-buying citizens, is too broad to survey, so the survey of mortgage broker and loan officer licensees covers this strategy also.

GOAL: CONSUMER RESPONSIVENESS

STRATEGY: COMPLAINT AND INQUIRY PROCESS. The primary customers served by this strategy are consumers doing business with our 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 survey assesses the customer satisfaction of complainants.

INFORMATION GATHERING METHODS, RESULTS AND ANALYSIS

The Department assesses its customer service through communication with its constituents. During the strategic planning process, the Department also surveys thrift institution CEOs, mortgage brokers and loan officers, and persons filing complaints against regulated entities. Surveys were mailed January 2, 8, and 9, 2008 with return requested by March 1 although responses received by late April are included in the results. Respondents could choose to respond anonymously. The Department is proud of its reputation as a provider of quality regulation and service to its constituents. It was rewarding for surveys to positively confirm that emphasis as shown in the tables below. Questions were phrased as a positive reflection of performance with "Strongly Agree" and "Agree" being indicators of customer satisfaction.

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

MORTGAGE BROKERS AND LOAN OFFICERS. The population included all applicants receiving licenses between September 1, 2006 and December 31, 2007. The survey sample of 250 licensees was chosen using a random number generator. The response rate was 23.2%.

CONSUMER COMPLAINANTS. The population included all 594 complaints both filed and resolved during FY 2007. The survey sample of 100 complainants was chosen using a random number generator. The response rate was 34%.

COMPOSITE SURVEY RESULTS					
Survey Results	**STRONGLY AGREE**	**AGREE**	**DISAGREE**	**STRONGLY DISAGREE**	**NO BASIS**
Overall effectiveness and responsiveness					
Thrifts	50%	50%	0%	0%	0%
Mortgage Brokers	17%	67%	7%	2%	7%
Complainants	33%	29%	9%	26%	0%
Staff composite evaluation					
Thrifts	62%	29%	0%	0%	9%
Mortgage Brokers	18%	64%	6%	0%	12%
Complainants	34%	34%	7%	16%	9%
Website composite evaluation					
Thrifts	19%	54%	8%	0%	19%
Mortgage Brokers	30%	59%	8%	0%	3%
Complainants	24%	39%	10%	20%	7%
Communications composite evaluation					
Thrifts	45%	54%	0%	0%	1%
Mortgage Brokers	18%	61%	10%	3%	7%
Complainants	28%	32%	8%	24%	7%
Program/strategy evaluation					
Thrifts	39%	48%	1%	0%	13%
Mortgage Brokers	21%	65%	9%	2%	3%
Complainants	33%	26%	12%	25%	3%

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, examiners, and monitoring staff. During the survey period the Department restructured to accommodate the previous commissioner's retirement and conducted ongoing thrift activities during the search for a replacement. The former deputy commissioner – director of examination was promoted to the position, with additional restructuring resulting. Although these changes must have caused at least some uncertainty in respondents, survey results were highly positive, indicating confidence in the Department's capacity to accomplish a smooth transition.

THRIFT CHIEF EXECUTIVE OFFICER SURVEY -- 2008

	QUESTIONS	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE	NO BASIS
OVERALL DEPARTMENT EFFECTIVENESS						
1	Overall, I am satisfied with the effectiveness and responsiveness of the Department.	13	13			
2	Staff--					
	a. Knowledgeable and able to answer my questions.	15	11			
	b. Helpful, courteous and responsive to requests.	20	6			
	c. Demonstrates a willingness to assist.	18	8			
	d. Responsive to complaints and addresses them in a reasonable manner.	11	5			10
3	Website--					
	a. Provides the information I need.	5	15	1		5
	b. Easy to use and well organized.	5	12	4		5
	c. Contains clear and accurate information.	5	15	1		5
4	Communications--					
	a. Telephones, letters and e-mail are answered within a reasonable period.	15	11			
	b. Responses to my questions or concerns meet my needs.	15	11			
	c. Information published by the Department is clear, thorough, accurate and understandable.	10	16			
	d. Published materials, primarily bulletins and newsletters, meet my institution's needs.	7	18			1
	Overall Composite Results	45%	45%	2%		8%
EXAMINATION AND SUPERVISION						
5	The scope and goals for each examination are clearly communicated to management prior to the start of the examination.	8	14			4
6	Examiner requests for information are timely and reasonable.	7	14	2		3
7	Examiners conduct themselves professionally.	10	15			1

	Questions	Strongly Agree	Agree	Disagree	Strongly Disagree	No Basis
8	Examiner communication with management during the examination meets my needs.	8	16			2
9	Examiners are informed on current industry issues, adequately trained and qualified.	9	14			3
10	Examiner findings and concerns are clearly communicated at exit meetings.	9	14			3
11	Examiner conclusions are well-supported.	8	15			3
12	Examiner recommendations are clear and reasonable in the circumstances.	9	14			3
13	Examination time frames are reasonable.	7	15	2		2
14	Reports of examination are consistent with findings discussed at exit meetings.	8	13			5
15	Reports of examination are received timely.	9	11	1		5
16	Supervisory action and correspondence is consistent with examination findings.	8	10			8
	Examination and Supervision Composite Results	32%	53%	2%		13%
Corporate Activities						
17	Correspondence with the Department regarding routine business matters is handled promptly and effectively.	13	12			1
18	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.	13	10			3
19	My calls, e-mails or letters are routed to the appropriate person	14	11			1
20	If you have filed an application or requested supervisory approval for matters subject to regulatory discretion:					
	a. The staff was accessible and provided helpful assistance in complying with requirements.	14	8			4
	b. Responses to my inquiries were timely, appropriate and helpful.	13	9			4
	c. The process was efficient and professional.	13	9			4
	d. Requests for additional information are reasonable and appropriate.	11	11			4
	Corporate Activities Composite Results	50%	38%			12%

Comments [Attach additional material if needed]:
The Department does an outstanding job. In a very volatile environment, both economically and politically, they have comported themselves in an exemplary manner. We are a very young bank that has only had a visitation by one examiner, so our interaction has been limited. However, all of our contact and correspondence with the department has been a very pleasant experience. I find the website cumbersome on the banking side. It seems to be geared more for mortgage brokers. Overall, a good group of people to work with. The Report of Examination received February 19, 2008 and still in process and review by the Board of Directors. Supervisory Analyst is extremely helpful and always timely in responding to our questions. Generally, the Department is responsive and gives well-researched answers to questions without a “gotcha” approach to answering regulatory questions. Supervisory Analyst and Commissioner are generally accessible and responsive. Exams seem to cover redundant information. A simple “Same as Last Exam” would satisfy 50-75% of the requests, and would make the exam and pre-exam much easier on everyone (including the examiners). Exams are very tough on bank staff. 2-3 weeks onsite plus a month of pre-exam work is administratively difficult to manage, while also running a business. While FDIC eliminated MERIT exams, 1 and 2 rated banks should have some relief. We feel that we have a very good working relationship with the department. Our regulators are knowledgeable and accessible. We believe they have handled our requests and examinations in a timely and fair manner. We really enjoy working with your group! Very well done. It is a pleasure working with you. Only complaint is the phone system, too cumbersome, and hard to get someone on the line.

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 -- 2008

	QUESTIONS	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE	NO BASIS	SATISFACTION WITH BASIS *
1.	Overall, I am satisfied with the effectiveness and responsiveness of the Department.	10	39	4	1	4	53
	Overall Composite Results	***17%***	***67%***	***7%***	***2%***	***7%***	***91%***
2.	Staff—						
	a. Accessible and provided helpful assistance in complying with licensing requirements.	10	37	5	1	5	
	b. Knowledgeable and able to answer my questions.	10	42	1	0	5	
	c. Helpful, courteous and responsive to requests.	11	37	5	0	5	
	d. Demonstrates a willingness to assist.	11	38	4	0	5	
	e. Responsive to complaints and addresses them in a reasonable manner.	10	31	2	0	15	
	Staff Composite Results	***18%***	***64%***	***6%***	***0.3%***	***12%***	***93%***
3.	Website—						
	a. Provides the information I need.	19	34	5	0	0	
	b. Easy to use and well organized.	18	30	10	0	0	
	c. Contains clear, up to date and accurate information.	16	37	4	0	1	
	d. Online license renewal was well organized, easy to follow and made the renewal process easier.	17	34	4	0	3	
	e. I will renew my license online in the future.	17	36	1	0	4	
	Website Composite Results	***30%***	***59%***	***8%***	***0%***	***3%***	***91%***
4.	Communications—						
	a. Telephones, letters, faxes and e-mail are answered within a reasonable period.	10	32	7	3	6	
	b. Responses to my questions or concerns addressed my situation.	12	35	4	2	5	
	c. Information published by the Department is clear, thorough, accurate and understandable.	10	40	6	0	2	
	Communications Composite Results	***18%***	***61%***	***10%***	***3%***	***7%***	***89%***
5.	License Processing—						
	a. Requests for information were timely and clear.	12	37	6	1	2	
	b. My license was received in a reasonable period after all required information was submitted.	13	38	4	2	1	
	c. The process was efficient and professional.	12	38	5	0	3	
	License Processing Composite Results	***21%***	***65%***	***9%***	***2%***	***3%***	***91%***

	LOs STOP here, or MB not examined STOP here						
	QUESTIONS	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE	NO BASIS	SATISFACTION WITH BASIS *
6.	Field Examination of Loan Files (if applicable)—						
	a. The scope and goals of the examination were clearly communicated prior to the start.	7	17	2	0	31	
	b. The examiners conduct themselves professionally, are informed on current industry issues, and adequately trained and qualified.	9	16	1	0	31	
	c. Examiner findings conclusions are well-supported and concerns are clearly communicated at exit meetings.	9	10	1	0	37	
	Field Examination Composite Results	***15%***	***25%***	***2%***	***0%***	***58%***	***94%***

*With a large percentage of many respondents listing “no basis” a separate calculation was performed of those responding favorably divided by all responses with a basis.

Comments [Attach additional material if needed]: (exactly as written, with the exception of redacted employee names)
“I have received different levels of responsiveness, courtesy & assistance when I have called. I am also the General Manager of my company. We went through a broker change approximately one month after the 9/11/05 legislative changes. Unusually high activity is always experienced by the S&ML at these times. I understand slower processing results. The website is not very user-friendly. I don't have suggestions. I just manage to eventually locate info." "I am not the Mortgage Broker but I am married to & work closely with him. I also was involved in our recent examination so I felt I could answer questions 6a, b & c accurately." "The approximately 10 weeks from time my app was submitted to get license approval was entirely too long. Very frustrating when you have 2 loan officers who need to work, but have to wait on broker's license." (written in at Question 3d) "our company cannot renew online - big problem" "Processing of LO applications & changes is too slow." "As a broker we are not getting timely results when transfering a license or applying for a new one. It is almost impossible to get any information from a person, and the web information does not explain what is going on in the process. I was told that when a broker sponsors a loan officer for a new license that all correspondence goes to the applicant's home address. This makes no sense to me when the broker is responsible for the loan officer. As a real estate broker all correspondence came to me. I recommend that you at the least copy the broker."

"According to the recording on the SML automated system a new license is supposed to be issued in 3-5 weeks. In several instances our organization has had to wait 2-3 months to see that a license has been issued on the SML website. The least that you can do, if this is the case of most applications, is change the message on your automated system."

"Personnel remain professional but licensing from time of passing the test to issuance seems to be inefficient. Phone calls to the department from time to time result in getting a person who 'shows in their voice' that they are far too busy to deal with yet another phone call. The website is loaded with information but finding some documents for licensing are hard to find - Test/No Test Required in different places, etc."

"I'm also a Provider and my thanks to *(employee)*. He is always very helpful & professional. I wish license applications could be processed and issued quicker. I'm also a realtor & an ins. agent with experience dealing with TREC and TDI - you guys are doing great!"

"Department is easy to work with and helpful, maybe slightly overworked / understaffed. Otherwise very good! Thanks."

"I have had occasions to call the department and have always been treated very courteously and my questions answered; and if not knowledgeable then immediately transferred to someone with the knowledge to answer my questions. Very satisfied."

(written in by 3e) "maybe" and (written in by 4c) "most of the time"

"*(Employee)* was very informational and a wealth of knowledge. I feel comfortable where the state is heading on licensing and overall requirements for brokers. I see a need for layman type information instead of attorney typed requirements and reading – basic explanation of what is expected in plain and simple terms online or by letter."

"Specific requirements - for classes required, by new loan officers are not very clear. Finally my understanding of only state, fed. And SML compliance required. – It meets your requirements, but gives no basic/practical mortgage education for day to day loan origination."

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.

COMPLAINANT SURVEY -- 2008

	QUESTIONS	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE	NO BASIS
1.	Overall, I am satisfied with the effectiveness and responsiveness of the Department.	12	10	3	9	
	Overall Composite Results	35%	29%	9%	26%	
2.	Staff--					
	a. Accessible and provided helpful assistance in complying with licensing requirements.	12	10	2	5	2
	b. Knowledgeable and able to answer my questions.	11	10	3	4	4
	c. Helpful, courteous and responsive to requests.	10	11	3	5	3
	d. Demonstrates a willingness to assist.	10	13	1	6	3
	Staff Composite Results	34%	34%	7%	16%	9%
3.	Website--					
	a. Provides the information I need.	7	9	5	5	2
	b. Easy to use and well organized.	7	11	2	5	2
	c. Contains clear and accurate information.	6	12	1	6	2
	Website Composite Results	24%	39%	10%	20%	7%
4.	Communications--					
	a. Telephones, letters and e-mail are answered within a reasonable period.	13	13		8	
	b. Responses to my questions or concerns meet my needs.	9	10	4	9	1
	c. An explanation was given as to why the Department could not resolve my complaint.	5	8	4	6	6
	Communications Composite Results	28%	32%	8%	24%	7%
5.	Complaint Processing--					
	a. Requests for information were timely and clear.	11	9	4	7	
	b. My complaint was resolved within a reasonable period after all required information was submitted.	9	9	2	11	2
	c. The process was efficient and professional.	10	6	5	5	1
	Complaint Composite Results	33%	26%	12%	25%	3%
6.	Toll-free number 1-877-276-5550	YES	NO			
	a. Did you use the Department's toll-free hotline?	14	17			
	USE TOLL FREE NUMBER (31 responses)	45%	55%			
	b. If not, were you informed about the Department's toll-free hotline?	12	9			
	Use of Toll Free Number	57%	43%			

NOTES: Totals do not necessarily match total surveys received because some respondents did not answer all questions. Percentages may not total 100% due to rounding.

Comments [Attach additional material if needed]: (exactly as written, with the exception of redacted employee names and other identifying information)
Thank you for all your help! I wrote in about a mortgage Co. who sold me a house and basicly said my purchase was made but did not include taxes, on my house but on the land only, and I felt that as a home buyer with good credit they should have requested that the repayment should be over the life of the loan not call me back and hope for repayment within 60 – months. Because people make a purchase looking forward to making schedule payments for the rest of there life. NOT extra payments because someone could loose their home IF payment ARE NOT Met. So I gave name number time call and department my response written back to me was based on my conversation Not on re search, IF YOU HAVE any QUESTION Call or write. P.S. Because I felt that people are loosing home are Inflated and unexpected cost increase, so I still feel that I did NOT receive a service. Based on the first letter I received that said IF you wers treat unfair during purchase to Please us with you concern. I did and received little on no service. Thanks, I spoke on several occasions in 2006 and 2007 with *(employee)* from your investigations department. He was helpful and responsive with my complaint against (*mortgage company*) in Houston. Since early 2007 I have not attempted to communicate with him as I understand that the FBI has become involved with the case which involves mortgage fraud. (*mortgage company*) originated 2 loans for my wife on property in Houston. Both loans used false documents and stated that both properties would be occupied as primary residences. There are numerous other details about these transactions that led me to believe that someone at (*mortgage company*) was involved in the fraud. I understand that the 2nd title company involved – (*mortgage company*) has been forced to close, but (*mortgage company*) has not suffered any consequences as far as I am aware. I periodically receive notices from the TX Real Estate Commission concerning my complaint against an agent involved with the sales but have not heard from your agency in the past year. I thank you for your efficiency. The company refunded my money. Why enact laws, rules, or regulations if you have no intention of enforcing them. What valid purpose, other than collecting revenue to support the department, does the department have? It was a waste of my time, to inform the company of my concerns. I did not agree with the finding. P.S. You people need to start an investigation concerning how this mortgage company is involved in the National Mortgage Crisis falling America today. I think that it has a lot to do with it because of the people involved!

I have been forced to be in an literal relationship (slavery) by members of member of US government (elected Officials) Political croynism & bossism, The State of Texas knows full well who its for (The Bushes). Because I am black you bigots in Texas help people to persecute me. I didn't buy that house but people in Texas continue to persecute me and invade my privacy. I filed a civil rights complaint (US Govt) but the former attoney General Alberto Gonzalez is from Texas just like the Bushes. I am not satisfied in any way with the service getting yet back there of by the Texas Dept. of Savings & Mortgage Lending.

You have a usless bureaucracy. You have no problems abusing appraisers. But you Do absolutely nothing w/these useless brokers & lenders – You are a disgrace – spend money on enforcement instead of stupid surveys! Hire someone who isn't preprogrammed to say "we can't help" "we do nothing but collect our pensions"

Very appreciative of *(employee)*

The person I dealt with was not pleasant or personable. He really didn't listen to what I was saying – kind of rude. Including our emailed conversations for you to see.

We were lied to by (*loan officer)* with (*mortgage company*)

1. IR % much higher than quoted – Credit scores in high 700's.
2. payment – much higher than quoted
3. type of loan – Interest only – supposed to be fixed for 30 yrs.
4. Escrow wasn't supposed to be included
5. didn't include pool on our loan
6. told us NO money down at closing – we had to pay 1600 at closing & put money in our acct immediately per (*loan officer)* to process the loan per the lender.
7. He told us all our to do list would be completed by the builder before we moved in. We have filed a complaint with TREC and TRCC because the lender never finished our to do list.
8. (*Loan officer)* threatened me over the phone that even though we hadn't sold our home we were living in that we had to go ahead & buy this home that he was financing & building for us through (*builder)* no later than the 1st week of December 2006 or they would sell it to someone else. We had already put down 9,000 and drew up the plans of the home & picked out everything.

I mailed this complaint about 12/2/2006 and it was signed for on 12/4/2006 by *(name, but the agency has never employed an individual by this name)*. I never did hear anything on this complaint until I received you letter on January 11, 2008!

I was appalled there are NO licensing requirements for commercial lending entities. The "mafia style" way with which I was handled was disturbing. But it was much more disturbing to find I could not file a complaint and they have no requirements to be met professionally. This should be CHANGED.

The Department was not able to assist me; however company is appreciative of its existence.

(Employee) was out of the office (medical) I think. *(Employee)* took over. He was extremely curtions and professional. He had such a calm demeaner. He is an asset to your business. I hope you will persue (*loan officer)* further with an audit. He sent me a note "You will burn in hell" with his payment to me. (*Loan officer)*recently sent me a 1099 for taxes (money that was mine that he had to pay me back) saying he paid me out of his money.

On June 20, 2007 a message was left on my voicemail by someone with TDSML who identified herself as *(employee)* who asked me to return her call regarding the complaint I filed. I returned her call got voicemail but no returned call. I never received any information or feedback regarding my complaint. The matter of concerned was filed by me due to unethical and what I believed to be illegal actions of an employee at (*mortgage company*) in (*city*) Texas while refinancing my home due to divorce. During a court proceeding my ex husband's attorney used the cecision regarding Tx Dept. of Savings & Mortgage lending in their testimony and I nor my attorney had a copy of the document from your department. I have not been contacted by anyone from your department since the message left on my voicemail on June 20, 2007.

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING DID NOT ANSWER MY COMPLAINT. THEY DID NOTHING TO JUSTIFY GETTING ME CREDIT ON MY MORTGAGE SINCE *(national bank)* DID NOT APPLY THE PAYMENTS CORRECTLY. THEY ALSO INITIATE FORECLOSURE WITHOUT NOTIFY ME AS A HOMEOWNER. WHICH IS LIKE STEALING A PERSON HOME.

The problem / issue regarding our past loan has not yet been resolved. The house had major repairs that were not disclosed to us prior to closing. We became aware of them after the closing and they did not assist us w/ no one who could speak our language. The broker didn't not obtain the responsibility for the actions for the loan officer. The foundation is broken and is in need to be repaired. The mortgage is high enough they need to help us. They gave us two mortgages w/ two interest rates w/out explaining thoroughly the extent of our loan. The inspector passed the inspections knowingly there were problems w/ the house.

Without your help, I would have never received my money back.

Thanks for taking care of us

Customer Related Performance Measures

Goal C: Consumer Responsiveness represents the Department's commitment to responsiveness to consumers and all others served by the state’s thrift and mortgage origination industries. Agency-specific performance measures are shown below along with the required statewide standard measures:

Performance Measures	FY 2008 Goal
Outcome Measures-	
Percent of complaints, requests and inquiries answered within ten business days (agency key measure)	85%
Percent of surveyed customer respondents expressing overall satisfaction with services received (state standard)	88%
Percent of surveyed customer respondents identifying ways to improve service delivery (state standard)	8%
Output Measures-	
Number of consumer complaints completed (agency key measure)	1,000
Number of informational inquiries and requests completed (phone/written) (agency measure)	60,000
Number of customers surveyed (state standard)	376
Number of customers served (state standard)	26,000
Efficiency Measures-	
Average cost per consumer complaint completed (agency key measure)	$220
Cost per customer surveyed (state standard)	$1.50
Explanatory Measures-	
Number of customers identified (state standard)	23.5 million
Number of customer groups inventoried (state standard)	3