Fields of Opportunities

IOWA DIVISION OF BANKING

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IOWA DIVISION OF BANKING
Presentation to the Administration and Regulation Appropriations Subcommittee
February 15, 2011

Vision

- Promote the economic well being of Iowa by maintaining a regulatory environment that best assures the citizens of Iowa safe and sound banking, financial and professional services.

Mission

- Protect the interests of those doing business with banks, financial service providers and licensed professionals by ensuring safe and sound financial institutions that adhere to the laws and regulations of Iowa.

Overview

- The IDOB operates three separate Bureaus. The Bank Bureau supervises 311 state-chartered banks. The Finance Bureau licenses 493 companies (mortgage lenders; small loan companies; money services businesses; payday lenders; debt management companies; and beginning July 1, 2011, real estate closing companies) with 793 licenses and 1,175 mortgage loan originators. The Professional Licensing Bureau provides administrative support for seven boards which license and regulate 34,000 members of the following professions: engineering and land surveying, accountancy, real estate, architecture, landscape architecture, real estate appraisal, and interior design. The IDOB administers all of these programs with a combined spending appropriation of $9,499,000.

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IOWA DIVISION OF BANKING OVERVIEW
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Funding

- The IDOB uses NO tax dollars. The Division is fully funded by the industries it supervises and spends no state general fund revenue. Revenue generated from quarterly assessments to banks, application fees, and licensing fees covers the entire cost of the Division's operation. The quarterly assessments are made to cover the actual costs of the Division, which are authorized by an appropriation from the legislature.

IDOB Bank Bureau Facts

- Assets under the purview of the IDOB have **increased from 2000 to 2010 growing from $31.1 billion to $51.7 billion on 12-31-10, a 66% increase.**
- The banking industry in Iowa wants a strong regulatory program and expects superior performance from the IDOB.
    - The IDOB is the second longest accredited state banking department in the U.S. – first accredited in 1985. At the time of our last accreditation review in 2008, the IDOB was for the first time **the highest rated banking department in the U.S.**
    - The IDOB banking bureau undertook a reorganization process in 2000-2003, **resulting in the IDOB receiving the highest score of agencies in the Executive branch under the Iowa Excellence Program**, which utilized the Baldridge Criteria for Performance Excellence to assess agency quality.
- Our efficiencies have allowed the IDOB to offer a quality regulatory program at reduced cost to the industry. **The regulatory cost to be an Iowa chartered institution is 41% of the cost of a similar federally regulated institution.**
- **The regulatory cost of being an Iowa state chartered bank has declined from $198 per million dollars in assets in 2001 to $154 per million dollars in assets today.**
- Iowa has the third highest number of state-chartered banks in the U.S.; only Illinois and Texas have more.
- The IDOB currently regulates 311 (86%) of the 362 banks and thrifts headquartered in Iowa. This can be attributed in large part to the IDOB's understanding of how Iowa community banks operate and our strong reputation as a fair, knowledgeable, and experienced regulator. Iowa bankers want a strong regulatory program. It speaks well for the IDOB that so many of them have selected and continue to select the IDOB as their primary regulator.
    - Iowa banks have elected to be state-chartered for several reasons, including: reduced cost, more accessibility, strong industry outreach program, highly trained and experienced examination staff, coordinated examination program with federal regulators, commitment to providing high quality service to the banks we regulate, and additional powers granted to state chartered banks.
- There are 15 federal thrifts with total assets of $6.8 billion headquartered in Iowa. Due to the recently enacted Dodd-Frank Act, several federal thrifts, totaling $1.5 billion in assets, are considering conversion to a state charter. Iowa's largest commercial bank recently converted from a national charter to a state chartered institution under the IDOB supervision.

- Federal expectations have required us to expand our examination procedures to include Bank Secrecy Act exams, Information Technology exams, and limited scope compliance exams. We have also expanded our exam scopes for internal controls, liquidity, allowance for loan loss, and commercial real estate portions of the examination process.

Looking Forward

- The IDOB operates in an environment that runs contrary to the economy. When the economy is weak, the customers we serve – citizens, consumers, and banks – most need the resources of the agency.
- Of the 311 Iowa state chartered banks, 47 were considered "less than satisfactory" institutions on 12-31-10. This is an increase of 236% from the 14 "less than satisfactory" banks regulated by the IDOB on 12-31-08. There was only one "less than satisfactory" institution on 12-31-05.
- Banking is a highly-regulated industry and requires special skill sets of those who regulate it. All examiners and supervisors need to have an expanded knowledge of accounting and other business fields. **It takes approximately two years to train an examiner to the point they can productively contribute to the examination process**.
- Without reliable funding and adequate resources (staff and equipment) our ability to maintain such high standards, which benefits the community banks we regulate and the communities they serve, is jeopardized.
    - Having a reliable and adequate funding source is key to having a strong state banking department. This becomes especially important during periods of economic stress.
    - It would be unfortunate should Iowa lose its accreditation or its status as a leader in state bank regulation when we have one of the strongest community banking states in the entire U.S.—especially when the Iowa banking industry is willing to provide the funding to ensure a strong state bank regulatory program is maintained.

Human Resource Needs

- As economic conditions worsen, it takes more time to examine banks. **Examination hours increased by 12.16% during the past examination cycle** primarily due to deteriorating bank conditions. The total FTEs in the Bank and Finance Bureau on 12-31-08 were 68; this remained unchanged until three new examiners were hired during October 2010.
- Due to significant bank asset growth, substantial growth in the number of problem banks, expanded examination procedures, increased federal regulations, and the conversion of several federal institutions to state chartered banks, our human resources have become more and more strained to keep up with the increased workloads. During the next few years, **there is a high probability the number of examiners will need to be increased.**
- The FDIC's authorized risk management examination workforce increased from 1,423 Full-Time Equivalents (FTEs) in 2008 to 2,014 FTEs in 2010--**an increase of 42%**. During this same time period, **the IDOB has increased its bank examination staff by only four examiners or 8%**.
- Staff experience is one of the reasons the IDOB has been able to maintain high standards during the economic downturn. The average tenure of our staff is

approximately 18 years. The IDOB had no one participate in the early retirement program. However, we will see several of our most experienced examiners retire in the next several years. Currently, 51% of our staff will be eligible to retire in the next 10 years **with 32% eligible over the next five years**. Many of the IDOB's most experienced managers and technical experts will be among those retiring. It is important that the IDOB have the managerial and technical resources to effectively fulfill its mission and goals as those employees elect to retire.

- The IDOB has agreements with the FDIC and the Federal Reserve Bank of Chicago regarding the frequency of bank examinations. For banks with CAMELS ratings of "1" of "2" examinations are conducted on an alternating basis with the federal authorities at least every 18 months. Examination frequency increases to semi-annually or annually as CAMELS ratings decline. **Even if the number of problem banks does not increase from present levels, it will be difficult for our staff to meet all mandates given the general deterioration in the economy and the need to complete examinations of federally chartered institutions desiring to convert to a state charter**.
- In the worst case scenario, if we are unable to meet the statutory mandate of examining a bank at least every 24 months, the state could face liability if the bank were to fail.
- We must ensure our staff has the necessary skill sets to accomplish our mission. This has been accomplished through our strong training program. Much of our training cannot be obtained internally. We work in conjunction with the Conference of State Bank Supervisors, the FDIC, and the Federal Reserve to obtain the specialized training required by our staff. Since we exchange reports with the federal regulators and in some instances conduct joint examinations with the federal regulators it is necessary we follow similar examination practices. Bank regulators operate in a rapidly changing environment which requires continual learning and training. Failure to properly train will reduce both our effectiveness and efficiency.
- Currently, 60 employees of our staff hold professional certifications administered under the auspices of the Education Foundation of State Bank Supervisors. Several of our staff have obtained multiple certifications. If training courses to meet certification continuing education credits can not be funded, the certification status of our examination staff would be jeopardized.

Conclusion

- The importance of maintaining the dual banking system is particularly important to Iowa. Iowa needs to keep small community banks. They are often the main economic driver for many communities. If we were left with only large banking entities, it is doubtful they would keep banks or bank offices in many of the Iowa communities currently served by a locally owned bank. Without Iowa ownership of community banks, the communities will suffer.
- The failure to maintain a strong state banking system which includes a strong regulatory oversight program would be detrimental to the citizens, consumers, banks, and businesses in Iowa.

Administration and Regulation Subcommittee
Questions for Department Heads – Iowa Division of Banking
Dept 213 - Banking and Finance Bureaus
Dept 217 – Professional Licensing Bureau (PLB)

1. What is the core mission of your department?
Dept 213 and Dept 217
To protect the interests of those doing business with banks, financial service providers and licensed professionals by ensuring safety, soundness and adherence to the laws and regulations of Iowa.

2. What is the effect of Senate File 2088 (State Government Reorganization Act) on your Department?
Dept 213 –
- Code Section 8A.202 requires the consolidation of all State IT services. The IDOB relies heavily on our highly specialized IT programs and industry focused IT staff. We believe that a waiver would be in the best interests of the state.
- The span of control target ratios in Division V are unworkable for our operation as developed by our reorganization. Please see question 9.

Dept 217 -
- In order to utilize electronic mail or similar electronic means to send renewal notifications to holders of licenses or permits, the PLB has begun requesting e-mail addresses be provided by its licensees.
- The span of control targets would require the PLB to seek an appropriation unit waiver in consideration of the total number of PLB employees which equals 12.

3. How many employees do you have? **Dept 213** - 72 **Dept 217** – 12

4. How many merit employees? **Dept 213** – 0 **Dept 21**7 – 12

5. How many employees are covered under collective bargaining agreements?
Dept 213 – 0 **Dept 21**7 – 0

6. How many department FTEs are federal funded? **Dept 213 and Dept 217** - 0

7. Have there been any recent reclassifications of individuals in your department? How many and what were the changes?
Dept 213 - In June 2010 we reclassified one admin position and one IT position to bank examiner classifications. We also classified one new authorized position to a bank examiner.
Dept 217 - None

8. Does your department receive federal funds? If so, what is the State match?
Dept 213 and Dept 217 - We receive NO federal funds.

9. Can divisions within the department be merged to create greater efficiencies?
Dept 213 underwent a reorganization that began in 2000 and was completed in 2003. A summary of the results includes:
- Division was made more effective, efficient, proactive, and flexible.
- Roles and responsibilities of all positions in the Division were analyzed.
- A departmental structure including reporting relationships were developed to support our processes
- Career development program designed that provides training which promotes performance excellence.
- Rec'd the highest score of Executive Branch agencies under the Iowa Excellence Program (Baldridge Study)

Dept 217 - In SFY 2007, the Professional Licensing Division became a bureau of the Iowa Division of Banking to create greater efficiencies.

Questions for Department Heads – Iowa Division of Banking (Continued)

10. How much department revenue comes from other state agencies?
Dept 213 – 0
Dept 217 - $62,317 is provided by the Housing Trust Fund of the Iowa Finance Authority for a Trust Account Auditor.

11. How much department revenue is fee-based?
Dept 213 -
All the operating expenses are reimbursed dollar for dollar via quarterly assessments and fees. No tax dollars are used to support operations.
Dept 217 - The PLB deposits approximately $1.2 million each year to the general fund. According to Chapter 546.10(3), the Bureau is allowed to keep a portion of its fees collected for purposes related to the duties of the board or commission

12. For FY 2011, describe the department's current budget situation. Do you expect any savings?
Dept 213 - The basic budget is a status quo budget consistent with the prior two years. The only difference for 2011 is special spending authority to replace laptops. Industry best practices recommends replacement every 3 years to remain compatible with other regulators with whom we share information. Our current laptops are on their 4th year after our request was denied in 2010. We have put substantial effort into finding any savings that we could for these three years to live within a status quo budget with increased personnel costs and increased travel expense.
Dept 217 - Although the bureau's efficiencies, cost saving measures and reduction of its staff by 20% will help reduce the impact of this cut, it may become necessary to make more changes.

13. For budget line items that have only used 10-20% of their allocations so far, do you expect any savings?
Dept 213 – No
Dept 217 - No. Any additional savings from those budget lines will offset losses from other budget lines, incurred to accommodate the $162,250 reduction in SFY2011.

14. How does House File 45 (Taxpayers First Bill) impact your department?
Dept 213 -
- IT spending for the rest of this FY – the House version might limit our ability to purchase the laptops mentioned in item #12.
- Possible limit on office supply spending
- Travel – the Senate version of the bill would limit the IDOB's out of state travel because as written, the limit applies to any travel funded at all by anything other than federal funds. (The House version only applies to GF funded travel.) Both versions look like they only apply this fiscal year. The Senate version does have some parameters for getting a waiver of the ban. We need to be able to travel out of state travel for some exams, some training and regulatory meetings.
- Both the Senate and House versions address the state fleet. The IDOB has 21 vehicles. The impact of leasing and the outsourcing of fleet services is unknown at this time.

Dept 217 -
- Under HF45 PLB will not be able to transition available funds to necessary areas to meet our required functions.
- A waiver will be submitted to waive the limitation on expenditures made for information technology in order to continue with the enterprise initiative of moving to the AMANDA licensing system from its current antiquated system.
- The bureau anticipates the necessity of submitting waivers for out of state travel in order for the professions to continue to meet their required functions and continue to protect the public.

15. Were any American Recovery and Reinvestment Act (ARRA) funds used in FY 2011?
Dept 213 and Dept 217 - No

16. Did the Department receive any Appropriations Transfers in FY 2011? **Dept 213 and Dept 217** - No

Iowa Division of Banking

Year	Number of Employees	Assets Supervised In Millions
1982	87	$16,671
1983	92	$18,011
1984	96	$19,349
1985	93	$19,757
1986	103	$20,726
1987	108	$20,749
1988	112	$20,897
1989	107	$21,537
1990	95	$22,689
1991	86	$23,472
1992	84	$22,980
1993	83	$23,717
1994	83	$23,995
1995	78	$25,292
1996	74	$26,986
1997	70	$28,827
1998	74	$31,910
1999	73	$32,141
2000	72	$31,068
2001	69	$31,191
2002	64	$32,571
2003	61	$33,824
2004	61	$36,125
2005	63	$38,244
2006	80	$40,945 *
2007	81	$42,367
2008	83	$45,556
2009	81	$50,651
2010	84	$51,699

*Added Professional Licensing Bureau in 2006