Dear Administration and Regulation Committee Members:

Division of Banking expense reductions result in an equal cut in revenue. The Banking Division collects fees from the entities it regulates as its entire revenue stream. Iowa Code prohibits the use of this revenue from any use other than regulation of the banks and other licensees of the division. The division assesses the state banks each quarter for the money it has spent in the previous quarter. Iowa Code Section 8.60 states "Money credited to or deposited in the general fund of the state after July 1, 1993, which under law were previously collected to be used for specific purposes, or to be credited to, or to be deposited to a particular account or fund shall only be used for the purposes for which the moneys were collected, including but not limited to moneys collected in accordance with any of the following provisions: .... Banking revolving fund.... Professional licensing revolving fund...." The bottom line is that appropriations and expenditures of the Division of Banking has no net effect on the state General Fund.

This is a terrible time to reduce resources for the regulation of the financial industry. Banks, finance companies, and mortgage companies facing difficult times require more examination resources, not less. As we face some of the most difficult economic times in the last 70 years, it seems imprudent to lay off examination staff, especially when it provides no relief to the general fund revenue shortfall.

The current economic and budget situation is exactly the reason the regulatory agencies of the Commerce Department are funded by their regulated entities and not by general tax revenue. The regulated entities always require more scrutiny during times of economic stress, and that always coincides with general tax revenue reductions. The regulators' revenue stream is independent of tax revenue to insure proper funding of regulatory oversight in times of economic downturn.

Reducing regulatory resources during an economic downturn is bad public policy. There is significant momentum for reform of financial regulation at the federal level. If states make substantial cuts to their regulatory resources the federal regulators will be able to destroy the dual banking system and we will lose the vast majority of state chartered community banks. This will hurt Iowa's economy and make it more vulnerable to more radical swings in credit availability and payment services.

Sincerely,

Tom Gronstal

Tom Gronstal
Superintendent of Banking

8.60 Use of designated moneys.

Moneys credited to or deposited in the general fund of the state on or after July 1, 1993, which under law were previously collected to be used for specific purposes, or to be credited to, or be deposited to a particular account or fund shall only be used for the purposes for which the moneys were collected, including but not limited to moneys collected in accordance with any of the following provisions:

1. Pari-mutuel regulation fund created in section 99D.17, Code Supplement 1993.
2. Excursion boat gambling special account pursuant to section 99F.4, subsection 2, Code Supplement 1993.
3. Milk fund created in section 192.111, Code Supplement 1993.
4. Commercial feed fund created in section 198.9, Code Supplement 1993.
5. Fertilizer fund created in section 200.9, Code Supplement 1993, and moneys collected for the administration of chapter 201A relating to the regulation of limestone products which were deposited in the fertilizer fund pursuant to section 201.13, Code 1993 and Code 1995.
6. Pesticide fund created in section 206.12, Code Supplement 1993.
7. Motor vehicle fraud account pursuant to section 312.2, subsection 13, Code Supplement 1993.
8. Public transit assistance fund pursuant to section 312.2, subsection 15, Code Supplement 1993, and section 324A.6, Code Supplement 1993.
9. Salvage vehicle fee paid to the Iowa law enforcement academy pursuant to section 321.52, Code Supplement 1993.
10. Railroad assistance fund created in section 327H.18, Code Supplement 1993.
11. Special railroad facility fund created in section 327I.23, Code Supplement 1993.
12. State aviation fund created in section 328.36, Code Supplement 1993.
13. Marine fuel tax fund created in section 452A.79, Code Supplement 1993.
14. Public outdoor recreation and resources fund pursuant to section 461A.79, Code Supplement 1993.
15. Energy research and development fund created in section 473.11, Code Supplement 1993.
16. Utilities trust fund created in section 476.10, Code Supplement 1993.
17. Banking revolving fund created in section 524.207, Code Supplement 1993.
18. Credit union revolving fund created in section 533.67, Code Supplement 1993.
19. Professional licensing revolving fund created in section 546.10, Code Supplement 1993.

93 Acts, ch 131, §1; 94 Acts, ch 1107, §32; 94 Acts, ch 1199, §64; 96 Acts, ch 1096, §1, 15; 96 Acts, ch 1219, §34; 2000 Acts, ch 1224, §22, 32

Effects of examination resource reduction

During calendar year 2008 the Banking Bureau expended approximately 47,000 examination hours. The examination hours did not include travel time to the banks. As economic conditions worsen, it takes more time to examine banks. The IDOB has agreements with the FDIC and Federal Reserve Bank of Chicago regarding the frequency of bank examinations. For banks with CAMELS ratings of "1" or "2" examinations are conducted on an alternating basis with the federal authorities at least every 15 months. Examination frequency increases to semiannually as CAMELS ratings worsen. The IDOB will have difficulty complying with its agreements in FY2010 under the Governor's recommended budget. During the next few years there is a high probability that the number of examiners will need to be increased. The FDIC plans to increase its staff 30% over the next two years. If 10% of our banks were downgraded to a composite "3" CAMELS rating it is likely that our required examination frequency would increase by 20,000 hours.

The Finance Bureau uses about 600 hours per year in its examination of delayed deposit service providers, small loan companies, mortgage originators, and debt management services. These entities need regular examinations to ensure compliance with Iowa consumer protection laws. Staff reductions will reduce the frequency of examinations and invite non-compliance with Iowa law.