Department of Financial Institutions Budget Hearing

December 5, 2014

Customer-Focused Government Goals

	Depository Institutions	Non-Depository Institutions
Key Operational Goals	• Examine all state-chartered banks and credit unions, as required by T.C.A. Section 45-2-1602 and 45-4-1002, during FY 2015 independently or jointly with the FDIC, Federal Reserve or the NCUA.	• One hundred percent (100%) of all high-risk non-depository financial institutions regulated by the Compliance Division will be examined at least once each fiscal year in accordance with the Risk-Focused Exam Program. Those companies that present the least amount of risk will have their exam frequency extended beyond twelve months.
Strategic Initiatives	• Enhance the ability of the department to establish a regulatory balance between providing the public with a sound system of depository financial institutions and providing these institutions the opportunity to be in a position to contribute to economic progress.	• Monitor and improve the department's Risk-Focused Regulatory program that is intended to establish a risk-profile on non-bank companies per risk-weighted benchmarks in order to place more exam focus on those companies presenting the greatest risk.

Department of Financial Institutions Successes

Exam efficiency

- Reduced turnaround time on getting bank exams to boards of directors from 117 days to 45.
- Made recent progress on Credit Union exam turnaround time. Current time is at 32 days with a target being 30.

Risk-focused exams of non-deposit licensees

- Allows the department to focus more attention on high risk operations. These exams initially determined by application of a screening process that 516 locations out of nearly 5,000 locations were high risk and warrant expedited exams rather than exams being randomly scheduled.
- Enhanced focus on consumer protection.
- Allows some reduction of unnecessary regulatory burden on low risk companies.
- Provides department with more flexibility in determining number of examiners needed.
- Will allow for a greater understanding of risk per company and per industry.

Department of Financial Institutions Successes

Conducted LEAN events on quarterly basis

- Further defined Regulatory Balance.
- Improved Credit Union exam report processing.
- Created an application process for trust company formation pursuant to statutory changes.
- Streamlined consumer complaint handling process and reduced electronic storage cost.

Issued first-time guidance to the public on the use of virtual currency

Creation of new funding model for non-bank licensees

- Facilitates risk focused exam program.
- Department to establish budget and call in what is required on a fairer basis, rather than relying in part on number of exams completed.

Promoting Tennessee as a preferred state for family trust company formation

Supporting the improving condition of community banks

Department of Financial Institutions Challenges

Retaining experienced examiners

- Experience critical to establishing regulatory balance.
- 45% of Bank Examiners have 5 or less years of experience.
- Progress made in reduction of turnover rate.

Federal regulatory environment

- Amount and complexity of regulation not right sized to risk profile of small banks and credit unions.
- One size fits all regulation can take discretion away from examiners.
- Increased cost to industry.
- Department is attempting to have a greater impact on Federal consumer compliance regulation.
- Assisting institutions in establishing compliance with large amount of new Federal regulation.

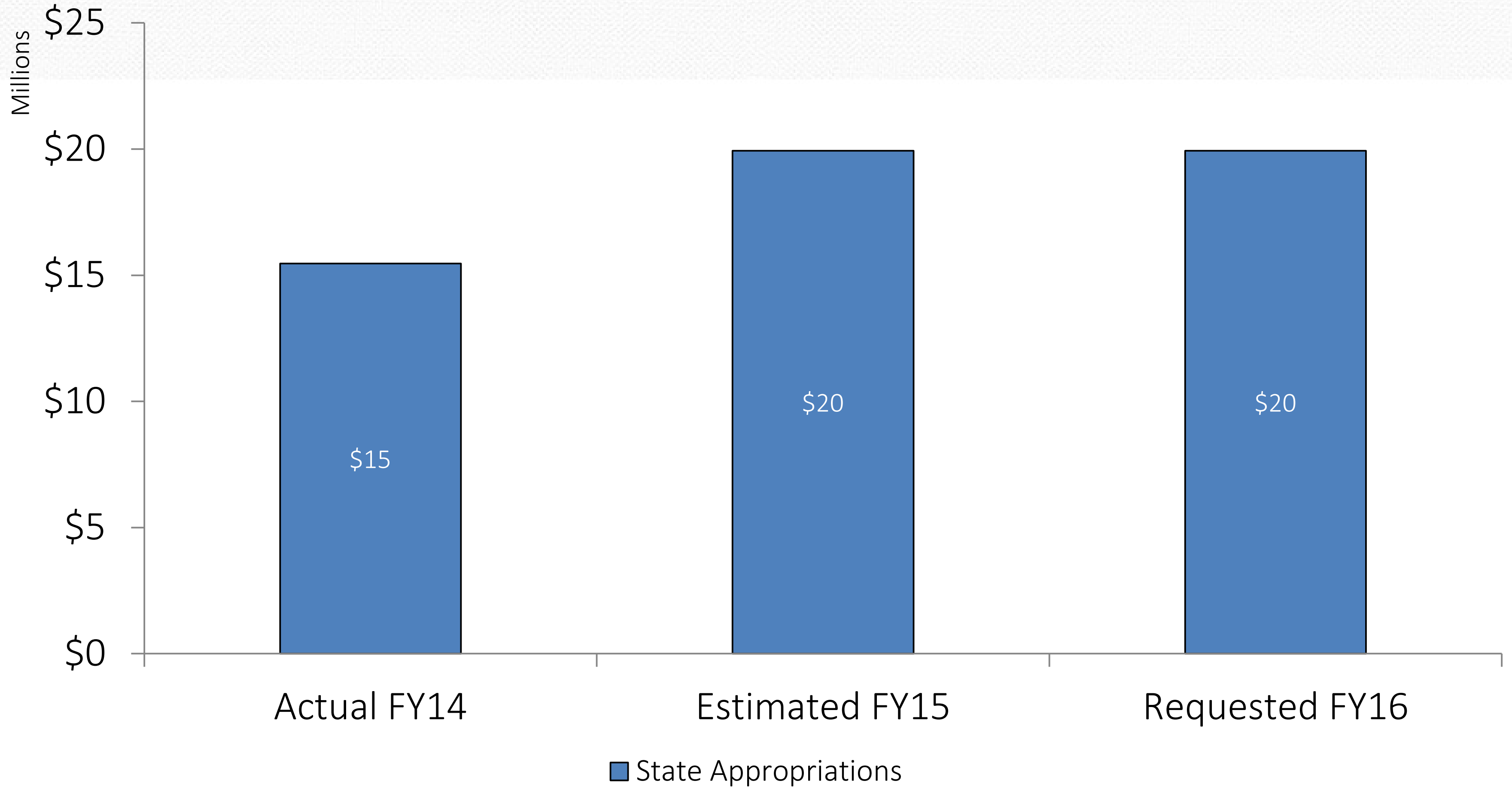
Department of Financial Institutions Challenges

Information technology (IT)

- Cybersecurity is a constant challenge for IT to ensure that the Department's confidential information remains secure whether the information is in transmission or being stored in a database.

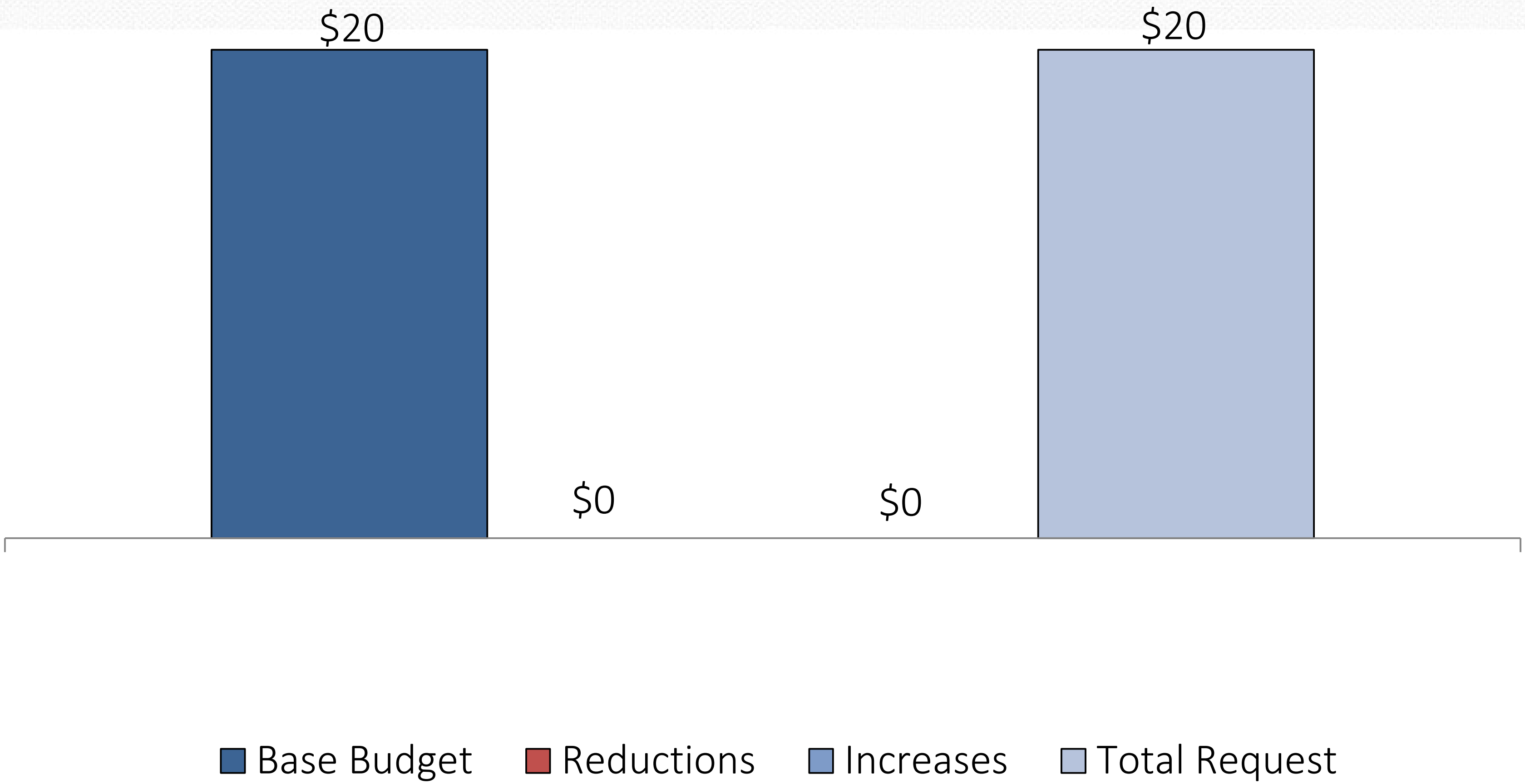
Credit Union regulation funding mechanism does not relate to budget needs

Revenue Sources



Request Summary

State Appropriations (in millions)



Department of Financial Institutions Efficiencies

Finding Efficiencies Within Our Existing Budget	FY 15 Potential Savings
Maximizing Mortgage Settlement dollars to fund IT initiatives	$173,000
MVM lease car program continues to provide savings	$137,000
Rent savings from T3 Moves/Office Consolidation	$95,000
Bank examiner turnover down 2% which equates to approximately one position	$100,000
Eliminated department wide conference	$38,000
Scaled back discretionary travel	$8,000
Total Potential Annualized Savings	**$551,000**

Authorized Positions