



Office of the State Bank Commissioner

Overview of the Office of the State Bank Commissioner

House Financial Institutions Committee

Deryl K. Schuster, Bank Commissioner

January 20, 2015

Agency Structure

- The Office of the State Bank Commissioner is divided into five main areas:
 - Division of Banking and Trust
 - Division of Consumer and Mortgage Lending
 - Legal
 - Administration
 - Information Technology
- Employ 106 full-time staff
- The OSBC is a fee funded agency, paid for by bank assessments and licensing fees
- FY 15 Budget - \$10,922,600



Administration

- **Annual Budget**

Preparation of Budget

- **Financial Accounting System**

Financial Reporting & Forecasting

- **Human Resource Function**

Personnel Policies and Benefits

- **Other**

Facilities & Fleet Management



Legal

- **Legal Research/Writing/Opinions**
- **Administrative Actions/Judicial Review**
- **Legislative and Regulatory Matters**
- **Human Resources, Contracting Support, and Other Support**

Information Technology Responsibilities

- **Local Area Networks and Servers**
- **Databases**
- **Internet Website (osbckansas.org)**
- **Telecommunications**
- **Security and User Policy**
- **Technical Support**
- **Purchasing and Planning**



Office of the State Bank Commissioner

Overview of the Division of Banking

House Financial Institutions Committee

Judi M. Stork, Deputy Commissioner

January 20, 2015

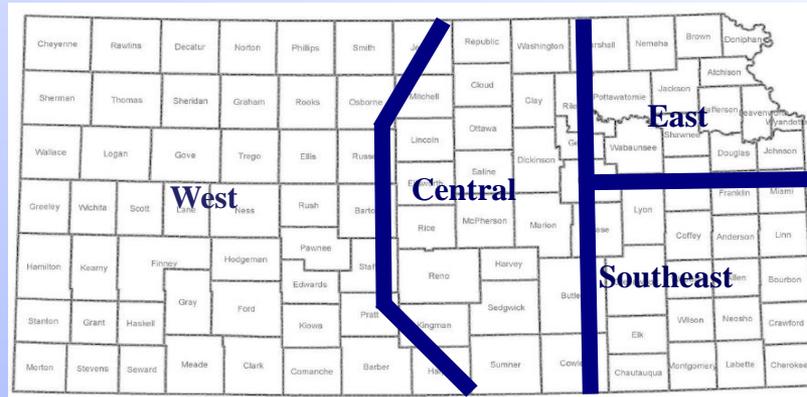


Division of Banking

Supervisory Duties

- Examine all banks and trust companies once every 18 month period
- Alternate examinations with the FDIC and FRB
- Conduct joint examinations with the FDIC and the FRB
- Supervise 225 state chartered banks, 41 active trust departments, and 10 trust companies (as of 1-16-15)
 - Total bank assets under supervision as of 9-30-14 were \$36,051,000,000
- Regulate and examine 80 money transmitter companies

Division of Banking and Trust



West Region

- 54 banks
- **Field Offices:** Dodge City & Hays

Central Region

- 70 Banks
- **Field Offices:** Salina & Wichita

East Region

- 65 banks
- **Field Offices:** Lenexa & Topeka

Southeast Region

- 36 Banks
- **Field Office:** Erie

Trust

- **10 Trust Companies & 41 Active Trust Departments**
- **Field Offices:** Topeka & Overland Park



Division of Banking Examination Process

CAMELS

C – Capital

A – Assets

M – Management

E – Earnings

L – Liquidity

S – Sensitivity to Market Risk

CAMELS – Banks are rated on a scale of 1 to 5, with a 1 rating as the best and a 5 rating as the worst. Each component is rated and an overall composite rating is assigned.

For example, a bank could be rated 1-2-2-2-2-1 Composite – 2

Division of Banking

- Problem institutions are considered to be those rated 3, 4, or 5 and possess unsafe or unsound practices.
- Enforcement Actions:
 - Board Resolution
 - Memorandum of Understanding
 - Cease and Desist Order (formal)



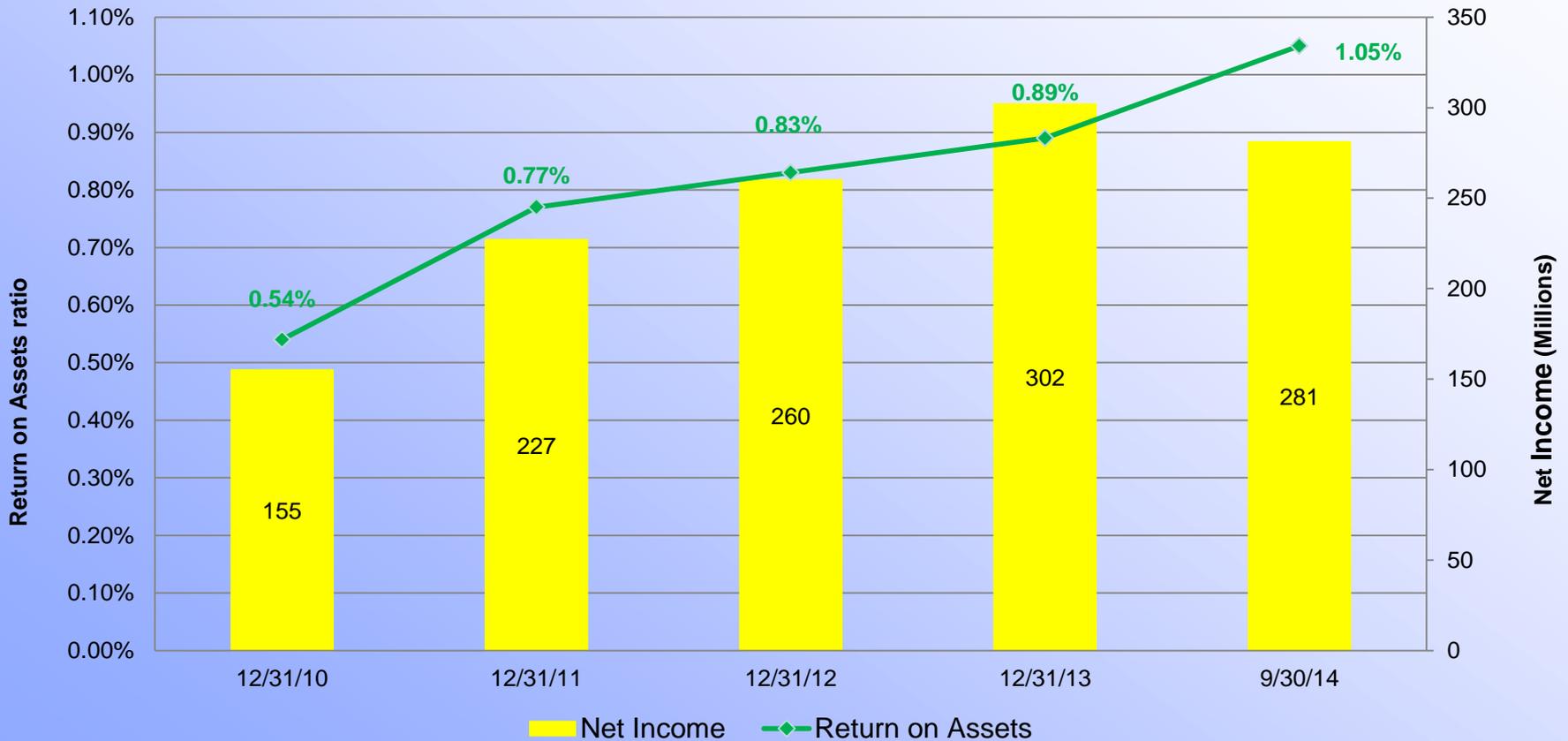
Division of Banking

Kansas State-Chartered Bank	9/30/14	12/31/13	12/31/12
# of State-Chartered Banks	226	227	229
# State Federal Reserve Member Banks	47	44	43
Total State Bank Assets (millions)	\$36,051	\$34,575	\$32,953
Average Bank Size (millions)	\$160	\$152	\$144
Median Bank Size (millions)	\$89	\$85	\$80
% of Unprofitable Institutions	4.41%	4.85%	5.26%

National Banks in Kansas	9/30/14	12/31/13	12/31/12
# of National Banks	43	49	57
Total Assets of National Banks in Kansas (millions)	\$16,285	\$16,799	\$18,278

Division of Banking

2014 Performance – Kansas State-Chartered Banks



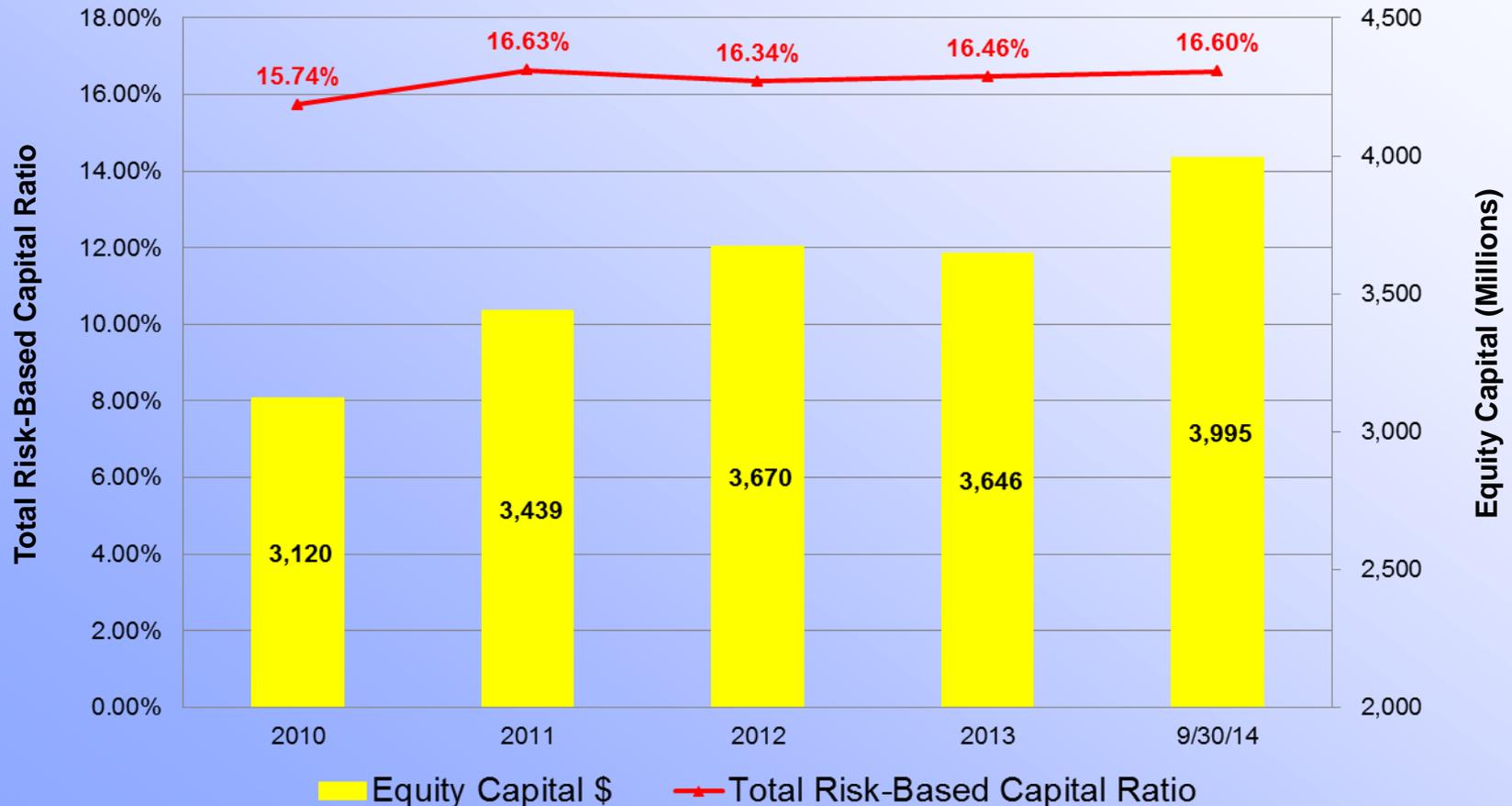
216 banks (95%) recorded positive earnings --- 10 banks (5%) recorded a net loss



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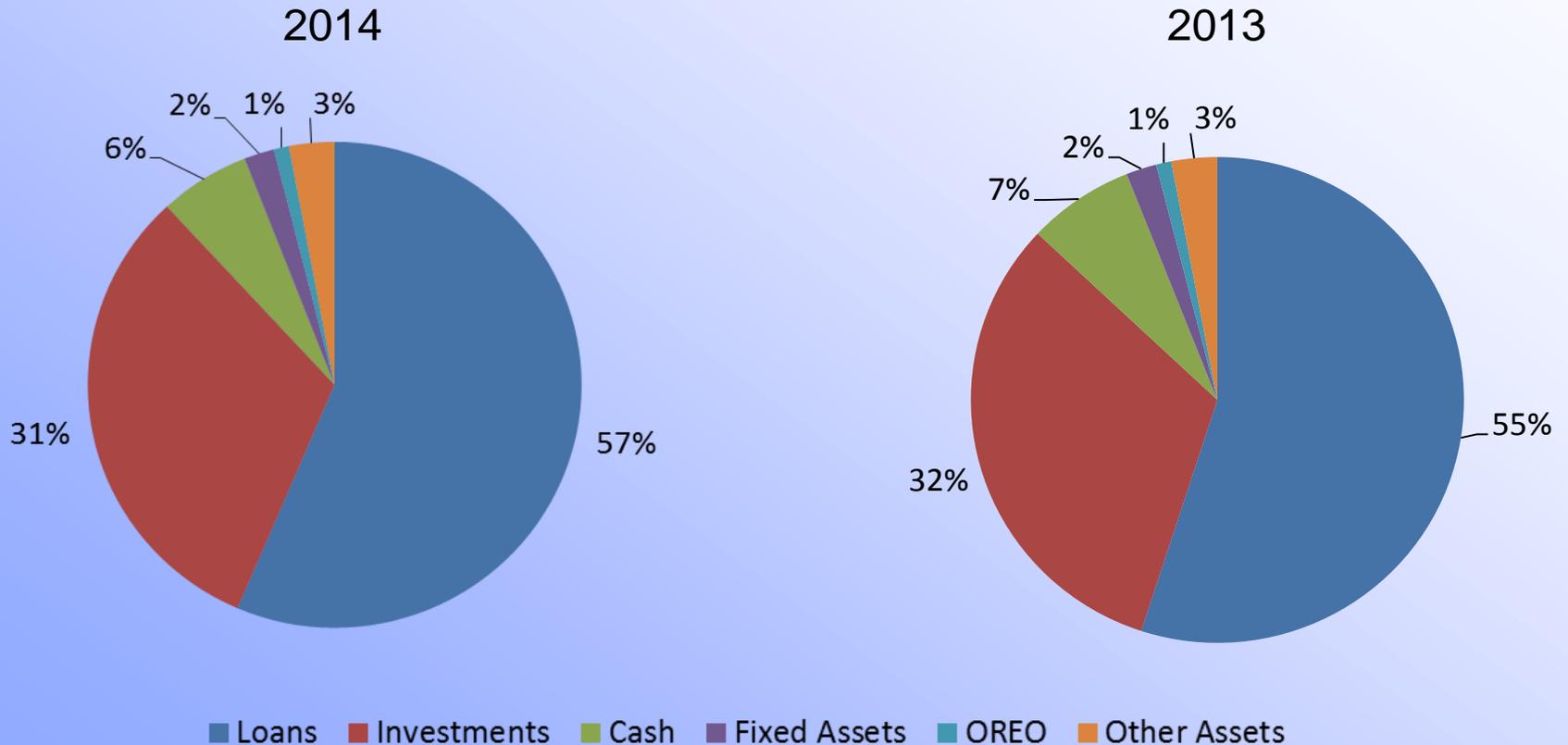
Division of Banking

Kansas State-Chartered Banks – Capital Levels



Division of Banking

Kansas State-Chartered Banks Asset Mix





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Division of Banking

5 Largest Kansas State-Chartered Banks

Rank	Bank	City	\$ Assets (000)
1	Emprise Bank	Wichita	\$1,515,202
2	KS StateBank	Manhattan	\$1,192,276
3	Equity Bank	Andover	\$1,168,959
4	CrossFirst Bank	Leawood	\$1,105,514
5	CoreFirst Bank	Topeka	\$926,432

5 Smallest Kansas State-Chartered Banks

Rank	Bank	City	\$ Assets (000)
222	State Bank of Burrton	Burrton	\$10,450
223	Towanda State Bank	Towanda	\$9,637
224	Bison State Bank	Bison	\$9,463
225	The Walton State Bank	Walton	\$8,944
226	Tightwad Bank	Osage City	\$4,860



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Division of Banking

State-Chartered Bank Ratings

Date	Not Rated	1	2	3	4	5	Total / 3-4-5
12/31/12	3	67	138	12	7	2	229 / 21
12/31/13	7	66	137	10	6	1	227 / 17
12/31/14	5	68	139	8	4	2	226 / 14



Division of Banking

Kansas State-Chartered Bank Examination Trends

Year	Visitations			Joint Examinations			Independent OSBC Examinations			Total Examinations
	OSBC Lead	Federal Lead	Total Visitations	OSBC Lead	Federal Lead	Sub-Total	Regular	Conversion	Sub-Total	
2012	15	13	28	17	23	40	56	4	60	100
2013	8	11	19	12	15	27	67	6	73	100
2014	5	16	21	11	11	22	70	4	74	96

KSIMS reports as of 12/31/14



Division of Banking

State Charter Conversions

2013 Conversions – \$1,303,626,000

- FirstOak Bank, Independence – \$85,198,000
- Citizens Bank of Kansas, Kingman – \$224,741,000
- Farmers Bank & Trust, Great Bend – \$652,339,000
- Prairie Bank of Kansas, Stafford – \$113,847,000
- Bank United, Natoma - \$111,913,000
- First Heritage Bank, Centralia - \$115,588,000

2014 Conversions – \$543,682,000

- New Century Bank, Belleville – \$24,535,000
- First National Bank, Wamego – \$152,431,000
- St. John National Bank, St. John – \$86,120,000
- CornerBank, Winfield – \$280,596,000

Division of Banking

Money Transmitters

- Money transmission business is the transferring of funds on behalf of the public within this country or to locations abroad.
- Regulated transactions include money orders, stored value cards, online payments, mobile transfers, and wire transfers.
- Money transmitters are required to renew their license annually.
- Staff have examination procedures and examine licensed money transmitters and their agents.
- The agency has additional enforcement authority to address violations of the Money Transmitter Act.

Division of Banking Money Transmitters



Year	Total # Supervised MTs	Total # Kansas Agents	# Kansas Based MTs	# Exams
2011	61		4	5
2012	65	5,867	2	12
2013	66	5,993	2	14
2014	80	7,037	2	17



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Division of Banking

Trust Companies & Departments

Trust Companies - 10

Trust Departments - 41

\$41,500,000,000 of Trust Assets
in Kansas State-Chartered Trust Departments & Companies

5 Largest Trust Companies and Departments

Trust Company	City	Trust Assets
Midwest Trust Company	Overland Park	\$10,280,704,000
Benefits Trust Company	Overland Park	\$8,105,219,000
First Trust Company	Onaga	\$6,979,476,000
Brotherhood Bank & Trust	Kansas City	\$5,281,988,000
Great Plains Trust Company	Overland Park	\$2,382,506,000

Division of Banking

The division is accredited by the Conference of State Bank Supervisors. We are subject to:

- Annual Reviews
- Annual Profile Survey; 7 sections spread consecutively throughout the year
- Reaccreditation every 5 years
- Full Reaccreditation review will occur in 2015



Division of Banking Application Process

- Bank Branch – 6
- Trust Service Office – 1
- Change of Control – 5
- Charter Conversion – 4
- Merger / Purchase and Assumption – 12
- Name Change – 1
- Office Relocation – 11
- Fiduciary Powers – 1

Applications processed for 2014



Office of the State Bank Commissioner

Overview of the Division of Consumer and Mortgage Lending

House Financial Institutions Committee

Jennifer R. Cook, Deputy Commissioner

January 20, 2015



Office of the State Bank Commissioner

Role of the Consumer and Mortgage Lending Division

- The Consumer and Mortgage Lending Division (CML) has two primary responsibilities:
 - License non-depository entities that conduct mortgage business, provide consumer credit or provide debt management services. The CML Division is fully funded through licensing application and renewal fees and annual report/volume fees. A list of entities licensed with the OSBC is available on the agency's website.
 - Examine entities licensed by the Division for compliance with state and federal law.
- Administer grants to support consumer education and awareness.
- Respond to consumer questions and concerns.



Office of the State Bank Commissioner

CML State and Federal Laws

The Consumer and Mortgage Lending Division supervises and enforces the following state and federal laws:

- Uniform Consumer Credit Code (UCCC)
 - K.S.A. 16a-1-101 to 16a-9-102
- Kansas Mortgage Business Act (KMBA)
 - K.S.A. 9-2201 to 9-2220
- Credit Services Organization Act
 - K.S.A. 2004 Supp. 50-1116 to 50-1135
- Federal Regulation Z (TILA)
- Federal Regulation X (RESPA)
- Federal Regulation B (ECOA)
- Federal Regulation CFR Part 232 (DoD)
- Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act)
- Dodd-Frank Wall Street Reform and Consumer Protection ACT (CFPB Regulations)



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CML State Laws

Uniform Consumer Credit Code (UCCC)

- The UCCC is the primary state law that governs consumer loans and credit sales.
- The UCCC defines how credit transactions may be structured, what information must be provided to the consumer, and limitations on fees, interest, and other charges.

Kansas Mortgage Business Act (KMBA)

- The KMBA regulates non-depository mortgage lending, brokering, servicing and loan origination in Kansas. Many of the provisions of the KMBA were modified following passage of the SAFE Act in 2009 by Congress. The SAFE Act set new requirements for loan originators and mortgage lenders.

Credit Services Organization Act (CSOA)

- The CSOA governs credit services organizations/debt management services that operate in Kansas for a fee or compensation. CSOs are generally non-profits that help consumers develop a budget, develop and implement debt payment arrangements, and provide financial education resources. CSO fees are limited by statute.



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CML Licensing Activity

<u>Entity</u>	<u>Licensees as of 6/30/13</u>	<u>Licensees as of 6/30/14</u>	<u>Net New</u>	<u>% Change</u>
Mortgage Companies	229	234	5	2.2%
Mortgage Company Branches	226	279	53	23.0%
Supervised Lenders ¹	364	377	13	3.6%
Supervised Lender Branches	623	622	-1	-0.01%
Loan Originators	2,499	3,470	971	38.9%
Credit Services Organizations	35	35	0	0.0%
Notification Filers ²	<u>2,443</u>	<u>2,519</u>	76	3.1%
Total Entities:	6,419	7,536		

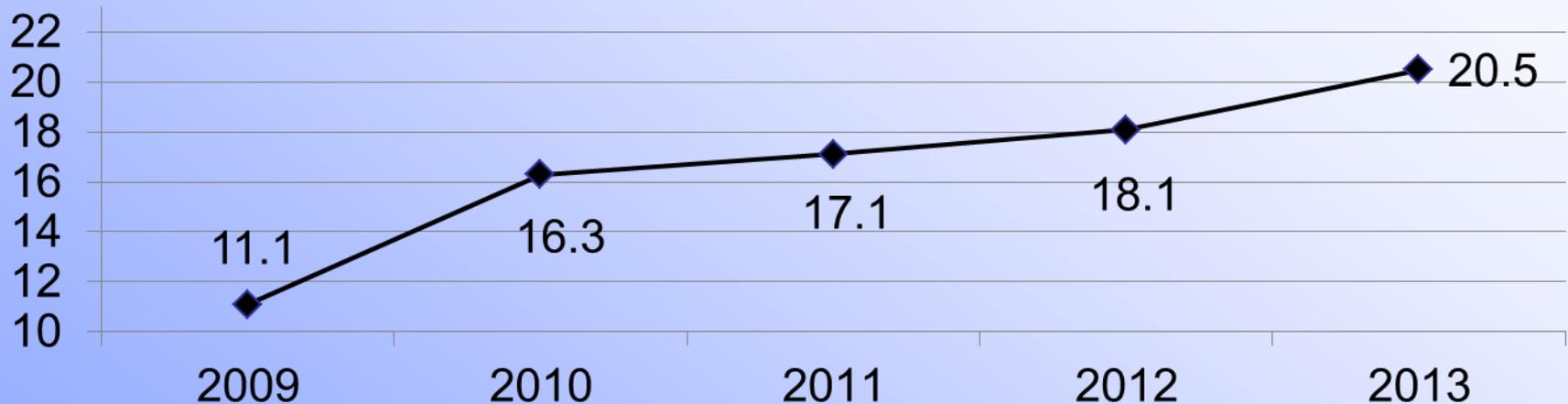
¹Lenders that make or take assignment of loans with an APR that exceeds 12%. Includes mortgage companies licensed under the UCCC, finance companies, payday lenders, title loan lenders and debt buyers.

²Creditors that enter into consumer credit transactions (credit loan, sale or lease), take assignment of and undertake collection of payments, or take assignment of and enforce rights against debtors arising from the consumer credit transactions. Loans must be less than 12% APR. Notification filers include buy here/pay here auto dealers, furniture stores, jewelry stores, and funeral homes.



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Total Kansas Loan Volume¹ (in Billions, as of last annual report)



¹Loan volume includes: mortgage loan originations, acquisitions, and servicing; consumer loan originations and servicing; credit sales originations and servicing; and debt management plans.

CML Examinations

- The target examination schedule for regulated entities is approximately every 36-40 months. More frequent exams may be conducted if necessary.
- The agency can take a range of enforcement actions for companies not in compliance including consumer restitution, fines, and license revocation.
- In 2014, the Division began conducting Initial Reviews of companies within the first six months of licensure. These are limited scope reviews to determine the type and amount of activity conducted in the state and to identify any compliance issues early.



Office of the State Bank Commissioner

Federal Regulation -- Dodd-Frank Act (DFA)

Many consumer finance provisions of the DFA are contained in Title X, which establishes the Consumer Financial Protection Bureau (CFPB). The CFPB is a new executive agency, established in 2011, that assumed most of the existing federal consumer protection functions exercised by other federal regulators under existing federal consumer protection laws. The CFPB has broad authority to identify consumer protection issues and implement regulations to address those issues.

Rulemaking status: As of December 1, 2014, a total of 280 Dodd-Frank rulemaking requirement deadlines have passed. 104 (37.1%) have been missed and 176 (62.9%) have been met with finalized rules. In addition, 231 (58.04%) of the 398 total required rulemakings have been finalized, while 94 (23.62%) rulemaking requirements have not yet been proposed.¹ Many rules impact financial activities outside OSBC jurisdiction such as those activities regulated at the federal level by the SEC and CFTC.

¹DavisPolk



Office of the State Bank Commissioner

Federal Regulation – CFPB Activities

- A number of new rules have been implemented by the CFPB. Some of the most recent took effect January 10, 2014:
- **Mortgage Servicing** -- The Mortgage Servicing Rules address the servicing of mortgage loans, and were implemented in both Regulation X and Regulation Z.² The Reg X rule addresses items such as error resolution, general servicing policies, and loss mitigation. The Reg Z rule addresses items including interest rate adjustment notices, prompt crediting of mortgage payments, and responses to requests for payoff amounts.
- The servicing rules require additions and modifications to CML's examination procedures as well as additional examination time required to check for compliance. Significant additional attention has been necessary regarding compliance with the loss mitigation efforts of servicers. Industry is tasked with updating forms, policies, and procedures to comply with the new rules. Additionally, adjustments of servicing software and employee training manuals have been required as well as necessity for a better understanding of third party vendor relationships and consumer impacts.

²Regulation X – Real Estate Settlement Procedures Act (RESPA), Regulation Z – Truth in Lending Act (TILA)



Federal Regulation – What’s Ahead

- **Auto Credit** - The CFPB has proposed to amend the regulation defining larger participants of certain consumer financial product and service markets by adding a new section to define larger participants of a market for automobile financing. The new section would define a market that includes grants of credit for the purchase of an automobile, refinancing, and purchases or acquisitions of such credit obligations. It would also include automobile leases and purchases or acquisitions of such automobile lease agreements. The rule is in the proposed rule stage with a comment period that ended on December 8, 2014. There is no indication when future advancement of the rule will take place.
- The CML division should not be significantly impacted by the proposed rule change since most of the companies are already registered with the division. The change will however allow the CFPB to conduct examinations and enforce their regulations on a number of entities across the auto credit financial services market, including indirect auto finance companies, which were not previously subject to their regulation.

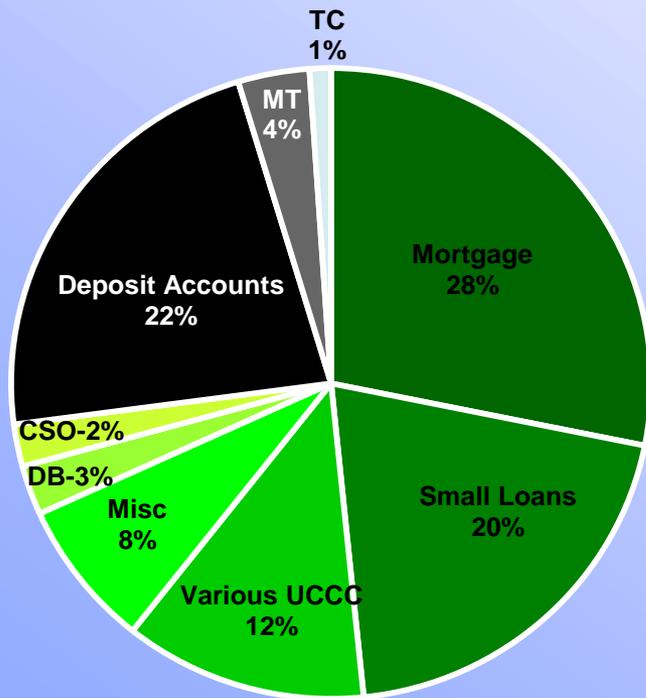


Federal Regulation – What’s Ahead

- **Small Loans** - The Bureau is considering what rules may be appropriate for addressing the sustained use of short-term, high-cost credit products. They published research on payday lending and so-called deposit advance products in an April 2013 white paper and a March 2014 data point. In addition to conducting additional research, they are evaluating what types of rules would be appropriate and warranted under CFPB authorities. Suggested rulemaking might include disclosures or address acts or practices in connection with these products. The rulemaking is in the pre-rule stage and the CFPB is expected to issue a proposed rule this year.
- Any type of anticipated federal small dollar lending rules will require changes to bring CML examination procedures and policies up to date. Nationwide changes will have an across-the-board impact on the industry and may significantly affect the creditors that currently offer these products.

Consumer Inquiries and Complaints in 2014

The OSBC receives approximately 1,500 inquiries per year
 Total Consumer Complaints in 2014: 277



- **CML - Mortgage - 78**
- **CML - Small Loans (Payday/Title/OE LOC) - 56**
- **CML - Various UCCC / Auto / Sales Finance - 34**
- **CML - Miscellaneous - 21**
- **CML - Debt Buyer - 7**
- **CML - CSO - 6**
- **Banking - Deposit Accounts - 62**
- **Banking - Money Transmitters - 10**
- **Banking - Trust Companies - 3**



Office of the State Bank Commissioner

Consumer Education Initiatives

- The OSBC provides grants to support consumer education programs statewide. Grants support programs for children and adults.
- Fines and penalties collected as a result of enforcement actions are deposited in the Consumer Education Settlement Fund and used to fund grants for consumer education.
- The OSBC has provided approximately \$4.7 million in grants for consumer education since 1999.
- State Agency Coordination -- an interagency partnership that includes Kansas Securities Commissioner, State Treasurer, Department of Revenue, Office of the State Bank Commissioner, Kansas Department of Credit Unions, and others, with a commitment to coordinating information and assistance for consumers.
- Developing one-stop website for consumer financial information and assistance.



Office of the State Bank Commissioner

Grant Programs Funded in 2014-2015

Kansas Council on Economic Education (KCEE) -- KCEE provides consumer credit education to primary and secondary school teachers to enhance their ability to teach consumer economics to students. It also holds a poster contest that introduces students in grades K-8 to Economics, and sponsors LifeSmarts, an online competition for students in grades 6-12 to develop knowledge and skills in personal finance.

Consumer Credit Counseling Services (CCCS) -- CCCS provides consumer education programs primarily in central and western Kansas. CCCS offers free counseling services, a debt management program, and low cost workshops in budgeting, money management, credit use and credit scores, holiday spending, teaching kids about money, checking accounts, homebuying, and other topics.

Housing and Credit Counseling (HCCI) -- HCCI provides financial counseling services and education to consumers primarily in northeastern Kansas. Classes cover finances, credit, homeownership, budgeting and rental issues. Individual counsel services are also available. HCCI also sponsors the annual Women & Money program – a seven week series of classes for women who want to manage their personal finances well, build assets, and plan ahead for life changes.

Communities in Schools – Reality University -- Reality U is a life simulation workshop that builds financial literacy for teens. High School students manage virtual salaries and get to make choices on necessities and luxuries. Each student is assigned a salary and a 26-year old lifestyle that is generated by their career choice AND current school performance. Students leave with a better understanding of how much life costs and how their current choices impact their future.

EverFi -- Everfi is a statewide program that teaches, assesses and certifies high school students in financial literacy. Everfi provides a series of online courses in Saving, Banking, Credit Score, Financing Higher Education, Renting vs. Owning, Taxes and Insurance, Consumer Fraud, Investing and Payments, Interest Rates, and Credit Cards. Everfi conducts pre- and post-assessments to measure student knowledge and learning. A similar program, Everfi @ Work is available for adults. It was available to state employees in 2014 and will be available to all Kansans in 2015.