Louisiana Office of Financial Institutions

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Efficiency Report

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Agency Overview:

The Office of Financial Institutions (OFI) is a state agency within the Office of the Governor. The agency is responsible for supervision and regulation of various entities that provide financial services to the citizens of the State of Louisiana. OFI is composed of four divisions. Three of the divisions are based on the general types of entities regulated: Depository Division, Non-depository Division, and Securities Division. The fourth division is the Executive Administration Division.

Examination of Departmental Structures:

OFI's agency structure, which is organized by the general types of entities regulated as discussed above, is similar to state Financial Services Regulatory agencies throughout the United States. This structure allows OFI's to effectively and efficiently fulfill its regulatory mandates/responsibilities and its mission of enhancing confidence in the Financial Services Industry.

Processes:

OFI strives to use regulatory best practices for licensing and supervision activities related to all programs it regulates. OFI keeps abreast of regulatory best practices through its joint Bank examination programs with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank (FRB); its joint Credit Union examination program with the National Credit Union Administration (NCUA); through participation with other states on Multistate Mortgage examinations; through past participation with other states on Multistate Money Transmitter examinations; and through participation in various national regulatory organizations in the areas of Banking, Credit Union, Money Transmission, Residential Mortgage Lending, Consumer Credit, and Securities. OFI's Executive Administration Division also strives to incorporate best practices and strong internal controls into its day-to-day operations. This is achieved through regular compliance audits conducted by the Office of Risk Management, the Louisiana Property Assistance Agency, and the Louisiana State Civil Service and through maintaining open communication with state oversight agencies.

Civil Service Procedures:

OFI ensures compliance with Louisiana State Civil Service procedures by keeping abreast of Civil Service Rules and Regulations, General Circulars, and Handbooks; and by maintaining open communication with Louisiana State Civil Service staff.

Procurement:

OFI complies with the Louisiana Procurement Code and maintains open communication with state purchasing staff as needed. OFI utilizes Statewide Contracts, the State Purchasing Card, the FuelTrac Card, and Short's Travel Management to help streamline the procurement process. OFI does not have complicated or large volumes of purchases;

therefore, OFI does not have an employee 100% dedicated to the procurement process. OFI's primary purchases are related to office supplies and operating services.

Use of Technology:

OFI continually considers the use of technology in day-to-day operations of the office. Please see discussion below under *Elimination or Improvement of Ineffective and Inefficient Activities*.

Duplication of Services:

No other Louisiana state agency has the regulatory authority that is provided to OFI by the Louisiana Revised Statues; therefore, there is no duplication of state services.

Elimination or Improvement of Ineffective and Inefficient Activities:

Past Elimination or Improvement:

In Fiscal Year 1989-1990, OFI had 149 authorized positions. OFI currently has 110 authorized positions -- a 26% decrease in staff. OFI currently has more regulatory responsibility than it did in 1989-1990. For example, OFI's Non-depository Division regulates four programs that it was not responsible for in 1989-1990; the implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act has increased regulation related to the Banking and Mortgage industries; and the organization of the Consumer Financial Protection Bureau (CFPB) has impacted regulatory practices in the Banking, Mortgage, and Consumer Credit industries. Additionally, Bank and Credit Union examinations have become more complex with the incorporation of Bank Secrecy and Anti-Money Laundering (BSA/AML) examinations, Information Technology examinations, and Compliance examinations.

In addition to reducing staff over the past 26 years, OFI has proposed and implemented the following efficiency measures over the last 5 years:

Depository Division:

- Extended the examination cycle from 12 to 18 months for 1 and 2 rated banks/thrifts/credit unions

- Encouraged risk-focusing as a means of reducing examination hours and concentrating on key areas of concern

- Required CPA work paper reviews to assist with risk focusing of depository examinations

- Supported the concept of embedded examinations as a means of including new areas such as Bank Secrecy Act (BSA), Information Technology (IT), Holding Company, and Audit Committee Review in a single Report of Examination

- Reduced turnaround time on the processing of independent examinations reports of examination from 32 days to 24 days

- Promoted the cross-training of examiners to take advantage of efficiencies

- Supported greater off-site monitoring of financial institutions as a means of identifying and/or solving potential problems outside of the examination process

- Developed and implemented a comprehensive Continuity of Operations Plan (COOP) as recommended by the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). Currently, OFI serves on two Emergency Support Functions (ESFs) within the GOHSEP, and actively participates in all meetings and training.

- Plays an integral role in the Louisiana Business Emergency Operations Center (LABEOC), which was created in 2010 to support the private sector subsequent to a wide-area disaster.

Non-depository Division:

- ***Development of Nationwide Mortgage Licensing System (NMLS)*:**
  OFI staff through participation in workgroups and committees of the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) was instrumental in the development and implementation of a national electronic mortgage licensing system known as the Nationwide Mortgage Licensing System (NMLS). Louisiana personnel served on the working group that developed the model applications for the system. The system was launched in January of 2008 and its use is required for all mortgage regulators through the Federal Secure and Fair Enforcement for Mortgage Lending Act (S.A.F.E.) and the Louisiana S.A.F.E Act. The Non-depository Division transitioned its licensed residential mortgage lenders, brokers, and originators onto the NMLS in July 2008. OFI expanded the use of the system to licensed consumer lenders and pawnbrokers in 2012 and to sale of checks and money transmitters in 2013. The system has been of significant benefit for industry and regulatory agencies by:
    - Providing regulators across the country with real time information regarding regulatory actions taken against licensees

- Preventing bad actors from simply moving to another jurisdiction
- Resulting in standardized application forms across jurisdictions
- Facilitating standardized testing and education standards
- Eliminating manual processing of paper checks for application fees
- Eliminating manual data entry of application data

- ***Development of Education Requirements for Residential Mortgage Lending:*** The Federal S.A.F.E. Act required the NMLS to develop and administer a test for state-licensed mortgage loan originators and to serve as the central conduit for required pre-licensing and continuing education. The Mortgage Testing and Education Board (MTEB) established national standards for testing and education providers and adopted a code of conduct for testing and education providers and mortgage loan originators. OFI staff participated on the MTEB and were important participants in the development of these education standards.

- ***Identification of Multistate Mortgage Entities (MMEs) and Uniform Exam Processes:*** OFI staff have worked with the Multistate Mortgage Committee (MMC) of CSBS and AARMR to identify MMEs for state coordinated residential mortgage examinations. In addition, through work with the MMC, uniform examination processes are being developed and the modernization of traditional examination approaches are being undertaken to achieve more effective supervision of the residential mortgage industry.

  OFI's participation in the CSBS Risk Profiling Group has aided in developing risk analysis tools (Mortgage Call Report (MCR) Analytics) for use by the states in assigning risk ratings based on the risk profile of individual MMEs. The Non-depository Division has established an off-site monitoring program, utilizing MCR Analytics. This program allows mortgage examiners to perform ratio analysis, conduct peer comparisons, monitor current data, identify adverse information or trends, address regulatory concerns earlier and review industry-wide statistics and ratios. This program also allows the division to conduct risk assessments for mortgage licensees to determine the scope and frequency of examinations. Higher risk ratings are accorded greater examination urgency and focus.

- ***Legislation and Rule Making:***
  Over the past several years, OFI has successfully proposed legislation which has been passed and has resulted in a *more effective regulatory environment and has increased consumer protections for Louisiana citizens.*

  - **Extended payment plans** – the Louisiana Deferred Presentment and Small Loan Act (LDPSLA) was amended to allow a consumer who is unable to repay a deferred presentment or small loan ("payday" loan) when due to elect once in any twelve-month period to repay the amount due by means of installments. This legislation serves to provide consumers with an avenue to help them reduce their "payday" loan debt.

  - **Data collection** – the Louisiana Consumer Credit Law (LCCL) was amended to expand the powers of the Commissioner to collect and compile information and data from all licensees concerning the operation, function, and extent of all consumer loan activities and to allow the assessment of penalties, remedies, or enforcement measures for untimely, inaccurate, or fraudulent reporting. This legislation provides OFI with an additional means to monitor lender activity.

  - **Payday Education Rule** – each licensed consumer lender who engages in the business of making small loans and deferred presentment transactions ("payday" loans) pursuant to the LDPSLA must now provide education to all lender personnel annually and within the first month of employment for new lender personnel. The education must consist of certain elements related to compliance with the LCCL and the LDPSLA. This rule enhances consumer protection within the LCCL and the LDPSLA by helping to ensure that lenders and their personnel are trained on the requirements of the LCCL and the LDPSLA; thus, helping to ensure that consumers are protected by the requirements contained within the LCCL and the LDPSLA.

  - **Removal of licensing exemption for consumer lenders not having an office within Louisiana and offering credit to Louisiana consumers through mail and other means of interstate commerce** – the removal of this exemption from LCCL requires internet and out-of-state consumer lenders who offer credit to Louisiana consumers to be licensed by OFI. This legislation improves consumer protection within the LCCL by requiring Louisiana oversight of these entities.

- **Unenforceable consumer credit transactions** -- the LCCL was amended to make consumer credit transactions as defined by R.S. 9:3516(13) and deferred presentment transactions as defined by R.S. 9:3578:3(2) null, void, unenforceable, and uncollectible if the consumer lender has not obtained a license from OFI. This legislation, in conjunction with the removal of the licensing exemption explained above, provides enhanced consumer protection within the LCCL.

- **Fees** – In 2015, the Non-depository Division reviewed its fee structure for all programs under it licensing and supervisory jurisdiction and compared revenue collections to program costs. Program fees had not been revised in many years. Legislation was passed to increase fees for the following programs:
  a. Sale of Checks and Money Transmission
  b. Mortgage Lending
  c. Pawnbroker
  d. Consumer Licensed Lending

Securities Division:

- In 2011, the duties of an eliminated securities analyst position, including review of securities offerings and securities firm and agent registrations, were absorbed by the three securities compliance examiners. The exam policy was changed to extend the frequency of routine Investment Advisor exams from every two years to three years, in an effort to make time available for the examiners to perform their newly assigned analyst duties.

- In 2012, as a result of a change in federal law, the Securities Division was given jurisdiction over additional larger Investment Advisor firms which was absorbed without hiring additional staff.

Elimination or Improvement for Fiscal Year 2016-2017 and beyond:

Efficiencies planned for 2016-2017 and beyond include:

- Converting from paper to electronic storage of records through imaging. This will allow for better utilization of examination records and better records management; however, OFI does not anticipate cost savings.

- Continuing with the Conference of State Bank Supervisor's (CSBS) Nationwide Mortgage Lending System (NMLS) 2.0 Project. The NMLS 2.0 project will result in upgrades and improvements to the National Licensing System. This includes, but is not limited to more robust management reporting pertaining to applications, application/management analytics, and continued development of an examination management tool suite (EMTS) for use by the states with multistate and independent examinations. This will not result in reduces staff or cost savings. Enhanced information utilization is the goal of this project.

- Increasing examiner salaries to stop examiner turnover. OFI is currently in the processing of working with Louisiana State Civil Service to conduct a job study. OFI has a turnover rate of approximately 42% for newly hired examiners over their first three years of employment. The continued turnover and training of new employees places an increased burden on OFI's ability to meet regulatory mandates and responsibilities because it take five years to fully train a bank or credit union examiner.

- Implementing corporate exams rather than individual licensee exams in OFI's Non-depository Division. With this approach OFI would examine all branches of an entity at one-time from a statewide prospective rather than from a branch by branch prospective. OFI does not anticipate this decreasing examination hours or staff or resulting in cost savings; but rather, will allow for a more comprehensive examination process utilizing current resources.

- Move examination cycles from 12 month to 18 months for Banks and Credit Unions with total assets between $500 million to $1 billion using a risk based approach. OFI does not anticipate this decreasing examination staff or resulting in cost savings. This will; however, allow examiners to spend more time in institutions with higher risk utilizing current resources.