

IDOBanking
Iowa Division of

2014–2018 Strategic Plan

Iowa Division of Banking

2014–2018 Strategic Plan

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Our Mission

Protect the interests of those doing business with Iowa chartered banks, licensed financial service providers, and licensed professionals through regulation that ensures safety, soundness, and adherence to laws and regulations.

Our Vision

Regulated financial and professional services are provided to Iowans in a fair and competitive marketplace.

Our Guiding Principles

Integrity & Trust: Maintaining and enhancing reputation is critical. It is the lifeblood of our work.

Collaborative Leadership will be utilized. Management will utilize collaborative leadership encouraging:

Open communication

- Promote open communication between the IDOB, financial service providers, licensed professions, and other regulatory agencies; and
- Promote open communication encouraging employee participation.

Customer focus and long-range thinking

Performance-based decisions

Results oriented continuous improvement

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Innovation and responsiveness

- Adapt to the ever-changing financial services industry in a proactive and efficient manner.

Independence

- Maintain independence from organizations and institutions regulated by the Division.

Professional excellence

- Provide the necessary training needed by our staff and continue the high standards for which the IDOB is known.

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Assessment

Brief Description

The IDOB consists of three functional areas: Bank Bureau (BB), Finance Bureau (FB), and Professional Licensing Bureau (PLB). Each functional area has three primary functions: Licensing/Chartering, Examining/Auditing, and consumer complaint investigation. The primary responsibility of the BB is the regulation of state-chartered banks and their affiliates, bank holding companies, and one trust company. The FB regulates financial service providers that hold the following licenses: mortgage bankers/brokers, mortgage loan originators, real estate loan closing companies, loan companies, delayed deposit services, money services, and debt management companies. The PLB exists to coordinate the administrative support for seven professional licensing boards: Accountancy, Architecture, Engineers & Land Surveyors, Landscape Architects, Real Estate Brokers & Salespersons, Real Estate Appraisers, and Interior Designers.

The BB and FB are not funded via the general fund. These bureaus have a combined separate fund which is funded by licensing fees, examination fees, and assessments to the state-chartered banks. The PLB, while partially funded by the general fund, is a net revenue generator to the general fund. Expenditures are limited through the budget/appropriation process. Performance oversight is provided by constituents, the Banking Council, and by the various professional boards.

Planning Process

Utilizing an integrated planning process with input from the State Banking Council, Board Executive Officers, and all IDOB staff, the IDOB prepares an annual performance plan and a five-year strategic plan. Elements of the IDOB's strategic plan are discussed with our employees through internal communications such as emails, surveys, and staff meetings. The entire IDOB strategic plan is available to employees and the public through the IDOB's Web site.

Action steps, developed from the Strategic Plan, are incorporated into the annual performance plan. Among the items considered in the strategic planning process are economic conditions, industry health, technology needs, human resources, and financial constraints.

Internal Strengths, Challenges, Opportunities

The IDOB's best internal strength is its well-trained, experienced staff. Examination exit surveys have consistently praised the expertise, ability, and professionalism of our staff. Our regulated entities expect knowledgeable and well-trained examiners that provide high quality examinations. They

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know our banking system is built upon customer confidence and recognize the importance of maintaining a sound regulatory oversight program. The regulated entities willingly support the IDOB through their assessments to ensure this occurs.

Staff succession is our biggest internal challenge. The majority of the IDOB workforce has over 18 years of regulatory experience. The IDOB is facing retirements at unprecedented levels. Seven employees have retired in the past 3 years from the Bank Bureau, which compares to 6 in the 24 years prior. In addition, 15 percent of the IDOB's most experienced employees and technical experts are or will be eligible to retire over the next 12 months. Over the next 5 years, 40 percent will be eligible to retire. These retirements will bring with them a significant loss of institutional knowledge and key leadership. Competition for IDOB employees continues from other regulatory agencies, financial institutions, and other industries that offer more desirable compensation and benefits. The IDOB must ensure that it continues to have the managerial and technical resources to effectively fulfill its mission and goals as those employees elect to retire. In order to ensure that its workforce has the necessary experience and qualifications to assume these responsibilities, the IDOB will continue to:

- Emphasize recruitment of well-qualified new employees who possess high integrity, possess the ability to work cooperatively with internal and external customers, readily adapt to change in the work place and financial services industry, work in a cost-efficient manner, and treat all customers fairly.
- Invest in training and development activities that will maintain a highly skilled workforce capable of handling anticipated workload and adapting to a rapidly changing and extremely complex industry.
- Update succession plans for key positions.
- Implement programs that will make the IDOB an employer of choice. It is important the IDOB provide support for diversity, training and development, and family-friendly policies and programs. Work environments should remain flexible, work-life balance should be supported, and rewards for performance should be aligned with achieving the agency's mission and strategic goals.
- Seek support from the Governor's office and Legislature for adequate funding to hire and train IDOB employees.

Maintaining information technology capabilities that are responsive, reliable, and secure will continue to be critical for the IDOB to accomplish its mission. The IDOB must continue to collaborate with its internal and external stakeholders who include citizens, financial service providers, and other regulators. The use of specialized automated examination tools developed in collaboration with federal regulators will continue to be a key component of our examination program. This affords the IDOB an opportunity to work closely with other state and federal regulators in ensuring that examination tools stay abreast of changes occurring in the financial industry.

Mergers and consolidation within the industry, combined with a changing IDOB workforce will require the IDOB to review its staffing levels, method of delivering services, and the overall structure of the agency. The IDOB has always provided high quality regulatory oversight and a much lower cost than national bank regulators. It remains the IDOB's goal to continue this practice.

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The IDOB is the second oldest accredited state banking agency in the United States, having first been accredited in 1985. The most recent re-accreditation occurred in 2013. The Division's mortgage area obtained accreditation in 2010 and was among the first mortgage regulators in the nation to obtain this designation. Through the accreditation process conducted by the Conference of State Bank Supervisors, the Bank Bureau and Finance Bureau are measured against Best Practices intended to raise the bar for financial supervision. Many employees of the Division also have attained professional certifications which confirm the experience, qualifications, and accomplishments of our staff. If these high standards achieved by the Division are to continue, adequate funding for training programs must be available. Since Iowa has the third highest number of state-chartered banks of any state in the U.S., maintaining a well-trained staff is imperative.

External Strengths, Challenges, Opportunities

Iowa banks have elected to be state-chartered for several reasons: 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. The conversion of federally chartered financial institutions continues. However, this is expected to slow, as over 90 percent of Iowa banks and thrifts are now state chartered.

The risk profile of the Iowa banking industry has changed in the past few years. Historically, credit risk has been the primary risk facing our institutions. However, interest rate and technology risks have now become the major risks confronting our banks. These risks have created challenges and opportunities for the IDOB and its oversight strategy. Of the 504 banks that have failed nationwide since January 1, 2008, only one was an Iowa state-chartered bank. The low failure rate in Iowa was due largely to favorable agricultural conditions and strong loan underwriting standards. The favorable farm economy resulted in reduced loan demand by customers and increased liquidity for banks. The lower loan volume combined with a continued low interest rate environment has compressed bank margins and hampered bank earnings. While land prices remain strong, recent declines in farm grain prices have caused some softening in land values. Lower commodity prices will likely translate into increased loan growth and improved earnings by our banks. In turn, credit risk could increase. The ability of community banks to raise needed capital remains difficult. The IDOB has an opportunity by working in conjunction with other state banking regulators to reduce regulatory burden and ensure the community banking model remains viable so that small businesses and individuals have access to credit.

Community banks continue to serve a critical role in Iowa's economic development, job creation, and market stabilization. Iowa community banks are the main economic driver of small businesses across our state and provide a stable source of funds for small businesses and individuals. It is important to our state's economic health that credit availability for small businesses is maintained. At the same time, these banks are operating in a very challenging business and regulatory environment. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) signed into law on July 21, 2010, is the most comprehensive legislation in our nation's history affecting the financial services industry. This legislation is intended to address weaknesses identified during the recent recession created largely by the nation's largest financial institutions. Community banks continue

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to face increased compliance regulation and costs, as well as other uncertainties related to the trickle-down effect because of rules intended for the larger institutions. Implementation of this Act will require significant commitment, time, and resources of the financial industry and regulators.

Many Iowa banks are heavily invested in agricultural and farmland loans. Record land prices have led many to question if we are seeing a “bubble” developing similar to that experienced in the housing sector in 2006-2008. The strong land prices and record low interest rates the past few years have provided numerous opportunities for farmers and agriculture-related businesses to grow and thrive. Overall, farm balance sheets remain strong. However, grain operations with high cash rent obligations are beginning to show signs of balance sheet stress, while livestock producers are benefiting from the lower feed costs. Fortunately, strong global demand for agricultural commodities continues. Key factors that will cause the farm economy to decline are likely out of the control of farm operators: drought, increased input and energy costs, higher interest rates, increased inflation, government policy change, and a decrease in global demand. The importance of sound risk management practices for small business and farm operators cannot be overstated.

In the commercial sector, the U.S. and state economy are expected to show slow but steady growth. This will continue the healing of bank balance sheets stressed during the past recession. Iowa banks most severely impacted during the recession were those with significant non-owner occupied commercial real estate holdings and those purchasing out-of-territory loan participations.

Low interest rates are expected to continue for the foreseeable future. This should encourage expansion for businesses generating profits. Should interest rates rise, many sectors of the economy will be at risk, including the agriculture and housing sectors. Increases in home mortgage loan defaults would most likely accompany any significant increase in rates, as fewer individuals could afford the higher mortgage payments. Farmland prices would certainly be at risk to trend lower as rates increase due to higher debt service requirements.

As financial institutions leverage new technologies, risk management and supervision issues will become more complex for both institutions and regulators. Due to financial modernization and advances in technology, problems have been encountered by companies in protecting the privacy of consumer information. Financial institutions will continue to be challenged as they try to maintain a proper balance between the need to protect a customer's privacy and the sharing of information for normal business. Another emerging risk for smaller community institutions is third-party payment processor abuse, as they may lack the infrastructure and expertise to properly manage and monitor these relationships. These relationships have the potential to change the institution's risk profile from the standpoints of liquidity, fraud, BSA/AML, consumer protection, legal liability, and overall safety and soundness.

Mergers, consolidations, and conversions of federally chartered financial institutions to state bank charters have occurred over the past several years, with this trend expected to continue. Many community banks have sought conversion to a state charter, as they see the state regulators being more responsive and in tune with their needs. Over 90 percent of the banks headquartered in Iowa have elected to be state chartered. As institutions become larger and more complex, they present greater risk management issues. The appetite for new start-up banks remains low. While the number

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of Iowa bank charters continues to decline, the total volume of assets under the supervision of the IDOB continues to increase, as does the number of bank office locations.

Iowa's population continues to shift from rural to urban communities. This, combined with an aging depositor base in rural communities, could lead to increased funding difficulties for rural banks. Community banks will continue to migrate to urban areas in an effort to follow the movement of depositors' funds. The value to the small town bank charter may diminish. Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor; and the farmers have become less dependent on nearby small towns to purchase inputs and professional services. As a result, people have migrated from rural to metropolitan areas seeking better employment opportunities. Banks in the rural areas will need to be more reliant upon nontraditional funding sources. Counties losing population lose economic viability. As tax rolls shrink, the infrastructure—schools, utilities, streets—of the rural communities will be more difficult to maintain.

Challenges to the dual banking system will continue as the national bank system continues to gain more control of the nation's assets. The dual banking system is crucial for survival of Iowa community banks. Community banks are crucial to the survival of Iowa communities.

The recession that began in 2007 highlighted the vital link between the country's economic performance and the health of its banking system. When the economy falters, it has implications on the operation of the IDOB. Increased resources are required, as the interval between exams is shortened and examination procedures must be expanded. The importance of having an experienced staff cannot be overstated.

The IDOB continually monitors changes in the financial services industry. The FB reduced staff 25 percent over the last four years to address a drop in licenses. The number of licenses had dropped to 2,132 on January 31, 2012, (its lowest point in the last 5 years), but started climbing thereafter. As of December 31, 2013, the total number of licenses reached 4,270 (a 61 percent increase from the previous year) due to a 90 percent increase in MLOs and .5 percent increase in company licenses (determines examination responsibility). We've increased our exam efficiency by conducting exams off-site and through sharing an examiner who, for example, was already in the same town conducting a trust audit for PLB. This has allowed us to reduce both travel costs and travel time. With the substantial increase in mortgage licenses and concerns in the money service business area, we'll need to closely monitor if staffing remains sufficient to meet our examination goals.

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Strategic Goals

- **Respond to Governor Branstad's challenge to:**
 - Create 200,000 jobs for Iowans
 - Reduce the cost of state government by 15 percent
 - Increase Iowa family incomes by 25 percent
 - Restore Iowa's Educational System to Number One in the Nation
- **Promote Public and Industry Confidence:** Promote public and industry confidence in the financial service and licensed professional system through the rule making, examination and auditing processes.
- **Enhance the Oversight Process:** Enhance the oversight process to monitor and evaluate internal and external conditions, address industry trends, and ensure fiscal integrity.
- **Maximize Personnel Productivity, Professional Development, and Employee Satisfaction:** Improve efficiency and effectiveness of the Division through staff training and utilization of current technologies.

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Action Plans

Goal 1—Respond to Governor Branstad’s challenge to:

- Create 200,000 jobs for Iowans
- Reduce the cost of state government by 15 percent
- Increase Iowa family incomes by 25 percent
- Restore Iowa’s Educational System to Number One in the Nation

Lead Leader: Superintendent and Bureau Chiefs

Team: Entire Staff

Strategies	Action Steps	Person(s) Responsible	Due Date
1. Assist and encourage community bankers, state banking associations, Iowa Economic Development Authority, and small business leaders to promote economic development, jobs creation, and community banking in Iowa.	1. Participate in outreach opportunities such as conferences, seminars, webinars, one-on-one meetings, etc.	1. Superintendent	1. Annually through outreach efforts
2. Reduce regulatory burden for regulated entities.	1. Review and eliminate department rules and regulations deemed unnecessary and outdated. 2. Participate with other state regulators via the Conference of State Bank Supervisors to ensure that legislation proposed will protect and strengthen community banking.	1. Superintendent 2. Superintendent, BBC, FBC	1. Rolling review scheduled through Governor’s office 2. Regularly scheduled CSBS events and meetings
3. Strengthen Iowans’ overall knowledge of financial matters	1. Partner with Iowa Jump\$tart to educate and assist Iowa’s teachers in promoting financial literacy to school age children	1. FBC	1. Annually in July

BC—Bureau Chief	FBC—Finance Bureau Chief	EOs—Executive Officers
BBC—Bank Bureau Chief	PLB—Professional Licensing Bureau Chief	COO—Chief Operating Officer

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Goal 2—Promote Public and Industry Confidence: Promote public and industry confidence in the financial service and licensed professional system through the rule making, examination and auditing processes.

Lead Leader: Bureau Chiefs

Team: Entire Staff

Strategies	Action Steps	Person(s) Responsible	Due Date
1. Assure that applicants for a charter/license will serve a need and necessity in their community and will operate lawfully, honestly, and fairly within the purposes of the charter/licensing chapter.	<ol style="list-style-type: none"> 1. Monitor days from receipt of an application to action. 2. Monitor number of charters/licenses/etc. 3. Maintain a reliable database of licensed professionals. 	<ol style="list-style-type: none"> 1. BCs/EOs 2. BCs 3. PLBC 	<ol style="list-style-type: none"> 1. According to application schedule 2. Monthly 3. Updated real-time
2. Assure the administration of sound regulatory policies and programs that ensure the safety of deposits, but also protect the interests of citizens doing business with banks, financial service providers, and licensed professionals.	<ol style="list-style-type: none"> 1. Monitor number of examinations or audits conducted. 2. Review efficiency of examination process; exam to report to examinee response. 3. Update 12-Month Floating Examination Averages including: class/assets, class Ins/Ttl Lns, Class/Cap, Tier 1 leverage ratios, Adj Total cap ratio, Loans/Deposit and Past Due. 4. Review problem banks (includes examined and in process of examining). 	<ol style="list-style-type: none"> 1. BCs 2. BCs 3. BBC 4. BBC 	<ol style="list-style-type: none"> 1. Monthly 2. Quarterly 3. Monthly 4. Monthly

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Goal 3—Enhance the Oversight Process: Enhance the oversight process to monitor and evaluate internal and external conditions, address industry trends, and ensure fiscal integrity.

Lead Leader: Bureau Chiefs

Team: Examiners, Bank Analysts

Strategies	Action Steps	Person(s) Responsible	Due Date
1. Provide the banking industry with value added services that assist management in establishing effective risk management policies and procedures.	<ol style="list-style-type: none"> 1. Review key questions on post exam survey to bank. 2. Track and follow up on recommendations made to financial institutions. 	<ol style="list-style-type: none"> 1. BBC 2. BBC 	<ol style="list-style-type: none"> 1. Within 5 days after survey is received 2. Weekly Past Due Report
2. Work with federal regulatory authorities and other state regulatory agencies to assure efficient and cost effective administration of regulatory policy and programs.	<ol style="list-style-type: none"> 1. Hold joint meetings and training sessions. 	<ol style="list-style-type: none"> 1. BCs 	<ol style="list-style-type: none"> 1. Annually
3. Continuously develop and enhance internal and external communications and access to the Division.	<ol style="list-style-type: none"> 1. Log complaints and track response time. 2. Improve utility of PLB web site. 3. Conduct climate survey internal communications questions. 4. Hold staff meetings. 	<ol style="list-style-type: none"> 1. BBC & FBC 2. PLBC 3. COO 4. BCs 	<ol style="list-style-type: none"> 1. Ongoing 2. Ongoing 3. Annually 4. Monthly

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Goal 4—Maximize Personnel Productivity, Professional Development, and Employee Satisfaction: Improve efficiency and effectiveness of the Division through staff training and education.

Lead Leader: Bureau Chiefs and COO

Team: Entire Staff

Strategies	Action Steps	Person(s) Responsible	Due Date
1. Allocate sufficient financial resources to assure Division goals and objectives are met.	<ol style="list-style-type: none"> 1. Track budget projection vs. actual, monthly and year-to-date. 2. Review key questions on climate survey regarding the right skills and knowledge to complete the job. 3. Review if employees are meeting annual training requirements/expectations. 	<ol style="list-style-type: none"> 1. COO 2. COO 3. COO 	<ol style="list-style-type: none"> 1. Monthly 2. Annually 3. Quarterly
2. Maintain an experienced and professionally competent staff by assessing training needs and developing programs to meet those needs.	<ol style="list-style-type: none"> 1. Review competency question on survey to bank following exam. 2. Determine if examiners have the right skill sets to complete exams. 3. Track professional development of staff. 	<ol style="list-style-type: none"> 1. BBC 2. COO 3. COO 	<ol style="list-style-type: none"> 1. Within 5 days of receipt 2. Annual performance reviews 3. Real time
3. Maintain a working environment that is rewarding and fulfills the career goals of employees.	<ol style="list-style-type: none"> 1. Measure voluntary turnover rate. 2. Review key exit interview questions. 	<ol style="list-style-type: none"> 1. COO 2. COO 	<ol style="list-style-type: none"> 1. Quarterly 2. Upon exit
4. Assess the direction of the financial services industry and its customers and develop and maintain expertise in new financial products, services, and technology, including e-commerce and banking.	<ol style="list-style-type: none"> 1. Review responses to key questions on annual climate survey. 2. Review key questions on survey to institutions following exam. 3. Compare to CSBS technology profile. 	<ol style="list-style-type: none"> 1. COO 2. BBC 3. BBC 	<ol style="list-style-type: none"> 1. Annually 2. Within 5 days of receipt 3. Annually

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