

DEPARTMENT OF COMMERCE  
IOWA DIVISION OF BANKING

# PERFORMANCE REPORT

Performance Results Achieved  
for Fiscal Year 2006  
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# INTRODUCTION

I am pleased to present the Department of Commerce, Iowa Division of Banking (IDOB) Performance Report for Fiscal Year 2006 (July 1, 2005 - June 30, 2006). This report contains valuable information about the services the Iowa Division of Banking has provided for Iowans during the past fiscal year. This report is being published to meet the agency's commitment to manage for results and to be open and accountable to Iowa citizens. This report contains performance information on the Banking and Finance Bureau of the IDOB.

The agency's core function is regulation and compliance. It regulates state chartered banks and other financial service providers (FSPs). It accomplishes this by utilizing the following processes: licensing/chartering FSPs; examining the FSPs to determine compliance with applicable laws and safety and soundness for certain FSPs; and investigating consumer complaints.

Performance measures have been established to improve the efficiency of each process. All FSPs have been examined within the statutory time limit and all are considered safe and sound and operating in compliance with applicable laws. The average turnaround time on bank examination reports (days from when exam was completed to final report was mailed to the examined bank) was 13 calendar days. This is significantly below the Conference of State Bank Supervisors best practice recommendation of 30 calendar days.

Additional accomplishments for the year included the following:

## **BANK BUREAU:**

Actions were taken on the following applications during FY06:

- 0 voluntary dissolution
- 9 mergers
- 0 financial institutions were converted from federal charters to state charters
- 0 financial institutions were converted from state charters to federal charters
- 56 applications to establish bank offices
- 23 applications to relocate bank offices
- 6 bank name change applications
- 0 bank charter was renewed
- 8 bank charters were terminated

Bank Examinations Conducted:

- 132 Full scope examinations were conducted
- 1 Visitation examinations were conducted
- 60 Holding company examinations were conducted
- 90 Trust exams were conducted
- 126 IT exams were conducted

**FINANCE BUREAU:**

- Licensing
  - 409 applications for new licenses received
  - 374 new licenses issued
  - 19 applications denied or withdrawn
  - 234 licenses cancelled
  - 1,258 licenses renewed
- Examinations
  - 547 exams
  - \$43,563 refunds to consumers
- Complaints
  - 142 received
  - 146 resolved
  - \$21,500 refunds to consumers

# AGENCY OVERVIEW

## IDOB 2006 – 2011 Strategic Plan Planning Process

### **Integrated Planning Process**

The IDOB uses an integrated planning process. The Division prepares an annual performance plan and a five year strategic plan. Guidance and direction are provided by the Senior Management team. The State Banking Council, Bank Analysts, Regional Managers, and Senior Examiners provide planning input. Part of the preparation of the annual performance plan is reviewing and updating the strategic plan. 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.

### **Influencing Factors**

Factors influencing the IDOB's plans are changes in the financial institution industry and prior period performance. As described below, the IDOB also solicits input from its external customers in developing its Strategic Plan. Reviews of economic conditions and prior period performance provide information on customer and market needs and expectations. Input from banks which have recently been examined along with outreach visits by the IDOB's Regional Managers generate data relating to the Division's strengths and weaknesses, risks, economic changes, and the competitive environment. Communication with the Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), and the Conference of State Bank Supervisors (CSBS) provide information regarding technological changes as well as global and national economic trends. At the conclusion of each bank examination, the Examiner-in-Charge reports on the adequacy of human resources assigned to the exam.

### **Communication of Goals & Objectives**

The IDOB communicates its strategic goals to its employees through internal communications such as emails and staff meetings. The strategic goals are communicated to both employees and the public through the IDOB's website.

### **Fiscal Management**

In fiscal year 2007, the IDOB will spend \$7.8 million and employ approximately 71 individuals. The IDOB will adjust its budget annually to take inflation and workload into consideration. The IDOB, which undertook a complete restructuring in 2000, continues to refine its processes to become more efficient, proactive, and effective in its operations.

Throughout each year, progress reports are prepared for management and staff's review and action. Each year, an annual performance report will be posted on the IDOB's Web site, <http://www.idob.state.ia.us>.

## **Introduction**

The IDOB was created in 1917 to ensure the stability and public confidence in the banks organized under a state charter. Today the IDOB consists of two functional areas, the Bank Bureau and the Finance Bureau.

The primary responsibility of the Bank Bureau is the regulation of state chartered banks and their affiliates. As of June 30, 2006, the Bank Bureau regulated 343 state-chartered banks with combined assets of \$39,210,806,000, 275 bank holding companies, and one trust company. While the IDOB is the primary regulator for Iowa state-chartered banks, supervisory and regulatory responsibility for these banks is shared with the FRB and the FDIC.

The Finance Bureau regulates nearly 1,000 financial service providers that hold the following licenses: 824 mortgage bankers/brokers, 500 loan companies, 247 delayed deposit services, 34 money services, and 27 debt management companies.

The IDOB performs safety and soundness, trust, bank secrecy act, and information system examinations of IDOB-supervised institutions. The IDOB participates in an examination program under which examinations are performed on an alternating basis with the FDIC and the FRB. The examinations are conducted to assess an institution's overall financial condition, management practices and policies, and compliance with applicable laws and regulations. Through the examination process, the IDOB also assesses the adequacy of management and internal control systems to identify and control risks. The IDOB regularly reviews examination methodologies and adjusts them as necessary to remain effective.

If the examination process reveals weaknesses in an IDOB-supervised institutions' operations or conditions, the IDOB takes appropriate action. Informal or formal enforcement actions may be issued for IDOB-supervised institutions with significant weaknesses or operating in a deteriorated financial condition. The actions remain in effect until the weakness is corrected. If the problems remain unresolved, the IDOB may take further steps to encourage or compel institutions to comply with the actions. If these efforts are unsuccessful or if other weaknesses are evident, the institution would be instructed to seek additional capital or merger. If problems remain unresolved, the IDOB, as the chartering authority, may close the institution. The IDOB would then likely appoint the FDIC as receiver, with this agency overseeing the resolution of the institution.

Informal enforcement actions require the institution's acknowledgement and commitment to correct the problem. Informal actions include board resolutions or memoranda of understanding. Formal enforcement actions are taken when an informal action is ineffective or inappropriate. Formal enforcement actions include written agreements, cease and desist orders, civil money penalties, and officer and director suspension or removal.

Communication is an important component of the IDOB's safety and soundness program. Risks identified during an examination are discussed with the institution's management and its board of directors. In addition to examinations, the IDOB provides information on issues affecting the industry through letters, emails, and forums.

The IDOB also evaluates an IDOB-supervised institution's ability to manage risk when reviewing applications or notices for new or expanded activities. In order for the IDOB to expedite the review of an institution's application or notice, it must be well-capitalized, possess a qualified management team, be capable of operating in a safe and sound manner, and be compliant with applicable laws and regulations.

The development and implementation of effective risk-management policies and practices are the responsibility of individual financial institutions. As institutions enter new lines of business and activities, implement new technologies, or face changing economic conditions, risk-management policies and oversight become increasingly important.

Procedures normally performed in completing examinations may disclose the presence of fraud or insider abuse, although fraud detection is not a primary purpose of the examination program. The IDOB prepares its examination staff to recognize indicators of fraudulent activity, but fraud is often difficult to detect and losses may occur before the fraudulent activity is detected.

The close working relationship the IDOB has with the two federal financial institution regulators – FRB and the FDIC – enables the regulators to address issues and programs that transcend the jurisdiction of each agency. In many areas, the IDOB works closely with federal regulators to address risk areas. The IDOB also works to coordinate safety and soundness examination schedules with both the FRB and FDIC.

The IDOB also works closely with the Conference of State Bank Supervisors (CSBS), which represents the state regulatory authorities.

### **The Outlook**

During the next five years, challenges the IDOB will face include changes in the economy, structure of the financial services industry, an aging workforce, and technological advancements. The IDOB will continue to monitor these and other emerging issues as they develop to ensure its readiness to address any challenges the industry may face. The dual banking system will continue to be challenged by the Office of the Comptroller of the Currency using its rulemaking authority to preempt state laws. The licensing of mortgage professionals by the IDOB began on July 1, 2006. Such licensing will aid the IDOB to better monitor against predatory, abusive, unfair, or deceptive residential mortgage lending practices. Involvement in community and economic development activities by the regulated entities will be supported by the IDOB. The agency will seek to ensure customers of IDOB-regulated entities receive fair treatment and assist customers in resolving complaints.

## **Overview of the Economy**

The performance of the economy at the national, regional, and state levels directly affects the financial institution industry's business strategies and performance. Changes in the business cycle of sectors such as agriculture and commercial real estate, as well as interest rates, inflation, and unemployment, influence the lending and funding strategies of financial institutions.

## **Changes in the Financial Services Industry**

Changes in the financial services industry have presented new challenges for financial institutions and their regulators. These changes have been driven by financial modernization, privacy concerns, industry consolidation, applications for new institutions, trends in borrowing and lending, globalization, and emerging technology.

In recent years, the federal government has enacted legislation focusing on anti-terrorism, compliance, privacy, and corporate governance issues. This has increased the IDOB's supervisory responsibilities and made it necessary to expand the scope of its examinations. Under the USA PATRIOT Act of 2001, financial institutions have been required to implement programs to verify the identity of customers opening new accounts. Although it relaxed some requirements, the Gramm-Leach-Bliley Act of 1999 added new requirements regarding privacy and other issues. The Sarbanes-Oxley Act of 2003 (SOX) addresses corporate governance and auditor independence requirements. Insured depository institutions and bank holding companies are the entities required to comply with SOX. Failure to comply with these new laws can result in large financial penalties being assessed against the financial institutions. Smaller banks may decide to sell as further increases in regulations, primarily at the federal level, could make it too costly for them to maintain compliance.

Within the context of these new regulatory requirements, the IDOB is committed to regulatory burden reduction on the institutions it supervises.

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 purposes.

Mergers and consolidations, as well as applications for new financial institutions, have occurred over the past several years, with this trend expected to continue. As institutions become larger and more complex, they present greater risk-management issues. De novo institutions, which often lack adequate earnings in the early years, are more vulnerable to fluctuations in the economy.



Abusive lending practices have been on the increase nationwide, particularly in the residential mortgage and consumer lending areas. Monitoring for practices that may be conducive to abusive lending and fraud will require heightened attention by the financial services industry and the IDOB. When such practices are found, the IDOB will take action necessary to curb the practices.

Iowa's population continues to shift from rural to urban communities. Community banks will continue to relocate 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 continue to be more reliant upon non-core 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.

Increased non-bank competition has induced financial institutions to enter into riskier lines of business, purchase higher risk investments, and increase non-interest income to maintain satisfactory earnings levels. Commercial real estate lending has increased in Iowa banks and could be more vulnerable to losses during an economic slowdown. Non-interest income can be a volatile income source.

Challenges to the dual banking system will continue as the national bank system continues to gain more control of the nation's assets and the Office of the Comptroller of the Currency continues to preempt state laws and regulations.

The IDOB continually monitors changes in the financial services industry. As necessary, the IDOB seeks regulatory or statutory amendments or develops improved procedures to respond to these industry changes.

### **Workforce Issues**

The IDOB is confronting the same human capital issues as many government agencies. Currently, over 63 percent of the IDOB workforce has over 15 years of regulatory experience. As a result, many of the IDOB's most experienced managers and technical experts will be eligible to retire over the next 10 years. 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:

- Place increased emphasis on recruiting well qualified new employees. These employees must possess the following values: high integrity, work cooperatively with internal and external customers, readily adapt to change in the work place and financial institutions' 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 responding to unforeseen workload; and
- Implement programs that will make the IDOB an employer of choice.

# KEY RESULT TEMPLATE

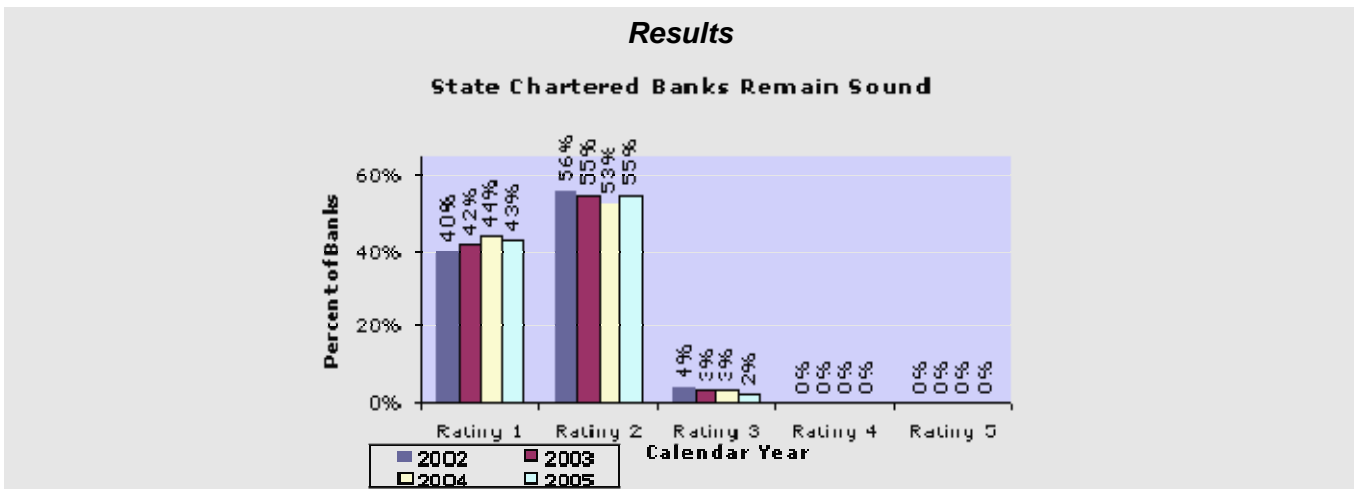
## CORE FUNCTION

**Name:** Regulation & Compliance

**Description:** All financial institutions chartered and licensed by the Iowa Division of Banking are operated in a safe and sound manner and in compliance with applicable laws and regulations.

**Why we are doing this:** A key product of a bank exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMELS rating. This rating system is used by state banking regulators and the federal banking supervisors to provide a convenient summary of bank conditions at the time of the exam. The CAMELS rating system is based upon an evaluation of six critical elements of a bank's operations: Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Interest Rate Sensitivity. This rating system is designed to take into account and reflect all significant financial and operational factors examiners assess in their evaluation of a bank's performance. The ratings are assigned on a scale from 1 to 5. Banks with ratings of 1 or 2 are considered to present few, if any, supervisory concerns. Banks with ratings of 3, 4, or 5 present increasing levels of supervisory concerns.

**What we're doing to achieve results:** All financial institutions chartered and licensed by the Iowa Division of Banking are examined within statutory timelines and assigned a CAMELS rating.



**What was achieved:** 100% of chartered and licensed financial institutions are operated in a safe and sound manner and in compliance with applicable laws and regulations.

**Data Sources:** Internal data base.

**Resources:** These activities are funded through an initial general fund appropriation which is repaid by the financial services industry on a quarterly basis. The Iowa Division of Banking is no cost to the general fund.

## AGENCY PERFORMANCE PLAN RESULTS FY 2006

<b>Name of Agency: DEPARTMENT OF COMMERCE – BANKING DIVISION</b>			
<b>Agency Mission: Protect the interests of those doing business with banks and other financial services providers by ensuring safety, soundness, and adherence to the laws and regulations of Iowa.</b>			
<b>Core Function: Regulation &amp; Compliance</b>			
<b>Performance Measure (Outcome)</b>	<b>Performance Target</b>	<b>Performance Actual</b>	<b>Performance Comments &amp; Analysis</b>
All financial institutions chartered and licensed by the Iowa Division of Banking are operated in a safe and sound manner and in compliance with applicable laws and regulations.	100%	100%	What Occurred: 100% of chartered and licensed financial institutions are operated in a safe and sound manner in compliance with applicable laws and regulations protecting the citizens of Iowa.  Data Source: Internal database
<b>Service, Product or Activity: Regulation of state-chartered banks</b>			
<b>Performance Measure</b>	<b>Performance Target</b>	<b>Performance Actual</b>	<b>Performance Comments &amp; Analysis</b>
1. Percent of state-chartered banks examined.	100%	100%	What Occurred: 100% of state-chartered banks were examined within statutory time limitations.  Data Source: Internal database
<b>Service, Product or Activity: Regulation of financial institutions</b>			
<b>Performance Measure</b>	<b>Performance Target</b>	<b>Performance Actual</b>	<b>Performance Comments &amp; Analysis</b>
1. Percent of licensed financial institutions examined that are statutorily required to be examined.	100%	100%	What Occurred: 100% of licensed financial institutions were examined within statutory time limitations.  Data Source: Internal database
2. Percent of financial institution complaints resolved.	90% responded to (or resolved) within 30 days of receipt.	76%	What Occurred: 76% of complaints were resolved within 30 days; 84% were resolved within 45 days.  Data Source: Internal database
3. Percent of license applications processed.	The licensing decision will be communicated to 90% of the license applicants within 30 days of receipt of a completed application.	68%	What Occurred: 68% of licensing decisions were communicated to license applicants within 30 days; 75% within 45 days. 426 applications were received.  Data Source: Internal database

## AGENCY CONTACTS

Copies of the Iowa Division of Banking's Performance Report are available on the IDOB Web site at [www.idob.state.ia.us](http://www.idob.state.ia.us).

Copies of the report can also be obtained by contacting Kay Anderson at 515/281-4014.