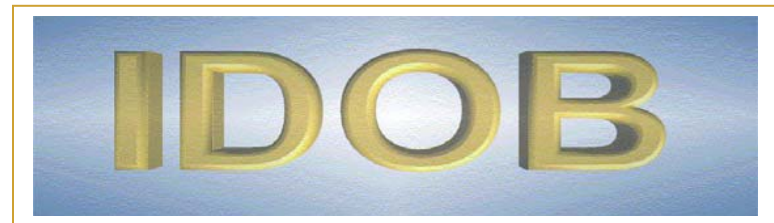


# Iowa Division of Banking Strategic Plan

*Years 2007 –2012*



## The IDOB and the Financial & Professional Industries

### Iowa Division of Banking 2007 – 2012 Strategic Plan - Planning Process

#### **IDOB 2007 – 2012 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, Board Executive Officers, 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 industries regulated 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 Bank Bureau'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. Legislation, rule changes and market conditions are the primary influences for the Licensing Bureaus. Senior Management analyzes the human resource needs based upon economic conditions and legislative requirements of the Division.

##### **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**

The IDOB will adjust its budget annually to take inflation and workload into consideration. The IDOB 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 is 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 three functional areas, the Bank Bureau, Professional Licensing Bureau and the Finance Bureau.

The primary responsibility of the Bank Bureau is the regulation of state chartered banks and their affiliates, bank holding companies and one trust company. While the IDOB is the primary regulator for state-chartered banks, supervisory and regulatory responsibilities for the responsibility of these banks are shared with the FRB and the FDIC. The Finance Bureau regulates financial service providers that hold the following licenses: mortgage bankers/brokers, mortgage loan originators, loan companies, delayed deposit services, money services, and debt management companies. The Professional Licensing Bureau exists to coordinate the administrative support for seven professional licensing boards. The boards are: Accountancy, Architectural, Engineers & Land Surveyors, Landscape Architects, Real Estate Brokers & Salespersons, Real Estate Appraisers & Interior Designers. The Professional Licensing Bureau is dedicated to the protection of the public through its regulatory activities. To achieve this goal, each examining board or commission adopts rules and establishes standards for registrants. The Professional Licensing Bureau investigates complaints, conducts trust account audits, administers uniform national exams to candidates, registers new individuals and renews individuals and firms annually.

The IDOB performs safety and soundness, compliance, trust, bank secrecy act and information system examinations of IDOB-supervised institutions. The Bank Bureau 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 Bank Bureau 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.

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 Bank Bureau 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 Finance Bureau began on July 1, 2006. Such licensing aids 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. The Professional Licensing Bureau became part of the Banking Division on July 1, 2006. 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, 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 and insures.

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, the majority 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.

## Division of Banking – Objectives Measures

**Vision:** Promote the economic well being of Iowa by maintaining a regulatory environment that best assures the citizens of Iowa safe and sound banking, financial and professional services.

**Mission:** Protect the interests of those doing business with banks, financial service providers and licensed professionals by ensuring safety, soundness and adherence to the laws and regulations of Iowa.

### Goals:

- **Public and Industry Confidence:** Promote public and industry confidence in the financial service and licensed professional system through the rule making, examination and auditing process.
- **Enhance the Oversight Process:** Enhance the oversight process to monitor and evaluate internal and external conditions, address industry trends and ensure fiscal integrity.
- **Open Communication:** Promote open communication between the Division of Banking, financial service providers, licensed professions and other regulatory agencies.
- **Independence:** Maintain independence from organizations or institutions regulated by the Division.
- **Current Policies and Procedures:** Identify trends in industry and technology to assure policies and procedures are current.
- **Personnel Training and Education:** Improve efficiency and effectiveness of the Division through staff training and education.

**Objectives and Measures:** The following table lists the objectives identified by the Division of Banking. Accomplishment of these objectives will allow the Division to accomplish its vision and mission and serve the people of the State of Iowa. Measures are listed for each objective and will give the Division a way to gauge their progress and share their story with others. Each objective was rated on a high-medium-low scale to show its impact on each goal and to assist the Division in prioritization.

Division of Banking – Objectives

Objectives	Public & Industry Confidence	Enhance the Exam Process	Open Communication	Independence	Current Policies & Procedures	Training & Education
<b>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.</b>	High	Low	Medium	High	Medium	Medium
<b>2. Assure the administration of sound regulatory policies and programs that insure the safety of deposits, but also protect the interests of citizens doing business with banks, financial service providers and licensed professionals.</b>	High	High	Low	High	Medium	Medium
<b>3. Provide the banking industry with value added services that assist management in establishing effective risk management policies and procedures.</b>	High	Medium	Medium	High	Medium	High
<b>4. Work with federal regulatory authorities to assure efficient and cost effective administration of regulatory policy and programs.</b>	Medium	High	High	High	High	High
<b>5. Continuously develop and enhance internal and external communications and access to the Division.</b>	High	Medium	High	Medium	Low	Low

Division of Banking – Objectives

Objectives	Public & Industry Confidence	Enhance the Exam Process	Open Communication	Independence	Current Policies & Procedures	Training & Education
6. Allocate sufficient financial resources to assure Division goals and objectives are met.	High	High	Medium	Medium	High	High
7. Maintain an experienced and professionally competent staff by assessing training needs and developing programs to meet those needs.	High	High	Medium	Medium	Medium	High
8. Maintain a working environment that is rewarding and fulfills the career goals of the employees.	Medium	Medium	High	Low	Low	High
9. 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.	High	High	Low	Medium	High	High



Division of Banking – Objectives, Measures & Responsibility

BC = Bureau Chief	FBC = Finance Bureau Chief	EO's = Executive Officers	
BBC = Bank Bureau Chief	PLBC = Professional Licensing Bureau Chief		
Objectives	Measure	Calculation	Responsibility
1. <b>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.</b>	1a. Days from receipt of an application to action. (Denial/Approval/Etc.)	<ul style="list-style-type: none"> <li>• Number of days.</li> <li>• Percentage of applications responded to within 30 days.</li> <li>• Average number of days to issue/deny application is compared monthly.</li> </ul>	BC/Analysts/EO's
	1b. Number of charters/licenses/etc.	<ul style="list-style-type: none"> <li>• Count licenses by license type and compare to past periods.</li> </ul>	BC's
	1c. Maintain a reliable database of licensed professionals.	<ul style="list-style-type: none"> <li>• Frequency: annually.</li> <li>• Evaluate database functionality.</li> <li>• Adequacy &amp; reliability of reports.</li> </ul>	PLBC
2. <b>Assure the administration of sound regulatory policies and programs that insure the safety of deposits, but also protect the interests of citizens doing business with banks, financial service providers and licensed professionals.</b>	2a. Number of examinations or audits conducted.	<ul style="list-style-type: none"> <li>• Number of exams completed.</li> <li>• Percentage of exams completed within the statutory timeframe.</li> </ul>	BC's
	2b. Efficiency of examination process; exam to report to examinee response.	<ul style="list-style-type: none"> <li>• Days from completion of examination in field to submission of report to IDOB office.</li> <li>• Days from completion of examination in field to receipt of exam report by examined institution.</li> </ul>	BBC
	2c. 12 Month Floating Examination Averages including: class/assets, class Ins/Ttl Lns,	<ul style="list-style-type: none"> <li>• Frequency – monthly</li> <li>• Data drawn from exams and calculated</li> </ul>	BBC

	Class/Cap, Tier 1 leverage ratios, Adj Total cap ratio, Loans/Deposit and Past Due.	<p>automatically and posted to bulletin board.</p> <ul style="list-style-type: none"> <li>• Shown as ratios or actual numbers.</li> <li>• Problem banks - monthly.</li> <li>• Shows actual number of problem banks in the state monthly.</li> <li>• Problem bank = 3, 4 or 5 CAMEL rating and/or a red risk rating.</li> <li>• Data drawn from exams.</li> <li>• Shown as actual number of problem banks monthly.</li> </ul>	
	2d. Problem banks examined every 12 mos. (includes examined and in process of examining.)	<ul style="list-style-type: none"> <li>• Frequency – monthly.</li> <li>• Attribute - were problem banks examined at least once in a 12 month period-yes/no</li> <li>• Problem bank = 3, 4 or 5 CAMEL rating and/or a red risk rating.</li> <li>• Shown as problem banks due for exam that did not receive exam in previous 12 months.</li> </ul>	BBC

Division of Banking – Objectives, Measures & Responsibility

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Objectives	Measure	Calculation	Responsibility
<b>3. Provide the banking industry with value added services that assist management in establishing effective risk management policies and procedures.</b>	3a. Key question on post exam survey to bank.	<ul style="list-style-type: none"> <li>• Frequency - exam cycle.</li> <li>• Key Question: Recommendations were useful to your organization; 5=Strongly Disagree...1=Strongly Agree.</li> <li>• # of favorable responses/total responses x 100.</li> <li>• % favorable.</li> </ul>	BBC
	3b. Track and follow-up on recommendations made to financial institutions.	<ul style="list-style-type: none"> <li>• Disposition Report - Response received from financial institution.</li> </ul>	BBC
<b>4. Work with federal regulatory authorities to assure efficient and cost effective administration of regulatory policy and programs.</b>	4a. Joint meetings and training sessions held.	<ul style="list-style-type: none"> <li>• Count actual number of joint meetings that are held with the FDIC.</li> </ul>	BBC
	5a. Complaints logged and response time tracked.	<ul style="list-style-type: none"> <li>• Frequency – monthly.</li> <li>• Attribute - was the complaint responded to w/48 hrs.</li> <li>• Response time - 48 hrs from receipt, excludes weekends and holidays.</li> <li>• Attribute – number received.</li> <li>• Number received each month and nature of the complaint.</li> </ul>	BBC & FBC
<b>5. Continuously develop and enhance internal and external communications and access to the Division.</b>	5b. Improve Utility of PLB website.	<ul style="list-style-type: none"> <li>• Consider Focus Group recommendations.</li> </ul>	PLBC
	5c. Annual climate survey internal communications questions.	<ul style="list-style-type: none"> <li>• Frequency – annual.</li> <li>• Questions #5, 6, &amp; 7 (# favorable responses/total # responses) x 100.</li> <li>• % favorable responses.</li> </ul>	Comptroller

	5d. Staff Meetings held	<ul style="list-style-type: none"> <li>• Frequency - quarterly &amp; annual.</li> <li>• Count - was staff meeting held - yes/no (# meetings held/#meetings that are scheduled x 100).</li> <li>• % of scheduled meetings held.</li> </ul>	BC's

Division of Banking – Objectives, Measures & Responsibility

BC = Bureau Chief	FBC = Finance Bureau Chief	EO's = Executive Officers	
BBC = Bank Bureau Chief	PLBC = Professional Licensing Bureau Chief		
Objectives	Measure	Calculation	Responsibility
<b>6. Allocate sufficient financial resources to assure Division goals and objectives are met.</b>	6a. Budget projection vs. actual, tracked monthly and year-to-date.	<ul style="list-style-type: none"> <li>• Frequency - monthly and year-to-date</li> <li>• Compares budget projection to annual budget.</li> <li>• Deviation formula: Budget – Actual</li> <li>• Show as actual dollar deviation.</li> <li>• % Deviation Formula: (Budget projection - Actual budget/Budget projection) x 100.</li> <li>• Shown as percentage.</li> </ul>	Comptroller
	6b. Key questions on climate survey regarding the right skills and knowledge to complete the job.	<ul style="list-style-type: none"> <li>• Frequency – annually</li> <li>• Key questions: #9, 36 &amp; 37 (have right skills).</li> <li>• Key questions: 38 &amp; 40 (sufficient resources).</li> <li>• (# favorable responses/total responses) x 100.</li> <li>• % favorable.</li> </ul>	Comptroller
	6c. Employees meeting annual training requirements/expectations.	<ul style="list-style-type: none"> <li>• Frequency - tracked quarterly, reported annually.</li> <li>• Training required, expected or planned for the year per employee.</li> <li>• Compare plan to actual.</li> </ul>	Comptroller
<b>7. Maintain an experienced and professionally competent staff by assessing training needs and developing programs to meet those needs.</b>	7a. Competency question on survey to bank following exam.	<ul style="list-style-type: none"> <li>• Frequency – annual.</li> <li>• Key questions: # 12 &amp; 13 (# favorable responses/total responses) x 100.</li> <li>• % favorable.</li> </ul>	BBC
	7b. Examiners have the right skill sets to	<ul style="list-style-type: none"> <li>• Frequency - annual climate survey</li> </ul>	Comptroller

	complete exams.	<ul style="list-style-type: none"> <li>• Key question: #9, 36 &amp; 37(# favorable responses/total responses) x 100.</li> <li>• % favorable.</li> </ul>	
	7c. Track professional development of staff.	<ul style="list-style-type: none"> <li>• Frequency - annual climate survey.</li> <li>• Training plan for each employee.</li> <li>• Compare plan to actual.</li> </ul>	Comptroller
<b>8. Maintain a working environment that is rewarding and fulfills the career goals of employees.</b>	8a. Voluntary turnover rate by level.	<ul style="list-style-type: none"> <li>• Frequency - track quarterly, report annually.</li> <li>• (Number employees leaving/average number of employees) x 100.</li> <li>• % turnover.</li> </ul>	Comptroller
	8b. Response to key exit interview questions.	<ul style="list-style-type: none"> <li>• Frequency – annual.</li> <li>• Key questions: #4 and #8 (# favorable responses/total responses) x 100.</li> <li>• % favorable.</li> </ul>	Comptroller
<b>9. 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.</b>	9a. Responses to key questions on annual climate survey.	<ul style="list-style-type: none"> <li>• Frequency - tracked annually.</li> <li>• Key question: #1i (# favorable responses/total responses) x 100.</li> <li>• % favorable.</li> </ul>	Comptroller
	9b. Key question on survey to institutions following exam.	<ul style="list-style-type: none"> <li>• Frequency - tracked monthly, accumulate ytd.</li> <li>• Key questions #14 &amp; 15.</li> </ul>	BBC
	9c. Comparison to CSBS technology profile.	<ul style="list-style-type: none"> <li>• Frequency - as completed by CSBS.</li> <li>• Is the IDOB keeping up and providing adequate hardware and software? (Yes/No)</li> </ul>	BBC