State of Washington

Decision Package

FINAL

Agency: 102 Dept of Financial Institutions

Decision Package Code/Title: **N0 Adjust Securities Licensing Fees**

Budget Period: **2015-17**

Budget Level: **PL - Performance Level**

Recommendation Summary Text:

This package reflects proposed legislation that would give DFI the authority to adjust by rule the fees collected by the Securities Division upward by no more than $15 to cover the costs of administering the Securities Act of Washington, and to maintain a reasonable reserve for the Securities Division. The bill would provide further that 100% of all fee increases implemented by rule would be deposited in the Financial Services Regulation Account for use by the Securities Division. The ability to adjust fees by rule would allow the Division to augment its revenues, which have been inadequate to cover its costs.

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
300-6 Financial Services Regulation Acct-Non-Appropriated	16,812	0	16,812
Total Cost	**16,812**		**16,812**

Revenue

Fund	Source	FY 2016	FY 2017	Total
300 Financial Services	0277 Security L/Per/Fees	441,943	2,946,285	3,388,228
Total Revenue		**441,943**	**2,946,285**	**3,388,228**

Package Description:

DFI is a non-appropriated agency funded by revenues collected through its regulatory activities. The Securities Division (Division) is one of DFI’s four operational divisions. The Division’s revenues track the activity in the markets. The Division’s annual expenditures have exceeded its revenues cumulatively by approximately $11.2 million since FY 2004. In only one year, FY 2008, did revenues exceed expenditures. During FY 2010 and FY 2011, the Division received significant fines in settlement of several auction rate securities cases, which it used to offset its revenue deficit. The Division does not expect to receive fines of this magnitude in the future and the Division cannot afford to continue to regulate an industry that does not pay for its cost of regulation. Based on OFM’s most recent forecast estimates, the Division’s yearly deficits are projected to continue through FY 2017, resulting in an approximate $6.5 million deficit in fund balance for the Division, far below the recommended minimum fund balance of $1 million. To address this deficit, the Division must augment its revenues through fee increases or decrease its expenditures. The only way for the Division to significantly reduce costs is to reduce FTEs, which would reduce service levels and negatively impact investor protection.

This package would allow DFI to adjust by rule the fees collected under the Securities Act of Washington upward by no more than $15 in order to cover the costs of administering the Act and to maintain a reasonable reserve. Further, the proposed bill would amend RCW 43.320.110 to allocate 100% of any fee increases to DFI. The fees are set in statute and the most recent legislative amendments to increase fees were made in 1988 (some have not been updated since 1965).

The Division processes approximately 196,000 broker-dealer, investment adviser, securities salesperson, and investment adviser representative applications per year. It also conducts approximately 140 broker-dealer and investment adviser field examinations, per year. Its enforcement section annually brings approximately 20 enforcement actions involving broker-dealers and investment advisers and their agents.

The Division has approximately 19 FTE's currently devoted to these functions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Act), signed into law July 21, 2010, expanded the Division's role in the regulation of investment advisers. Pursuant to federal law, investment advisers are required to register federally with the Securities and Exchange Commission or with state regulatory agencies depending upon the investment adviser's assets under management (AUM). Prior to the Act, IAs with AUM $25 million or less were required to register with state regulators. Under the Act, this threshold increased, effective 7/21/11, to $100 million, bringing an estimated 150 additional IAs under the Division's jurisdiction, an increase of approximately 30%. The Division sought the budgetary authority for 5 more FTEs to address this additional workload and was given budgetary authority for 0.5 FTE. Vacant FTEs were transferred to the Division to address this need. The revenues received from a future fee increase implemented by rule would address the deficits outlined above and help support these additional FTEs.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The ability to adjust fees by rule would allow the Division to augment its revenues and avoid a reduction in FTEs, which would reduce service levels and negatively impact investor protection.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. The package is critical in supporting and implementing DFI goals 1 and 2:

- **Promote a stable and competitive state financial services industry that enhances economic vitality.**
- **Protect citizens' financial interests.**

The package supports the agency objectives of conducting efficient and effective examination and enforcement programs and keeping up with emerging trends in financial products and services.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes. The package directly supports the Governor's priority of improving the economic vitality of business throughout the state and improving the safety of people and property.

What are the other important connections or impacts related to this proposal?

This package allows DFI to continue to expeditiously license, provide technical assistance visits, conduct on-site examinations and conduct enforcement actions of broker-dealers and investment advisers. The investment advisers regulated by the Division have no other regulatory oversight. Failure to adequately regulate this sector increases the risk of harm to consumers and reduces investor confidence.

What alternatives were explored by the agency, and why was this alternative chosen?

Reducing expenditures to match revenues would require a reduction in FTEs devoted to regulation, which would be inconsistent with investor protection. It would also exacerbate the issues facing the Division in dealing with the influx of 150 new investment advisers that registered with the Division as a result of Dodd-Frank. Contracting out the additional work is cost prohibitive due to the caliber of expertise that would be required to conduct such work.

What are the consequences of adopting or not adopting this package?

This package is primarily for revenue and if not approved, investor protection and confidence would be harmed at a time when restoration of consumer confidence in financial markets is needed to promote economic vitality in the financial services sector.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

RCW 21.20.340 would be amended to grant the authority to DFI to increase fees under the Securities Act of Washington upward by no more than $15 in order to defray the costs of administering the chapter and to maintain a reasonable reserve for the Securities Division. RCW 43.320.110 would be amended to allocate 100% of the fee increase to the Financial Services Regulation Account (Fund 300). To implement fee increases, DFI would need to adopt rules.

Expenditure and revenue calculations and assumptions

This is primarily a revenue generating package. The only expenses DFI anticipates are the costs associated with undertaking a rule-making to implement the legislation.

Assuming that licensing fees for investment advisers, investment adviser representatives, securities broker-dealers, and securities salespersons were each raised by $15 and that filings continued at the same volume as in the 2013 calendar year, the Securities Division would realize additional revenue of approximately $2.9 million per year as shown in the table below:

Filing Type	**Filings in 2013**	**Fee Increase**	**Additional Fee Revenue**
Investment Adviser - Initial	208	$15.00	$3,120
Investment Adviser - Renewal	2,194	$15.00	$32,910
Broker-dealer - Initial	105	$15.00	$1,575
Broker-dealer - Renewal	1,877	$15.00	$28,155
Investment Adviser Rep. - Initial	1,976	$15.00	$29,640
Investment Adviser Rep. - Renewal	10,629	$15.00	$159,435
Securities Salesperson - Initial	32,086	$15.00	$481,290
Securities Salesperson - Renewal	147,344	$15.00	$2,210,160
Totals:	**196,419**		**$2,946,285**

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

This package assumes that the Division will implement a fee increase of $15 on January 1, 2016 for licensing applications by investment advisers, investment adviser representatives, broker-dealers, and securities salespersons. The table below sets forth the current amount of these fees as well as what these fees would amount to including a $15 fee increase.

License	New/ Renew	RCW	Year Last Amended	Current Fee (DFI – 13%)	Increase (DFI – 100%)	Proposed New Fee
Broker-Dealer	New	.340(6)	1965	$150	$15	$165
Broker-Dealer	Renew	.340(6)	1979	$75	$15	$90
Investment Adviser	New	.340(6)	1965	$150	$15	$165
Investment Adviser	Renew	.340(6)	1979	$75	$15	$90
Securities Salesperson	New	.340(7)	1988	$40	$15	$55
Securities Salesperson	Renew	.340(7)	1988	$20	$15	$35
Investment Adviser Rep.	New	.340(7)	1988	$40	$15	$55
Investment Adviser Rep.	Renew	.340(7)	1988	$20	$15	$35

Assuming that the number of licensing applications filed will remain constant as compared to filing volume in the 2013 calendar year, each fiscal year an additional $2,946,285 in revenues would be realized and deposited into Fund 300. As just 15% of the licensing fees the Division receives on a yearly basis are collected between January 1 and June 30, however, we estimate that in FY 2016 the increased fee would generate just $441,943 in additional revenue for DFI.

The only expenses DFI anticipates are the costs associated with undertaking a rule-making to implement a fee increase. The costs of undertaking such a rulemaking in FY 2016 is calculated as .2 FTEs of a Financial Legal Examiner 4, and are included below. All costs would be one time, with no expenditure impact on future biennia.

Object Detail		**FY 2016**	**FY 2017**	**Total**
A	Salaries And Wages	10,305		10,305
B	Employee Benefits	3,176		3,176
E	Goods\Other Services	1,580		1,580
G	Travel	982		982
J	Capital Outlays	769		769
Total Objects		**16,812**		**16,812**

Agency: **102 Dept of Financial Institutions**

Decision Package Code/Title: **N1 Enhance Consumer Services Exams**

Budget Period: **2015-17**

Budget Level: **PL - Performance Level**

Recommendation Summary Text:

The Department of Financial Institutions Division of Consumer Services Examinations Unit (DFI-Exams) seeks allotment authority for 3.5 FTEs. Fulfillment of this request will help us recover from the staffing reduction of 11.5 FTEs in the 09-11 budget which was necessitated by a drop in state revenues. Building back to previous staffing levels will help the Exams unit meet the mandated number of examinations conducted each year to maintain our Conference of State Bank Supervisors (CSBS) Accreditation and improve our ability to oversee the consumer protections in our regulatory obligations.

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
300-6 Financial Services Regulation Acct-Non-Appropriated	310,943	289,943	600,886
Total Cost	**310,943**	**289,943**	**600,886**

Staffing	FY 2016	FY 2017	Annual Average
FTEs	3.5	3.5	3.5

Revenue

Fund	Source	FY 2016	FY 2017	Total
300 Financial Services	0212 Banking Licnses/Fees	64032	64,032	128,064
Total Revenue		**64,032**	**64,032**	**128,064**

Package Description:

It is vital for the Division of Consumer Services to maintain CSBS Accreditation, a supervisory authority recognized by congress that prevents us from having a federal regulator take over our supervision authority as a state. We are requesting 3.5 FTE's so that we may provide the needed level of service to appropriately provide regulatory oversight of the expanding mortgage industry. There is a considerable need and obligation to our citizens to provide consumer protection, particularly in the area of residential loan servicing, foreclosure, and loan modification services.

The Division of Consumer Services is committed to fulfilling the DFI mission of regulating financial services providers to protect and educate the public and promote economic vitality. DFI is a member of CSBS whose own mission is to ensure the ability of each state financial services regulator to provide safe, sound and well-regulated financial institutions to meet the unique financial needs of local economies and citizens. Since the 1980s, CSBS has sponsored a comprehensive state banking department performance Accreditation Program to enhance the professionalism of banking departments and their personnel. In 2009, CSBS partnered with the American Association of Mortgage Regulators (AARMR) to extend accreditation to state regulators that oversee the non-depository mortgage market. Congress recognized the value of accreditation in federal law by stating in 12 CFR 1008.113 that "A supervisory authority that is accredited under the Conference of State Bank Supervisors-American Association of Residential Mortgage Regulators Mortgage Accreditation Program will be presumed by the Bureau (Consumer Financial Protection Bureau) to be compliant" with the standards it set for effective licensing, supervision and enforcement of the non-depository mortgage market. If the agency fails to meet the standards, the Bureau could take over as the primary regulator of our licensees.

The agency's Division of Consumer Services is proud to have earned this accreditation in July 2011 after an extensive review of our administrative and examination practices, training programs, supervisory procedures and statutory powers. By maintaining the high standards set by CSBS and AARMR in the Accreditation Program, DFI has strengthened our regulatory capabilities in the support of consumer protection. The opportunity to increase our examination capacity to keep pace with our significant increase in the number and type of licensees will help us maintain the CSBS Accreditation which enhances our ability to ward off federal preemption of our regulatory authority and to preserve our state's ability to protect our citizens' financial interests.

Funding to support our efforts comes directly from our licensees. In return, they receive the high quality regulatory service they expect to assist their industries in remaining compliant with regulatory requirements.

The Division of Consumer Services is self-supported. We receive no General Fund support and we operate from a non-appropriated dedicated fund. This Decision Package requests only allotment authority for 3.5 FTEs to be used as described below:

# of FTEs	Position Classification	Unit Assignment
1.0	Management Analyst 1	Exams
2.0	Financial Examiner 2	Exams
0.5	Fiscal Analyst 3	Admin
3.5 Total		

The DFI-Exams unit conducts examinations under the Consumer Loan Act and Mortgage Broker Practices Act. The examinations vary in the length of time to complete depending on the complexity of the type of business activity the licensee performs. Under the Consumer Loan Act, prior to 2010 the examinations unit only conducted examinations of licensees that originated loans. These examinations required approximately 250 FTE hours to perform. In 2010 the Consumer Loan Act was amended to require DFI-Exams to perform examinations on residential mortgage loan servicers. A residential mortgage servicing examination takes approximately 390 FTE hours. When the law changed we licensed 42 residential mortgage loan servicers. That number has grown to 159 companies which necessitate an increase of 45,000 exam hours. The mortgage servicers we regulate handle 470,526 Washington loan servicing accounts worth $92.9 billion in home loans. Along with a 266 percent growth in these types of companies, we have also seen a significant increase in consumer complaints.

Our current staffing has only allowed us to complete eight examinations of mortgage loan servicers this year due to the complexity of reviewing current, delinquent, or modified home loan servicing accounts. This lack of resources impacts consumer protection because DFI focuses on violations that harm consumers and attempts to obtain restitution for consumers who suffer financial losses as a result of the violations. Due to predatory loan servicing practices, whether intentional or inadvertent, there have been eight large national settlements with the nation's largest mortgage servicers resulting in restitution and other forms of borrower relief. DFI participates in these settlements often providing technical support. Oversight of these institutions is paramount to ensuring we protect consumers' homes, an important asset that is directly related to a vibrant economy. In order to complete an examination of each servicer once every five years, an Accreditation Program requirement, we must conduct 32 examinations per year. We are requesting two FTEs to enable us to fulfill our servicing examination requirement. The additional FTEs will help us meet the Accreditation Program requirement of being able to complete 160 examinations annually. In the calendar year 2013 we completed 122 examinations.

Approximately 798 licensees regulated by DFI-Exams file Mortgage Call Reports (MCR) quarterly through NMLS and 491 licensees file Annual Assessments through our online filing system. The MCR is being expanded to accept data from money transmitters and check cashers and sellers which will expand our review to nearly 1,000 licensees reporting information to NMLS. A Management Analyst 1 position is needed in the DFI-Exams Unit to review MCR reports to ensure timely and accurate filing. This position would also prepare analytical reports about our licensees that would help us evaluate areas of risk for examination planning and reporting of annual volume statistics to the public. By being able to create and maintain reports on our licensees from the MCR data, we could better evaluate our active licensees for risk variables.

The addition of 3 program FTE will increase the impact on our administration division, thus we are also requesting an additional .5 FTE to bridge the gap for an increased workload due to the increase in the program FTEs.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

This package will impact the following DFI core activities:

- Licensing
- Registration
- Examinations
- Enforcement

The goal of the examinations unit is not to just meet the CSBS Accreditation standard of 160 examinations per year but be able to adjust to changing trends and an increasing number of industries we regulate which will provide greater consumer protection. The MA1 can contribute 12 desk examinations per year. Our Residential Servicing area is our fastest growing section; we completed 8 examinations in 2013 with 4 FTEs. The addition of 2 FTEs would increase our production by at least 4 examinations per year. The combined FTE increase is estimated to create an additional 16 examination per year at a minimum. The FTEs are expected to increase production from 122 exams to 138 exams which would bring us closer to meeting our CSBS Accreditation expectation.

Performance Measure Detail

Activity: **A005Examinations**

		Incremental Changes	
		FY 2016	**FY 2017**
	Outcome Measures		
002477	Percentage of consumer services licensees examined per quarter.	2.00%	2.00%

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package is essential to implement the following strategies:

Strategy 1-1-1: Examine regulated entities as required by statute or as determined by risk-based analysis.
The DFI-Exams unit uses a risk based strategy to help identify the regulated entities that need additional oversight. Part of the strategy is analyzing complaints, MCRs, and MCRs compared to annual assessments as reported by the licensees. The addition of an MA1 will allow us to have a resource focused on this analysis, a duty that is currently split up among examiners and supervisors. With the additional MA1 FTE we can have one person focus on identifying and confirming behavior that is inherent to risk while other examiners are conducting routine examinations.

Strategy 1-1-4: Maximize efficiencies and minimize the onsite impact to regulated entities
Additional FTE's will help us maximize efficiencies by having more resources to conduct offsite examinations. This minimizes the impact on regulated entities by not disrupting their business with the presence of examiners in their typically small business offices. Reducing travel time also reduces the associated administrative work of processing travel forms and coordinating travel. The examination unit uses offsite examinations when appropriate and uses existing technology and processes to accomplish the offsite work efficiently. The MA1 position will help us produce more offsite examinations.

Strategy 4-1-2: Reduce the amount of paper collected by collecting data electronically and storing directly into the agency's databases.

The examinations unit has recently changed to a paperless examination structure. Examiners and administrative staff have been trained to communicate with licensees via electronic mail. We strive to preserve a paperless environment.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This decision package will support Results Washington Goal 2: Prosperous Economy by reducing the time a business spends on compliance. Examination processes will be streamlined and standardized resulting in benefits to business and consumers. This decision package will also support Governor Inslee's goal to create an economic climate where innovation and entrepreneurship can continue to thrive by reducing regulatory barriers for businesses. Reducing the number of on-site exams positively impacts businesses allowing them to devote more attention to their business and customers.

What are the other important connections or impacts related to this proposal?

In order to maintain the CSBS Accreditation, we must examine 20 percent of all non-depository mortgage related businesses each year. We have not been able to examine at this level due to a lack of resources. This decision package will enable us to maintain our overall examination performance and apply new resources to meeting the CSBS Accreditation requirements.

What alternatives were explored by the agency, and why was this alternative chosen?

In the past, we have used alternatives such as temporary and contract staff for examination functions. These alternatives have not achieved satisfactory results due to lack of expertise, costs exceeding those of employees, as well as the need for repeated training and heavy oversight. We did not consider similar alternatives (contracting out) as an option for meeting our current needs due to this past experience. Putting the CSBS Accreditation in jeopardy harms our reputation on a national level and creates potential harm for consumers due to reduced examinations of the regulated industries.

What are the consequences of adopting or not adopting this package?

If this package is not adopted we risk our CSBS Accreditation which would impact our standing on a national level and compromise our ability to fulfill our mission

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Total expenditures in year 1 are estimated at $310,943. In year 2 and beyond, expenditures are estimated at $289,943. Detailed calculations follow.

Expenditures include a Management Analyst 1 (1FTEs) at $37,620 and 2 Financial Examiners 2s (2 FTEs) at $109,008 (2 staff x $54,504 annual salary).

Benefits are calculated at 31.60 percent of salaries and goods and services are calculated at 17.43 percent of salaries.

Administrative overhead is calculated at 15 percent of program FTEs using a Fiscal Analyst 3 as a representative position.

Total revenue is estimated to be $64,032 per year as calculated below.

An FTE conducting examinations in residential servicing averages 116 hours per examination. By increasing the number of examiners in this area by 2 FTEs, we can effectively increase the number of examinations by 4 per year or 464 billable hours at $69 per hour, or $32, 016 annual increase per FTE in examination fee revenue. Additional revenue from assigning 2 additional examiners to these exams will be $64,032 (2 positions x 464 hours x $69 per hour).

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

One- time costs of $12,000 are included for Capitalized Equipment ($4,000 x 3 positions = $12,000). All other costs are ongoing into future biennia.

Object Detail		**FY 2016**	**FY 2017**	**Total**
A	Salaries And Wages	146,628	146,628	293,256
B	Employee Benefits	46,332	46,332	92,664
E	Goods\Other Services	25,557	25,557	51,114
G	Travel	50,000	50,000	100,000
J	Capital Outlays	12,000		12,000
Total Objects		**280,517**	**268,517**	**549,034**

Agency: **102 Dept of Financial Institutions**

Decision Package Code/Title: **N2 Enhance Licensing Oversight**

Budget Period: **2015-17**

Budget Level: **PL - Performance Level**

Recommendation Summary Text:

The Department of Financial Institutions (DFI) Division of Consumer Services Licensing unit is seeking allotment authority for one FTE. This request will help us address the increasing number of licensees and unfamiliar business models by enhancing our ability to respond quickly to licensing requests, and improving our ability to oversee the consumer protections in our regulatory obligations.

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
300-6 Financial Services Regulation Acct-Non-Appropriated	143,098	139,098	282,196
Total Cost	**143,098**	**139,098**	**282,196**

Staffing	FY 2016	FY 2017	Annual Average
FTEs	1.2	1.2	1.2

Package Description:

The Department of Financial Institutions' (DFI) Division of Consumer Services is one of four self-supported operational divisions and we oversee five industry groups: mortgage brokers, consumer loan companies, check cashers, money transmitters and escrow companies. DFI receives no General Fund support and we operate from a non-appropriated dedicated fund. Funding to support our efforts comes directly from our licensees. In return, they receive the high quality regulatory service to assist their industries in remaining compliant with regulatory requirements. This package requests allotment authority for 1.2 FTEs.

The Division of Consumer Services (DCS) is committed to fulfilling the DFI mission of regulating financial services providers to protect and educate the public and promote economic vitality. It is crucial for DCS to maintain the accreditation described below in order to ensure continued regulation at the state level and prevent transfer of supervisory authority to a federal regulator. We are requesting 1 FTE so that we have the capacity to provide the necessary level of oversight to the expanding mortgage industry.

DFI is a member of the Conference of State Bank Supervisors (CSBS) whose mission is to assure the ability of each state financial services regulator to provide safe, sound and well-regulated financial institutions to meet the unique financial needs of local economies and citizens. Since the 1980s, CSBS has sponsored a comprehensive state banking department performance Accreditation Program to enhance the professionalism of banking departments and their personnel. In 2009, CSBS partnered with the American Association of Mortgage Regulators (AAMR) to extend accreditation to state regulators that oversee the nondepository mortgage market. Congress recognized the value of this accreditation in federal law by stating in 12 CFR 1008.113 that "A supervisory authority that is accredited under the Conference of State Bank Supervisors-American Association of Residential Mortgage Regulators Mortgage Accreditation Program will be presumed by the Bureau (Consumer Financial Protection Bureau) to be compliant" with the standards it set for effective licensing, supervision and enforcement of the non-depository mortgage market. If the state does not continue to meet CSBS Accreditation standards, the Bureau could take over as the primary regulator of our licensees.

DCS is proud to have earned CSBS Accreditation in July 2011 after an extensive review of our administrative and examination practices, training programs, supervisory procedures and statutory powers. By maintaining the high standards set by CSBS and AARMR in the Accreditation Program, we have strengthened our regulatory capabilities in the support of consumer protection. The opportunity to increase our oversight capacity to keep pace with our significant increase in the number and type of licensees will help us maintain the

CSBS Accreditation which enhances our ability to ward off federal preemption of our regulatory authority and to preserve our state's ability to protect our citizens' financial interests.

Year over year, the DCS Licensing unit has seen a large increase in the number of licenses issued across all license types. By comparing first quarter 2014 to first quarter 2013, we see that Mortgage Loan Originator (MLO) license application volumes have grown by 50 percent and Consumer Loan and Mortgage Broker branch application volumes have grown by 29 percent. We also continue to see a large amount of change in business models under the Uniform Money Services Act, including virtual currency businesses. These innovative business models require an in depth analysis to determine whether and what type of license is required for the business model.

We are transitioning additional license types to the Nationwide Mortgage Licensing System (NMLS), a nationwide licensing portal, which requires a great deal of coordination on the national level as well as communication with individual licensees in order for the transitions to be successful. In addition, we are striving to expand the use of the NMLS as our primary system of record which will require a commitment of time to train staff and mentor them through the change.

Part of managing our licensees to success is being able to assist them with establishing their businesses on firm footing and assisting them in meeting their ongoing obligations to maintain their licenses. While currently we are unable to do an in-depth review of license applications due to the substantial increase in licensees, both our licensees and Washington consumers will benefit from a more in depth review of applications at the license application level to ensure that licensees are fully prepared to comply with the law once licensed.

The requested additional FTE will allow the DCS Licensing unit to review financial statements, Mortgage Call Reports (MCR), and Annual Assessments which will improve efficiencies and response times. Licensing staff are also in an excellent position to contribute to examination efforts which directly supports our ability to maintain CSBS Accreditation. Adding resources in the DCS Licensing area will assist the division by leveraging a coordinated effort between the units to protect the interests of licensees and consumers. An additional FTE resource will allow for limited off-site examinations of new licensees so we will be able to spot problems and correct them before significant consumer harm can occur. These off-site examinations will assist the exams unit in meeting the accreditation standard of 160 exams per year. Their current staffing level allows for 122, which falls short of CSBS Accreditation requirements and reduces the oversight we are able to provide to the increasing numbers of licensees.

To this end, we need the allotment authority for 1 new FTE at the FE4 level responsible for the in depth review of license applications for compliant financial standing, appropriate business models and adequate consumer protections. This FTE will be responsible for the most complex licensing decisions and also for off-site examinations of the newest licensees during their startup period.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

This package will impact the following DFI core activities:

- Licensing
- Registration
- Examinations
- Enforcement

Turn-around times for processing a Consumer Loan Company license will be directly influenced by the additional FTE resource. Licensees will benefit from additional resources devoted to reviewing application materials for faster response time as well as enhanced expertise for ensuring that new entrants are well informed and ready to serve consumers in a responsible manner. In particular, additional resources for review and processing of the increasingly complex money services businesses will allow existing staff to refocus efforts on the other license types. The additional resources will ensure the most efficient assignment of personnel and improve response times by allowing the less complex applications to be handled quickly. The anticipated improvements are expected to be:

- Increase from 80% to 82% of new MLO license applications being completed within 15 days of receipt
- Increase the average number of licenses issued per FTE from 70 to 72
- Reduce the average number of days to process and issue a company license from 25 to 23

The DCS Exam unit is mandated to complete 160 examinations per year in order to maintain CSBS Accreditation while also examining at least 20 percent of all main office license types. They have not had the capacity to achieve both goals and an additional resource at the licensing level will allow us to share the workload and improve the ability of the DCS Exams unit to fulfill both goals. We expect to contribute at least one additional off-site exam per month.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package is essential to implementing the following strategies**:**

Strategy 1-1-1: Examine regulated entities as required by statute or as determined by risk-based analysis.
The DCS Exams unit uses a risk based strategy to help identify the regulated entities that need additional oversight. Part of the strategy is analyzing complaints, MCRs, and annual assessments. The addition of an FE4 will allow us to have a resource focused on this analysis. The FTE will also assist with off-site exams to identify and confirm behavior that is inherently risky while other examiners are conducting routine examinations.

Strategy 1-1-4: Maximize efficiencies and minimize the onsite impact to regulated entities
The additional FTE will allow us to maximize efficiencies by having more resources to conduct offsite examinations. This minimizes the impact on regulated entities by not disrupting their business with the presence of examiners in their typically small business offices. Reducing travel time also reduces the associated administrative need for coordinating travel. An additional FTE in DCS Licensing will assist us in performing limited offsite examination work in support of the Exams unit.

Strategy 4-1-2: Reduce the amount of paper collected by collecting data electronically and storing directly into the agency's databases.
The DCS Licensing unit is striving to reduce the amount of paper received from and mailed to licensees. We provide resources for the electronic submission of applications, mortgage call reports and annual assessments. Additionally, we are transitioning all license types to the nationwide licensing portal (NMLS) and conducting as much communication as possible using electronic formats.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This decision package will support Governor Inslee's goal to create an economic climate where innovation and entrepreneurship can continue to thrive by reducing regulatory barriers for businesses. Expanding the use of NMLS to additional license types increases the efficiency of the licensing process by reducing paperwork and standardizing electronic applications. Reduction of on-site examinations positively impacts businesses allowing them to devote more attention to business expansion and customer service. This decision package will also support Results Washington Goal 2: Prosperous Economy by reducing the time a business spends on compliance. Licensing, examination and complaint processes will be streamlined and standardized resulting in benefits to business and consumers.

What are the other important connections or impacts related to this proposal?

In order to maintain the CSBS Accreditation, we must examine 20 percent of all non-depository mortgage related businesses each year. We have not been able to examine at this level due to a lack of resources. This decision package will enable us to maintain our overall examination performance and apply new resources to meeting the CSBS Accreditation requirements.

What alternatives were explored by the agency, and why was this alternative chosen?

In the past, we have used alternatives such as temporary and contract staff for licensing and examination functions. These alternatives have not achieved satisfactory results due to lack of expertise, costs exceeding those of employees, as well as the need for repeated training and heavy oversight. We did not consider similar alternatives as an option for meeting our current needs due to our past experience. Putting the CSBS Accreditation in jeopardy harms our reputation on a national level and creates harm for consumers due to reduced exam coverage. Licensing could continue the present level of review of applications for licensure which could result in missed opportunities to identify business models with a low likelihood of success or high potential for consumer harm.

What are the consequences of adopting or not adopting this package?

If this package does not receive funding we risk our CSBS Accreditation which would impact our standing on a national level and compromise our ability to fulfill our mission. Our ability to complete enhanced reviews of applicants would be reduced which could impact turn-around times for issuing licenses and potentially compromise consumer protections.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

Total expenditures in year 1 are estimated at $143,098. In year 2 and beyond, expenditures are estimated at $139,098. Detailed calculations follow.

Expenditures include one Financial Examiner 4 (1 FTE) at $69,756. Benefits are calculated at 31.60 percent of salaries and goods and services are calculated at 17.43 percent of salaries.

Administrative overhead is calculated at 15 percent of program FTEs using a Fiscal Analyst 3 as a representative position.

Total revenue in the form of additional license and application fees as well as revenue from participation in examinations is indeterminate.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

One-time costs of $4,000 are included for Capitalized Equipment. All other costs are ongoing into future biennia.

Object Detail		**FY 2016**	**FY 2017**	**Total**
A	Salaries And Wages	76,463	76,463	152,926
B	Employee Benefits	24,059	24,059	48,118
E	Goods\Other Services	13,576	13,576	27,152
G	Travel	25,000	25,000	50,000
J	Capital Outlays	4,000		4,000
Total Objects		**143,098**	**139,098**	**282,196**

FINAL

Agency:	**102**	**Dept of Financial Institutions**
Decision Package Code/Title:	**N3**	**Enhance Credit Union Exams**
Budget Period:	**2015-17**	
Budget Level:	**PL - Performance Level**	

Recommendation Summary Text:

The types and complexities of risk in today's financial services marketplace has increased significantly, and there is an essential need for the DFI Division of Credit Unions (DCU) to increase examiner FTEs to effectively address these risks. DCU seeks allotment authority for an additional 2.3 FTEs to support the growing demand for additional examination hours to address the increased complexity of performing exams. Recent DCU exam trends reflect that more examiner hours will needed for each examination and the number of examinations will increase each year. This request is vital to DCU continuing to have an effective examination program in the future.

Fiscal Detail

Operating Expenditures	**FY 2016**	**FY 2017**	**Total**
300-6 Financial Services Regulation Acct-Non-Appropriated	254,790	246,790	501,580
Total Cost	**254,790**	**246,790**	**501,580**

Staffing	**FY 2016**	**FY 2017**	**Annual Average**
FTEs	**2.3**	**2.3**	**2.3**

Package Description:

General Information

DFI was formed in 1993 and its mission is to regulate financial services, to protect and educate the public, and to promote economic vitality. DFI has four program divisions that support various industries within the financial services sector. The Division of Credit Unions (DCU) is one of these four divisions. DCU is the primary regulator for 60 state chartered credit unions with total assets in excess of $34.9 billion and over 2.8 million member owners. DFI is self-supported, receives no General Fund support and operates from a non-appropriated dedicated fund. Therefore, this package requests only allotment authority for 2.3 FTEs.

Present Situation

DCU is required to examine state chartered credit unions to determine their safety and soundness condition, and to determine their compliance with state and federal laws and regulations. DCU currently does not have enough examiner FTE capacity to adequately address its needs for performing specialized examinations and at the same time meet its regulatory safety and soundness examination requirements. Specifically, the total number of exams performed by DCU increased from 67 in 2011 to 80 in 2013, and the average number of examiner hours per exam increased from 326 in 2011 to 408 in 2013. These trends are expected to continue.

After the Great Recession of 2008/2009, there has been increased regulatory scrutiny of financial institutions, including credit unions, which has in turn greatly increased the complexity of the analysis performed by examiners at credit unions. As a result the average number of hours performed per examination and the total number of exams performed each year has increased as well.

The following are four examination areas, which have greatly increased in the size (# of hours) and the overall complexity of examination analysis since the Great Recession of 2008/2009:

(1) Credit Risk Management (CRM) - CRM analysis and examination hours have increased significantly since the Great Recession to help ensure that the levels of loan losses that occurred during the recession are not repeated.

(2) Asset Liability Management (ALM) – The complexity of interest rate risk (IRR) modeling and the overall regulatory requirement for IRR management has increased significantly due to the historically low interest rate environment and the regulatory focus on prudently reducing IRR exposure. It is important to limit IRR exposure to appropriate levels so that depository institution failures caused by rapidly increasing interest rates in the late 1980s does not occur again (Savings and Loan Crisis).

(3) Information Systems Security - Another major concern is cybersecurity and the safeguarding of consumer confidential information. This has also increased the demand for examination hours.

(4) Compliance With the Consumer Protection Laws - Since its inception in 2010, the Consumer Finance Protection Bureau (CFPB) has created various federal regulations, which have placed a higher emphasis on compliance with these regulations at credit unions. Because the CFPB only examines credit unions with over $10 billion in total assets, almost all the examination for compliance with the new CFPB consumer protection regulations has fallen on DCU for its regulated credit unions. Additionally, DCU is now performing separate compliance exams on credit unions with over $500 million in total assets.

Presently, credit union examinations are more complex and there is a higher level of regulatory scrutiny toward credit unions. This has created a need for more highly trained examiners and more examination hours. It is important that DCU keep up with these trends by hiring skilled individuals and training them to be effective credit union examiners. This is fundamental toward maintaining a healthy state chartered credit union industry in Washington, which is less susceptible to individual credit union failures and better protects the interests of credit union member owners.

Problem Addressed

Approving this decision package will provide DCU with additional examiner resources to more effectively perform examinations, increase needed DCU capacity to perform exams, help DCU better control individual credit union and credit union industry risks and concerns, and benefit member consumers of credit unions products and services.

As previously mentioned, approval of this decision package will allow DCU to hire two additional examiners. DCU projects an increase of approximately 2,746 examiner hours per year from this decision package request, almost exclusively from onsite examination hours. The increase of 2.3 FTEs will greatly enhance DCU's safety and soundness examination effectiveness, and allow DCU to keep pace with its need of performing more exams per year and to provide more examiner hours per each examination.

Proposed Implementation

Prior to the beginning of the 15-17 biennium, DCU will begin recruiting for two additional Financial Examiners.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

We estimate that two DCU financial examiners will result in additional examiner hour capacity of 5,492 hours during the biennium. Over 90 percent of these hours are anticipated to be onsite at credit unions. This 5,492 increase in financial examiner hours is necessary to perform longer more complex examinations. Using the following assumptions, we could extrapolate that an additional 19.5 exams could be completed during the 15-17 biennium, if this decision package is approved:

- It is estimated that 30 percent of all exam work on DCU exams is performed by the NCUA during joint exams; and
- It is estimated that the average number of examiner hours per exam will be 402.

The 5,492 of additional examiner hours will result in the following positive outcomes:

- Create a more prosperous economy by improving the vitality of Washington businesses and individuals. This is a Results Washington goal.
- Create a safer and more fundamentally sound credit union industry in Washington.
- Benefit credit union members (customers) by helping ensure that Washington state chartered credit unions are complying with the federal consumer compliance laws and federal and state regulatory requirements.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

The objective of this request is to provide more enhanced, more thorough and more frequent examinations of Washington state-chartered credit unions. Currently, DCU oversees 60 state-chartered credit unions. It is important to perform more thorough, more specialized and longer examinations of these 60 credit unions, and presently DCU does not have the internal resources to do this.

This decision package is essential to implementing the DFI strategic plan of promoting a stable and competitive state financial services industry that enhances economic vitality. It is also important to accomplishing the following agency strategic goals:

- Conduct an efficient and effective examination program for DFI regulated entities, including credit unions;
- Examine regulated entities as required by statute or as determined by risk-based analysis;
- Take action when regulated entities reach a weakened financial condition, are engaged in unsafe or unsound practices, or violate laws;
- Maximize efficiencies and minimize the onsite impact to regulated entities;
- Train staff on exam techniques, legal issues, and emerging industry technologies; and
- Modernize and update statutes, rules, and processes to anticipate and respond to changing financial services and regulatory needs.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This decision package provides essential support to the Results WA priority of a prosperous economy. It will advance Washington State's effectiveness in meeting its Results Washington role to improve the economic vitality of businesses and individuals. A safer, sounder, and more technologically secure credit union system is vital to the economic development, job formation, and security of financial resources. Currently, in the state of Washington, credit unions hold approximately 20 percent of the total financial institution deposits, while nationwide the average is approximately six or seven percent. Additionally, WA state-chartered credit unions represent over 90 percent of federal and state-chartered credit union's total assets in Washington. The total assets at WA state chartered credit unions increased from $24.7 billion (12/31/2010) to $33.7 billion (12/31/2013), a 36 percent increase. Therefore, one can conclude that this industry is a high priority to the continued vitality of Washington State.

What are the other important connections or impacts related to this proposal?

Washington state chartered credit unions (DCU's stakeholders) will look favorably at the proposed increase in FTEs for the following reasons:

- Credit unions, especially smaller credit unions, rely on DCU financial examiners to provide consultative advice and constructive feedback. By increasing examiner resources (hours) DCU will better provide these services to credit unions; and
- DFI is self-supported, receives no General Fund support and operates from a non-appropriated dedicated fund. State chartered credit unions executives have stressed to DCU management that they would like to have their quarterly asset assessments (DCU's funding source) go towards funding DCU programs that benefit credit unions.

What alternatives were explored by the agency, and why was this alternative chosen?

The main alternative would be to hire a third party to perform DCU safety and soundness exams. This alternative is not recommended for the following reasons: (1) Credit union examinations are very specialized, and there currently aren't any vendors who perform individually, or even collectively, most of the tasks of performing safety and soundness exams; (2) DFI has hired contractors in the past to perform certain examination functions with the result being more expensive; and (3) The hired contractors work did not meet examination standards for documentation and evidence in the event of an enforcement action.

Examinations are better conducted by DCU examiners who are knowledgeable and experienced in performing examination work, and who understand DFI and DCU's regulatory philosophy. As with all the examination programs DFI administers, it is important to have a strong internal exam program that can ensure that credit unions adhere to safety and soundness and regulatory requirements.

What are the consequences of adopting or not adopting this package?

If this decision package is not adopted, the DCU will not be able to maintain an effective and dynamic examination program. Approving this decision package will provide DCU with additional examiner resources to more effectively perform examinations, increase needed DCU capacity to perform exams, help DCU better control individual credit union and credit union industry risks and concerns, and benefit the consumers (members) of credit unions products and services.

The pace of change in information security is quickly surpassing DCU's ability to effectively regulate it. DCU needs an examination program that is dedicated to ensuring the security of member and credit union information, and to ensure that credit union technology is advancing and is used in a safe and sound manner. Currently, DCU has only one trained IS&T examiner. Without funding, the DCU will be limited to the abilities of one person. Note: DCU has submitted a decision package request (15-17 biennium to spend up to $300,000 for an IS&T examination contract). With a dedicated IS&T examination team, the DCU will be able to better safeguard Washington's credit union industry from cyber threats on a continual basis.

Also, without the additional 2.3 FTEs, DCU will not be able to maintain the current examination schedule. The complexity of credit union examinations has greatly increased since the Great Recession of 2008/09, especially in the areas of credit risk management, asset/liability management (ALM), examining for compliance with the federal consumer compliance laws, and cybersecurity and ensuring member confidential information is secure. Not funding the additional FTEs will decrease the number of examinations the DCU can accomplish by an estimated 19.5 full examinations during the 15-17 biennium and increase the risks to safety and soundness in Washington's credit unions.

Additionally, the consequences of not funding this package are:

- Less protection for consumers and decreased member satisfaction in Washington State chartered credit unions. This in turn, results in more consumer complaints, more potential law suits, and increased fines and damages assessed credit unions.
- Less vibrant and healthy credit unions in Washington. The financial services industry has received a lot of blame for the Great Recession of 2008/09, and it is important that DCU continue to advance its efforts to more effectively and efficiently examine Washington State chartered credit unions. By doing this, DCU will reduce risks and losses at individual credit unions and help the credit union industry and individual credit unions to stay vibrant and healthy.

It is important that DCU continue to enhance and augment its examination efforts to be consistent with other enhanced regulatory agency efforts to ensure better and consistent safety and soundness examinations. This in turn, will help protect consumer's financial interests, promote a stronger economy in Washington, and ensure healthier and stronger credit unions. Also, it will produce more satisfied, and more understanding and knowledgeable credit union members.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

Expenditures include two Financial Examiner 3 positions at an estimated cost of $63,192 per year. The total annual salary increase for these two positions is $126,384. Benefits are calculated at 29.38 percent of salaries and goods and services are calculated at 10.28 percent of salaries. Also, travel expenses are estimated at an additional $50,000 per year for the increase in two Financial Examiner FTEs. Administrative overhead is calculated at 15 percent using a Fiscal Analyst 3 as a representative position.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

One-time costs of $8,000 are included for Capitalized Equipment (computers @ $4,000 x 2 positions) in year one. All other costs are ongoing into future biennia.

Object Detail		**FY 2016**	**FY 2017**	**Total**
A	Salaries And Wages	139,798	139,798	279,596
B	Employee Benefits	41,162	41,162	82,324
E	Goods\Other Services	15,830	15,830	31,660
G	Travel	50,000	50,000	100,000
J	Capital Outlays	8,000		8,000
Total Objects		**254,790**	**246,790**	**501,580**

FINAL

Agency: **102 Dept of Financial Institutions**

Decision Package Code/Title: **N4 Increase Technology Exam Expertise**

Budget Period: **2015-17**

Budget Level: **PL - Performance Level**

Recommendation Summary Text:

Cybersecurity attacks against financial institutions are becoming more frequent, more sophisticated and more widespread. The DFI Division of Credit Unions (DCU) seeks allotment authority to expand its Information Systems & Technology (IS&T) examinations during the 15-17 biennium via a contract. DCU requests up to $300,000 for the IS&T contract. This contract is necessary to add IS&T examination expertise, skills, knowledge and resources to the limited IS&T exam resources DCU currently has. The vendor selected for this contract would work directly with the DCU IS&T examiner and the DCU IS&T contract manager. The vendor would perform examinations independently and jointly with the DCU IS&T examiner(s).

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
300-6 Financial Services Regulation Acct-Non-Appropriated	150,000	150,000	300,000
Total Cost	**150,000**	**150,000**	**300,000**

Package Description:

General Information

DFI was formed in 1993 and its mission is to regulate financial services to protect and educate the public, and to promote economic vitality. DFI has four program divisions that support various industries within the financial services sector. The Division of Credit Unions (DCU) is one of these four divisions. DCU is the primary regulator for 60 state chartered credit unions with total assets in excess of $34.9 billion and over 2.8 million member owners. DFI is self-supported, receives no General Fund support and operates from a non-appropriated dedicated fund. Therefore, this package requests only allotment authority for the IS&T contract.

Present Situation

DCU is required to examine state chartered credit unions to determine their safety and soundness condition and to determine their compliance with state and federal laws and regulations. DCU currently has only one IS&T examiner and it doesn't have the IS&T examination capacity or the in-house IS&T examination resources to adequately address the needs for performing specialized information systems security and electronic banking examinations. Due to increased cybersecurity threats, the technological advances in how money is transacted, and the sophistication and abilities of hackers to compromise financial systems, the need for IS&T examination resources and skills continues to grow rapidly. These trends are expected to continue.

Approval of this decision package will significantly strengthen DCU's ability to perform IS&T examinations, increase DCU's ability to assess overall IS&T concerns and risks, and provide additional resources so DCU can better address weak information security systems and controls. This in turn will benefit credit union members by reducing breaches of member confidential information, reduce potential liabilities to cyber threats (both monetary and reputation), and produce more technologically sound and advanced credit unions.

DCU will also profit by working with a qualified third party vendor to help enhance its IS&T examination program. Additionally, DCU will benefit from the IS&T vendor sharing its knowledge and skills with DCU staff during exams.

Problem Addressed
Approving this decision package will provide DCU with additional IS&T examination capacity until it fully develops its IS&T team. DCU anticipates that its IS&T exam team will be operating in a self-sufficient capacity by the end of the IS&T contract in 2017, and that this team will meet DFI's expected outcome of a strong robust IS&T examination program. The IS&T contract will serve as a bridge until DCU is better situated to perform more sophisticated and timely IS&T security examinations.

The expected outcomes that will result from the contract include a reduction in IT security and E-banking risks at state-chartered credit unions and DCU's ability to maintain the current exam workload in spite of increased IS&T examination hours. These outcomes tie directly to DFI's strategic goals and the Results Washington goal of a prosperous economy by improving the economic vitality of businesses and individuals.

Proposed Implementation
Prior to the beginning of the 15-17 biennium, DCU will send out a request for proposal to vendors. We anticipate a contract to be finalized and entered into by no later than June 30, 2015, with examination support beginning no later than August 1, 2015. If this decision package is approved, it is DCU's intent to replace the proposed IS&T contract with a full-time IS&T lead financial examiner with one additional examiner fully trained to conduct IS&T examinations before the end of the 15-17 biennium.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
DCU successfully implemented IS&T vendor contracts from July 2003 to June 2011. The vendors performed IS&T exams at state chartered credit unions. During this time period (four years for each vendor) the vendors successfully trained a DCU IS&T examiner and they effectively performed exams both independently and with DCU examiners. Additionally, both vendors helped DCU develop and enhance its IS&T examination format.

The expected outcomes for a new IS&T vendor would be the same as past contracts. DCU would use the selected vendor for the following: (1) Perform IS&T exams at state chartered credit unions; (2) Work with DCU management and IS&T examiners to develop a more robust and improved IS&T examination program; and (3) Have the vendor train DCU examiners to perform more sophisticated and enhanced examination techniques.

It is estimated that DCU will pay the selected vendor $200 an hour and the vendor would pay for its travel costs and not be paid for her/her travel time. Therefore, the $300,000 contract amount would pay for up to an estimated 1,500 examination hours. This in turn would result in the funding of approximately 37.5 credit union IS&T exams estimated at 40 hours each.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

The objective of this request is to provide more enhanced, more thorough and more frequent Information Systems Security and Electronic Banking examinations of state-chartered credit unions. The IS&T contract will help reduce IT security and E-banking risks at the credit unions, and it is key to accomplishing the following agency strategic goals:

- Conduct an efficient and effective examination program for DFI regulated entities, including credit unions;
- Examine regulated entities as required by statute or as determined by risk-based analysis;
- Take action when regulated entities reach a weakened financial condition, are engaged in unsafe or unsound practices, or violate laws;

- Maximize efficiencies and minimized the onsite impact to regulated entities;
- Train staff on exam techniques, legal issues, and emerging industry technologies; and

Modernize and update statutes, rules, and processes to anticipate and respond to changing financial services and regulatory needs.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This decision package provides essential support to the Results WA priority of a prosperous economy. It will advance Washington State's effectiveness in meeting its role to improve the economic vitality of businesses and individuals. A technologically secure credit union system is vital to the economic development, job formation, and security of financial resources. Currently, in the state of Washington, credit unions hold 20 percent of the total financial institution deposits, while nationwide the average is approximately six or seven percent. Additionally, state-chartered credit unions represent over 90 percent of federal and state-chartered credit union's total assets in Washington. Therefore, one can conclude that the information security of this industry is a high priority to the continued vitality of the Washington State credit union charter.

By improving credit union informational security, this decision package will also help DCU accomplish the following DFI strategic goals:

- Promote a stable and competitive state financial services industry that enhances economic vitality;
- Protect citizens' financial interests; and
- Manage resources and leverage technology to ensure effective agency financial systems and business processes.

Also, this decision package helps DCU meet the DFI strategic goal of having an examination team that can effectively examine state-chartered credit unions programs in a timely fashion. Specifically, an estimated 1,500 hours of examination time would be created from implementing an IS&T contract, which equates to 37.5 additional exams at 40 hours per exam during the 15-17 biennium. These hours are needed to ensure an effective and efficient IS&T examination program. Note: The total assets at WA state chartered credit unions increased from $24.7 billion (12/31/2010) to $33.7 billion (12/31/2013), a 36 percent increase.

Implementing an IS&T contract would enhance the Results Washington goals of a prosperous economy and an efficient, effective, and accountable government by improving the economic vitality of businesses and individuals. The additional IS&T examiners are critical to DCU's ability to keep pace with current industry demand for longer and more specialized IS&T examinations. Lack of IS&T examination support increases the risks to safety and soundness in Washington's credit unions.

What are the other important connections or impacts related to this proposal?

None

What alternatives were explored by the agency, and why was this alternative chosen?

The main alternative would be for DCU to only use its own internal examination resources to perform all the IS&T examinations at credit unions. This alternative would be difficult to implement, because DCU currently has only one IS&T examiner. DCU will look to hire an individual with the right skill set to lead the DCU IS&T exam program. After weighing DCU's IS&T examination needs against the training requirements and time to fully develop an expert in IS&T, it was determined that an IS&T contract would be an effective bridge to move forward with. The contract would provide up to 1,500 additional IS&T examination hours from a qualified vendor, to perform exams during the next biennium. This would effectively bridge the IS&T examination gap that DCU will have during the 15-17 biennium, while allowing the IS&T contractor to work with DCU to develop and implement an expanded and enhanced IS&T program.

Although examinations are usually better conducted by DCU examiners who are knowledgeable and experienced in conducting exams, DCU has a track record of working successfully with IS&T contractors. Approving this decision package will provide DCU with the additional examiner resources to more effectively perform IS&T examinations, increase needed DCU capacity to perform IS&T exams, help DCU to better control individual credit union and credit union industry IS&T risks and concerns, and benefit credit unions by reducing the risk of them losing member confidential information.

What are the consequences of adopting or not adopting this package?

If this decision package is not funded, DCU will not be able to grow an effective IS&T examination program. The pace of change in information security is quickly surpassing DCU's ability to effectively regulate it. Currently, DCU has only one trained IS&T examiner. DCU needs an IS&T contract as a bridging mechanism to develop and grow its IS&T exam program internally. If this decision package is not funded, DCU will be limited to the abilities of one or two internal IT examiners. With a complete dedicated IS&T examination team, including the IT vendor, DCU will be able to effectively regulate IS&T at Washington state chartered credit unions.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

DCU requests allotment authority to fund a one-time expenditure of $300,000 for an IS&T contract during the 15-17 biennium.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The anticipated cost for the IS&T contract will be a one-time expenditure of up to $300,000. During the 15-17 biennium DCU will develop a comprehensive internal plan to perform IS&T examinations thru internal means. The anticipated IS&T contractual needs for the 17-19 biennium are estimated at between zero and $100,000.

Object Detail		**FY 2016**	**FY 2017**	**Total**
C	Professional Svc Contracts	150,000	150,000	300,000

Agency: **102 Dept of Financial Institutions**

Decision Package Code/Title: **08 Improve Public Records Oversight**

Budget Period: **2015-17**

Budget Level: **M1 - Mandatory Caseload and Enrollment Changes**

Recommendation Summary Text:

DFI seeks allotment authority for a Regulatory Projects Coordinator, who acts as the DFI's records officer (for information governance, disclosure, and retention purposes), and a Management Analyst who supports the related processes. These positions are dedicated to reducing agency risk by ensuring compliance with the Public Records Act, records retention requirements, and records management policies; reducing DFI's liability risk by providing a second level of assistance in reviewing issues as they arise between DFI and the regulated entities, individuals and citizens we serve; and increasing DFI's business efficiency through ensuring easy and appropriate access to information needed for business purposes.

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
300-6 Financial Services Regulation Acct-Non-Appropriated	226,227	226,227	452,454
Total Cost	**226,227**	**226,227**	**452,454**

Staffing	FY 2016	FY 2017	Annual Average
FTEs	2.3	2.3	2.3

Package Description:

DFI was formed in 1993 and its mission is to regulate financial services to protect and educate the public and promote economic vitality within Washington State. The Agency has four program divisions that regulate various industries within the financial services sector. DFI is self-supported, receives no General Fund support, and operates from a non-appropriated dedicated fund. Therefore, this package requests only allotment authority for its Regulatory Projects Coordinator position, as well as one Management Analyst 2 for support. These positions have already been operating within DFI but are currently unbudgeted.

The Regulatory Projects Coordinator position fills the much needed roles of Agency Public Records Officer, and ombudsman as follows:

Public Records Disclosure: The Regulatory Projects Coordinator position also serves as the agency's Public Records Officer. Since the agency's inception in 1993, the number, as well as the complexity, of public records requests has increased. The issues in 1993 were significantly different than the issues today, and vastly different than the reality that existed in 1972 when the Public Records Act ("PRA") was first implemented. The prevalence of electronic records, as well as changes in financial laws dealing with privacy and the protection of financial information, have significantly increased the risk associated with fulfilling our PRA duties. Due in part to the financial and mortgage crisis of 2008, the number of public records requests DFI receives has increased. From 2005 to 2008, DFI averaged 335 requests per year. From 2009 through 2011, DFI averaged 626 requests per year. In 2012 it was slightly below 600, but in 2013 spiked to almost 900. Many of the requests from 2009 to present have been significantly more complex than those in previous years, and involved complicated exemptions related to financial information and DFI's regulated entities. Since 2009, the sophistication of DFI requesters has risen substantially; a number of local attorneys (often representing entities regulated by DFI) have begun using public records requests in lieu of expensive discovery requests. These types of requests are usually more complicated than the average request, and are more likely to generate lawsuits. Additionally, Washington courts have been actively interpreting the PRA over the last five years, and have delved into new arenas (including metadata and data on personal devices). DFI needs a staff person with the time and resources to review cases, track relevant changes, and provide education to DFI staff on those changes. The potential for being sued for failing to disclose, or for failing to properly apply an exemption under federal or state laws, is high and only growing. DFI has historically de-centralized its PRA functions, but has recently embarked on a lean project to potentially centralize and streamline its PRA processes. This requires staff resources. Having a dedicated, agency-wide position to oversee and coordinate PRA activities reduces the liability risk associated with providing public records and protecting the sensitive information DFI gathers in the course of its business.

Information Governance: Historically, DFI has employed a decentralized records management functions across its five divisions. The Public Records Officer role was filled by positions like the Administrative Director or Deputy Director who have many other duties to attend to. In recent years, DFI's gradual transition away from paper records and towards a streamlined, electronic licensing and enforcement process, as well as the national trend towards multi-state licensing databases, has significantly increased the complexity of records retention and management. DFI has also begun a journey towards genuine information governance, which will both reduce risks and costs and increase efficiency in performing DFI’s mission-critical functions. Having a dedicated position to oversee and coordinate our public records management and retention activities reduces the liability risk associated with properly maintaining and managing the records that DFI uses in the course of fulfilling its mission.

Ombudsperson: Prior to creating the Regulatory Projects Coordinator position, the agency did not have an ombudsperson. The ombudsperson plays a critical risk management role by serving as an intermediary between DFI and external parties, particularly difficult or contentious respondents, complainants, regulated entities, and other members of the general public. We feel such a role reduces liability risk by providing increased support to stakeholders when they interact with the agency. This role is particularly vital in matters where individuals are not satisfied with an agency action or the services provided. The ombudsperson provides assistance to both other agencies and the general public in dealing with DFI, and is responsible for providing some level of neutral, late-stage review of decisions or actions that parties may not agree with. The ombudsperson may also be asked to witness and participate in particularly contentious interactions, or to provide a neutral explanation of a DFI action to an affected party. From a risk management standpoint, this is a preventative measure to avoid or reduce potentially significant legal costs associated with long and costly legal action. To date, the Regulatory Projects Coordinator has been involved in approximately ten situations, and in each case the situation was resolved without legal action.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

This package does not directly impact any of DFI's external performance measures as it is a preventative measure intended to continue to mitigate potential legal liability. It has, however, freed up the time of specialized division staff so that they can focus on carrying out DFI’s regulatory mission. Indirectly, this has influenced several of DFI's measures related to turnaround times for licenses, processing of consumer complaints, and enforcement actions through speeding up the resolution of issues. This will continue to be the case as public records duties are reallocated to a centralized unit.

This package impacts the following DFI core activities through problem resolution and public records involvement:

- Chartering, Licensing and Registration
- Education and Public Outreach
- Examinations
- Enforcement

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This package supports the following DFI objectives and strategies in DFI's Strategic Plan:
Objective: Implement efficient and cost effective agency financial systems and business processes.
Strategy: Manage public records in an effective, efficient and compliant manner.

Objective: Provide all customers with easy but appropriate access to the information they need.
Strategy: Continue to explore, develop and implement tools that reduce time, effort, and risk associated with discovery and public records requests.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes. Governor Inslee's strategic framework calls for Efficient, Effective, & Accountable Government, with a specific emphasis on Transparency and Accountability under Results Washington's Goal #5. These positions provide essential support to this effort by placing a high priority on protecting the confidential information we obtain from consumer and financial institutions, while ensuring that the public has access to the information they need to make informed financial decisions. The Regulatory Projects Coordinator position is responsible for improving DFI's Transparency and Accountability through ongoing process improvement including the application of Lean principles and tools.

What are the other important connections or impacts related to this proposal?

Public Records is a focus of the Office of Risk Management, and this package mitigates DFI's risk associated with its public records activity. Public records are becoming an increasing concern statewide due to the growing challenges to agencies in applying the Public Records Act, particularly in applying the exemptions provided for in RCW 42.56. This position also relates to the state-wide information governance initiative, which has been chartered by members of the Governor's staff, the Secretary of State, the State Auditor, and a number of other large agencies around the state. The Regulatory Projects Coordinator serves as DFI's liaison to the initiative, and as a team lead for one of the initiative's teams.

What alternatives were explored by the agency, and why was this alternative chosen?

The agency considered filling these needs through a lower level administrative position, as public records compliance at DFI has historically been assigned to relatively low-level administrative staff. However, recent changes to Federal privacy laws combined with the pace at which Washington courts issue new relevant opinions on these issues, requires the person in this position to exercise significant legal discretion and provide agency-wide training support. Due to the necessity for quick legal analysis of public records laws and regulations, the novel nature of information governance, and the need for this position to have significant problem resolution skills, it was necessary to assign these duties to a higher level legal position.

What are the consequences of adopting or not adopting this package?

The absence of a Records Officer /Ombudsman at DFI would increase the Agency's liability risk due to unresolved issues between DFI and its customers, increase the liability risk related to compliance with the Public Records Act, and increase the likelihood of improper records retention

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

Expenditures include a Regulatory Projects Coordinator position (1FTE) at $91,476 annual salary; a Management Analyst 2 position (1FTE) at $44,712 annual salary. Benefits are calculated at 28.03% of salaries and goods and services are calculated at 27.45% of salaries. Administrative overhead is calculated at 15% of program FTEs using a Fiscal Analyst 3 as a representative position.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are ongoing into future biennia.

Object Detail		**FY 2016**	**FY 2017**	**Total**
A	Salaries And Wages	149,602	149,602	299,204
B	Employee Benefits	44,992	44,992	89,984
E	Goods\Other Services	31,633	31,633	63,266
Total Objects		**226,227**	**226,227**	**452,454**

State of Washington
Decision Package

FINAL

Agency: **102 Dept of Financial Institutions**

Decision Package Code/Title: **09 Crowdfunding Allotment Authority**

Budget Period: **2015-17**

Budget Level: **M1 - Mandatory Caseload and Enrollment Changes**

Recommendation Summary Text:

This package is a maintenance level request for the allotment authority necessary to implement House Bill 2023 - Allowing Crowdfunding for Certain Small Securities Offerings. House Bill 2023 was signed into law on March 28, 2014 and became effective on June 12, 2014. The allotment authority for the enacted legislation was not included in DFI's budget authority for the 2015-2017 biennium. This package corrects the allotment authority necessary to carry out the intent of the enacted bill.

Fiscal Detail

Operating Expenditures	**FY 2016**	**FY 2017**	**Total**
300-6 Financial Services Regulation Acct-Non-Appropriated	16,132	16,132	32,264
Total Cost	**16,132**	**16,132**	**32,264**

Staffing	**FY 2016**	**FY 2017**	**Annual Average**
FTEs	**.2**	**.2**	**.2**

Package Description:

This package corrects DFI’s allotment authority for enacted legislation. DFI is a non-appropriated, allotted, non-general fund, self-supported agency. The agency spends out of a dedicated fund (300-6) which is supported by revenues collected from the state’s various financial services industries. Engrossed Substitute House Bill 2023 established the Washington Jobs Act, which provides small businesses and investors the opportunity to benefit from equity crowdfunding. In the fiscal note for the bill, the agency estimated that implementing the Act would require .1 FTE of a Customer Service Specialist 2, and .1 FTE of a Financial Legal Examiner 3.The bill became effective June 12, 2014, but DFI was not granted the allotment authority needed to fill these positions. DFI’s status as an allotted agency requires that we attempt to keep spending as close to legislative intent as possible. Doing so preserves transparency, and maintains the agencies accountability to both the public and the legislature. Granting DFI the budget authority needed to carry out House Bill 2023 would ensure that the agency is able to properly allot for the important work this legislation requires, while also keeping agency expenditures within the given budget authority.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

NA – package corrects omission of budgetary authority associated with enacted legislation. Maintenance level package only.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

NA – package corrects omission of budgetary authority associated with enacted legislation.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

NA – package corrects omission of budgetary authority associated with enacted legislation.

What are the other important connections or impacts related to this proposal?

NA – package corrects omission of budgetary authority associated with enacted legislation.

What alternatives were explored by the agency, and why was this alternative chosen?

NA – package corrects omission of budgetary authority associated with enacted legislation.

What are the consequences of adopting or not adopting this package?

NA – package corrects omission of budgetary authority associated with enacted legislation

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

NA – package corrects omission of budgetary authority associated with enacted legislation.

Expenditure and revenue calculations and assumptions

The Washington Jobs Act requires DFI to process claims of exemptions for offerings under the newly created exemption, to collaborate with the portals which facilitate these transactions, and process escrow agreements. In the fiscal note for this legislation, the agency requested .1 FTE for a Customer Service Specialist 2 to handle the new filings. DFI is also likely to receive at least some complaints from shareholders that issuers have not complied with the established requirements. In order to handle complaints and any resulting enforcement actions the agency requested .1 FTE for a Financial Legal Examiner 3.

In order to cover the costs of implementing the Washington Jobs Act, House Bill 2023 also grants DFI with the authority to establish a sufficient filling fee. Cash receipts to DFI are indeterminate and will depend on the number of issuers claiming the exemption, as well as the amount of the established fee.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs would be ongoing and become part of the base budget.

Object Detail		**FY 2016**	**FY 2017**	**Total**
A	Salaries And Wages	10,778	10,778	21,556
B	Employee Benefits	3,222	3,222	6,444
E	Goods\Other Services	2,032	2,032	4,064
G	Travel	100	100	200
Total Objects		**16,132**	**16,132**	**32,264**