

SCHEDULE F: WORKFORCE PLAN FY2017-FY2021

I. DEPARTMENT OVERVIEW

The Department of Savings and Mortgage Lending has two key areas of regulatory responsibility: the chartering, regulation and supervision of the state's thrift industry; and the licensing/registration and regulation of the state's mortgage industry. These two areas of responsibility cover the vast majority of residential mortgage lending in Texas.

A. DEPARTMENT MISSION

The mission of the Department of Savings and Mortgage Lending is to supervise and regulate the residential mortgage lending and state savings industries in order to protect Texans, provide a healthy residential mortgage lending environment, and maintain safe and sound savings banks and savings associations.

GOVERNING LEGISLATION

Article 16, Section 16(a) of the Texas Constitution of 1876 provides that, "The Legislature shall by general law, authorize the incorporation of state banks and savings and loan associations, and shall provide a system of State supervision, regulation and control of such bodies which will adequately protect and secure the depositors and creditors thereof."

The 58th and 73rd Legislatures, respectively, enacted the Texas Savings and Loan Act (Subtitle B. Savings and Loan Associations) and the Texas Savings Bank Act (Subtitle C. Savings Banks, Finance Code, Vernon's Texas Codes Annotated) for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes.

The 76th Legislature enacted the Mortgage Broker License Act (Subtitle E. Other Financial Businesses, Chapter 156) for licensing and regulation of first lien residential mortgage brokers and loan officers doing business in Texas. The statute, as amended by the 80th Legislature, applies to all residential mortgages regardless of lien position. The statute prescribes requirements for licensing and inspecting licensees, and processing consumer complaints.

The 78th Legislature enacted the Mortgage Banker Registration Act (Subtitle E. Other Financial Businesses, Chapter 157) for registering mortgage bankers conducting business in Texas and providing their borrowers with notice of the process for filing consumer complaints.

The 81st Legislature enacted the Texas SAFE Act and other significant modifications to Chapters 156 and 157. Compliance with the federal mandates addressed by this legislation expanded the field of individuals subject to residential mortgage licensing by eliminating the de minimus level of originations, and eliminating the exemptions for individuals employed by mortgage bankers under Chapter 157, governmental entities, independent third party processors and underwriters. A final determination by the Consumer Financial Protection Bureau (CFPB) for determining the compliance of the Texas SAFE Act has been postponed to no earlier than December 31, 2012.

The 82nd Legislature enacted Senate Bill 17 creating Chapter 158 calling for the registration of non-depository third party residential mortgage loan servicers. This legislation resulted from an increasing level of concerns over mortgage servicing complaints and issues with foreclosure around the country. The statute authorizes the Department to require registrants to carry a bond

or equivalent, notify serviced clients of their ability to file a complaint and to investigate any such complaints. The Department is not authorized to initiate examinations of servicing registrants but may participate in multistate examinations.

C. STRATEGIC STRUCTURE

GOAL A: THRIFT SAFETY AND SOUNDNESS. Effectively and efficiently enforce safety and soundness standards in the state chartered thrift industry and compliance with the Texas Finance Code in a manner that is constructive and maintains the interest of depositors, creditors, and borrowers of savings institutions as paramount. [Texas Finance Code Subtitle B, Savings and Loan Associations and Subtitle C, Savings Banks]

STRATEGY A-1-1. THRIFT EXAMINATION AND SUPERVISION. Perform full and limited scope examinations and participate with federal regulators in examinations according to the priority examination schedule; monitor and enforce the safe and sound operations of state chartered savings institutions and their compliance with applicable laws and regulations.

GOAL B: MORTGAGE REGULATION. Protect Texas homebuyers through fair and effective regulation of mortgage originating entities, individuals, and mortgage servicers. [Texas Finance Code, Subtitle E, Chapter 156 Residential Mortgage Loan Companies, Chapter 157 Mortgage Bankers and Residential Mortgage Loan Originators, and Chapter 158, Residential Mortgage Loan Servicers]

STRATEGY B-1-1. MORTGAGE INDUSTRY LICENSING. Process, investigate and evaluate mortgage originator license applications and registrations of entities and individuals; enforce compliance with standards of conduct.

STRATEGY B-1-2. MORTGAGE INDUSTRY EXAMINATION. Ensure effective and efficient examination of mortgage originators through fair, responsible, and comprehensive investigation and enforcement of regulatory requirements regarding procedures and standards of conduct.

GOAL C: CONSUMER RESPONSIVENESS. Ensure responsiveness to inquiries, requests, and complaints from citizens, industry, public officials, and other state and federal governmental entities. [Texas Finance Code, Chapter 13 Savings and Loan Department, §13.011; Chapter 156 Residential Mortgage Loan Companies, §156.301(b); Chapter 157 Mortgage Bankers and Residential Mortgage Loan Originators, §157.0022 and §157.021; and Chapter 158, Residential Mortgage Loan Servicers, §158.102]

STRATEGY C-1-1. COMPLAINT AND INQUIRY PROCESS. Provide a forum for registering complaints, responding to requests and inquiries and taking appropriate action when warranted. Respond appropriately to requests or inquiries to obtain information regarding financial institutions and mortgage originators, giving particular priority to requests from state and federal agencies conducting civil and criminal investigation.

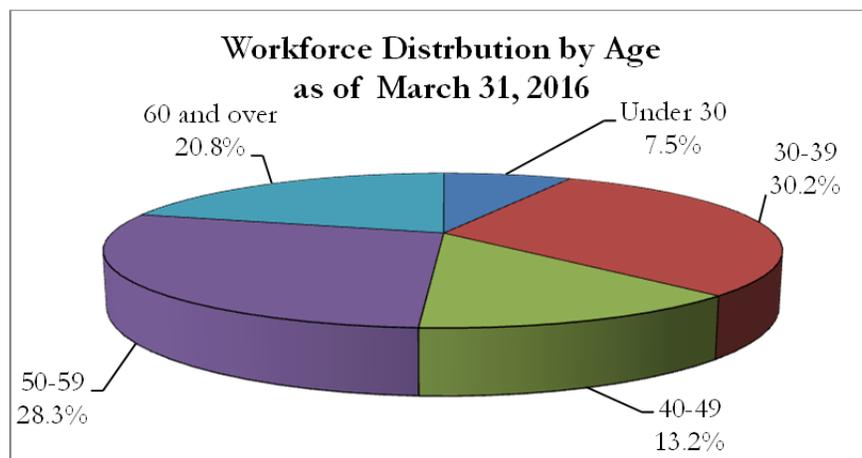
II. DEPARTMENT DEMOGRAPHICS

A. COMPOSITION OF DEPARTMENT STAFF

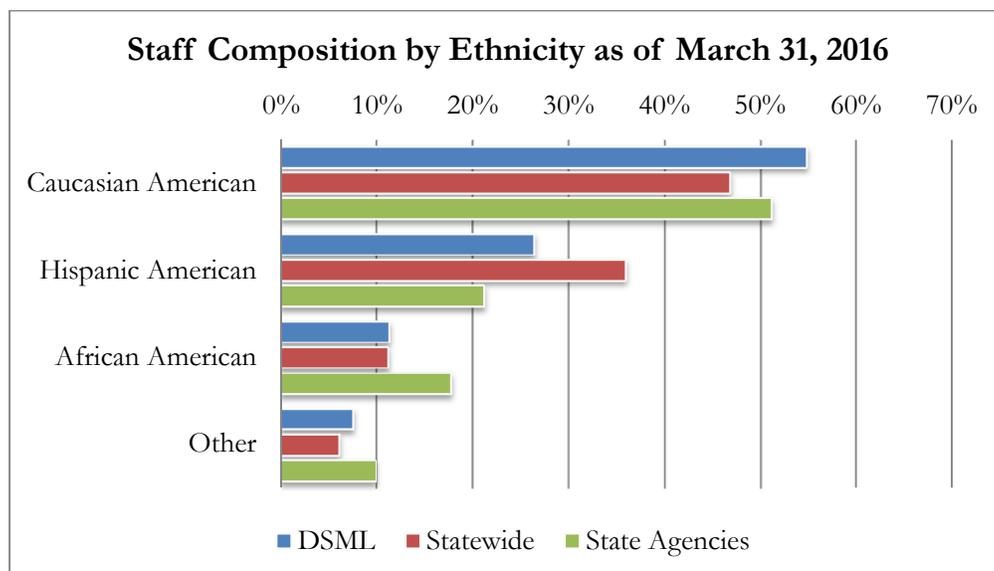
The current workforce of 53 employees is comprised of 32 females (60.4%) and 21 males (39.6%). Eleven employees (18.6%) are over age 59, fifteen (28.3%) are in their 50s, seven (13.2%) are in their 40s, and the average age has remained 47 years in fiscal year 2016. The Department faces a massive departure of knowledge in the next ten years.

The employees' length of agency service distribution has shifted due to retirements and other departures. As a result 26% (up from 7% in fiscal year 2014) of employees have less than two years of agency service, and 68% (down from 73% two years ago) now have more than five years of service.

The chart below shows the Department staff composition by age as of March 31, 2016.



The following chart compares the agency staff composition by ethnicity as of March 31, 2016 to the statewide and state agencies workforce composition as reported by the Civil Rights Division of the Texas Workforce Commission in January 2015.



B. EMPLOYEE TURNOVER

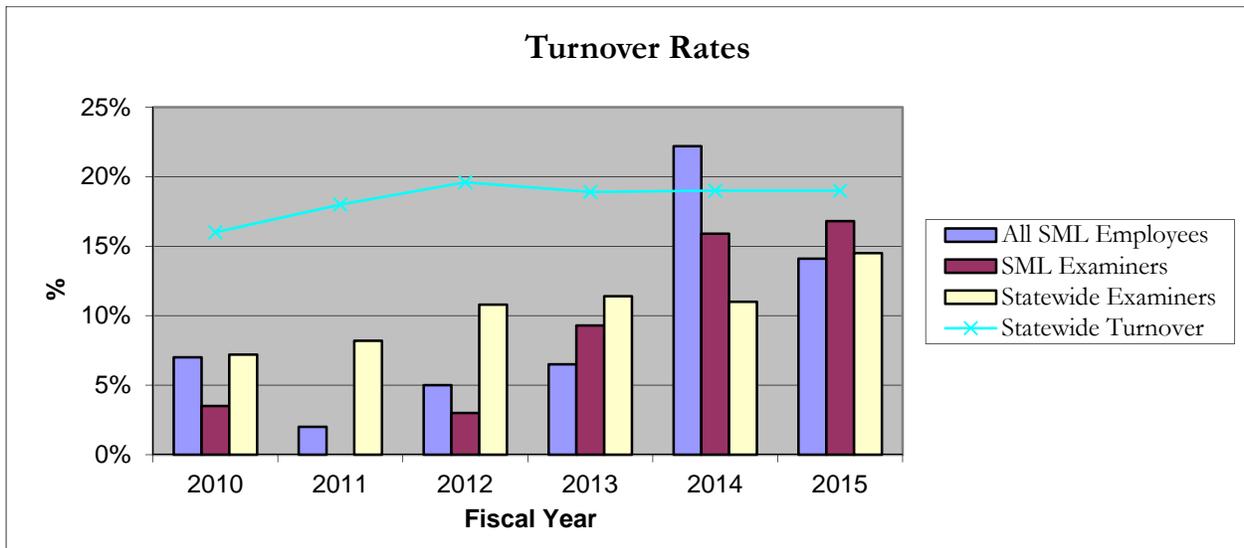
Turnover challenges every employer, impacting recruitment, selection and training, and diminishing productivity, experience and talent. Over the years the Department has developed and adjusted its processes, training schemes, internal documentation, in order to shorten the learning curve and facilitate new employees' immersion into the Department's functions and culture. Additional efforts at employee satisfaction and culture change include expanded flex hour schedules, relaxed dress code, and implementation of the Governor's fitness program. The Department continues to search for tools and mechanisms to combat turnover in all groups of employees and to keep the levels of employee satisfaction high.

Financial examiner turnover has been of a significant concern as they perform one of the essential functions of the Department. Well-trained financial examiners are widely sought after by state regulatory agency, federal counterparts, and private sector. The issue has been analyzed and addressed continuously and as a result, the financial examiner turnover has decreased from 28% in fiscal year 2005 to 0% in fiscal year 2011.

Retirements and other separations caused an increase in financial examiner turnover over the last several years from 3% in 2012 to 17% in 2015, which is comparable to the 15% of statewide financial examiners' turnover rates.

Overall, the Department turnover has been consistently lower than the statewide employee turnover, except in 2014, when due to multiple retirements the Department turnover reached 22% compared to 19% statewide.

The graph below compares Department turnover to statewide turnover for fiscal years 2010-2015, as well as the financial examiner turnover to statewide financial examiner turnover. Interagency transfers are included even though the employee stayed within the state system.



Fiscal Years 2014-15 Turnover by Length of Service

The Department lost fourteen employees during fiscal year 2014 and eight in fiscal year 2015. Employees with less than five years of experience accounted for 60% of Department turnover - a consistent trend statewide.

Length of Service	% of SML Turnover	% of State Turnover
Less than 2 years	22.7	51.3
2-5 years	27.3	17.9
5-10 years	31.8	15.5
10-15 years	13.6	6.6
15-20 years	0.0	3.4
More than 20 years	4.5	5.2

Fiscal Years 2014-2015 Turnover by Age

Age	% of SML Turnover	% of State Turnover
Under 30 years	4.5	31.6
30-39 years	31.8	21.5
40-49 years	18.2	16.4
50-59 years	18.2	18.4
60 years and over	27.3	10.9

C. RETIREMENT ELIGIBILITY

Retirement will account for a significant number of separations over the next five years, and a critical loss of institutional knowledge and expertise in key positions. Two directors and other high level positions are currently eligible or will be eligible for retirement within five years.

As of March 31, 2016, seven employees are already eligible to retire under the age 60 and five years of service rule and four employees under the rule of 80. By the end of fiscal year 2020, six employees will become eligible for retirement under the rule of 80 or the age 65 and ten years of service, and four more will become eligible under the age 60 and five years of service. Besides the executives mentioned above, the potential retirees include an attorney, seven examiners, three investigators, and four administrative staff. These employees have extensive tenure with the Department and a wealth of institutional knowledge. The average state service of the potential retirees in their year of eligibility is 14 years. It is important to ensure that this knowledge and organizational experience is not lost.

During the last several years the Department has been focused on succession planning and has a detailed plan of action to replace the skill sets of retired employees.

III. THE DEPARTMENT'S FUTURE WORKFORCE PROFILE

A. WORKFORCE CHANGES

As programs become increasingly complex, necessitating process improvements and continued cross training, the Department increasingly relies on information technology to respond to customers, provide quality services, and conduct business, in the process becoming more dependent on Information Technology staff. Assessing the need for current technological knowledge is crucial to effective planning. The Department diligently monitors industry changes, identifies necessary adjustments, and uses its resources to implement programs for the benefit of the public. The Department is actively exploring and implementing technological initiatives, including:

- Ensuring continued connectivity to the FDIC examination reporting system;
- Enhancing the Department intranet to provide centralized, immediate access to important documents, tools, and training materials; and
- Increasing use of technology in examination and inspection activities.
- Challenges to the implementation of technological initiatives include:
 - Implementation of the National Mortgage Licensing System & Registry (NMLSR) mandated by the SAFE Act, despite its initial expense and lack of some features necessary for effective regulatory oversight including examination, complaint, and enforcement information;
 - Workforce decentralization; and
 - Loss of experienced, long tenured employees in critical positions.

As Texas population continues to diversify year, the Department must tailor programs and services for citizens who do not speak or comprehend English. Increased diversity directly affects the licensing, examination, enforcement, and complaint programs, requiring additional bilingual staff to offer services in languages other than English.

B. THE CHANGING NUMBER OF EMPLOYEES

Each of the five legislatures, prior to the self-directed, semi-independent (SDSI) status being granted to the Department, has increased the Department's regulatory authority over the mortgage industry. With the growth in this program, the Department has added additional examiners, investigators, licensing technicians, accountants, attorneys, and general administrative support staff.

In fiscal year 2009, in response to the mortgage crisis and all its economic impact on mortgage lending and regulated industries, the Department reduced the number of employees corresponding to the declining licensee population.

In fiscal years 2010 through 2014, there were minimal changes in the full-time equivalents' (FTE) count. Most program and process changes have been addressed internally by shifting employees between the different functions. Staff has remained flexible to respond to rapidly changing business needs. Employees with other primary duties currently perform budgeting and planning, purchasing and facilities management, and administrative support and human resources tasks. Investigators and mortgage loan examiners assist the Licensing division during heavy

workload periods. Thrift examiners are trained to perform mortgage loan originator examinations in order to utilize time effectively.

The examination staff has been expanded to not only meet the increased requirements for mortgage loan originator and savings and loan examinations, but also to supplement our now maturing state saving bank examination team.

In fiscal 2014 and 2015, the Department lost multiple employees due to retirements and other separations and has had difficulty filling some of the vacant positions, especially in the Austin area. The local job market has been strong and very competitive providing for high paying opportunities.

C. FUTURE WORKFORCE SKILLS NEEDED

The Department's most valuable resource is well-qualified, loyal employees, whose skills are critical to our ability to operate and successfully achieve our mission. General skills such as written and verbal communication, analytical reasoning, and interpersonal skills continue to be needed. Additionally, the following skills are necessary to enable the Department to perform its core business functions:

- Financial institution regulation and examination experience;
- In-depth knowledge of the depository financial and mortgage industries;
- Audit and investigative techniques;
- Knowledge of business, accounting, finance, economics and the law;
- Technical skills associated with new programs;
- Familiarity with regulatory processes, especially those necessitated by economic changes;
- Accounting, budgeting and strategic planning;
- Risk assessment modeling;
- Business process re-engineering, analysis and redesign;
- Negotiation and change management;
- Ability to interpret and apply relevant rules, regulations, and statutes;
- Information technology expertise;
- Customer service oriented;
- Clear, concise, and accurate report and technical writing;
- Effective written and verbal communications; and
- Bilingual abilities.

IV. GAP ANALYSIS

After analyzing the workforce needs of the Department, there appear to be two critical gaps between the Department's workforce supply and demand.

A. EMPLOYEES NEED ADDITIONAL TRAINING IN CRITICAL SKILLS

- A significant percentage of employees identified as eligible retirees are either in management positions or positions requiring extensive knowledge of a program. To ensure successful

administration of programs without interruption, these key positions have been targeted for succession planning. Currently, the Department has adequate staff count to manage its programs, successfully cross-train and transfer knowledge.

- Two of the six executive management employees will be retirement eligible within the next five years. The financial institution, mortgage industry, legislative, management, and state reporting experience imbued in these individuals will almost certainly force the Department to compete with other state and federal agencies for a dwindling pool of persons qualified to handle the agency's intricate regulatory and reporting requirements unless cross-training and exposure of current employees is accomplished. To be successful, succession planning must include exposure to these activities, and preferably for more than one employee.
- Seven examiners (50% of the current thrift examination team), including the director of thrift examinations, are currently or will be retirement eligible within five years. The remaining thrift examination staff has an average tenure of 73 months of agency service, a decrease from the 83 month average two years ago, and a direct result of retirements. The gap between employees who will soon be eligible for retirement and the tenure of remaining staff is common throughout the Department. An initiative by federal regulatory counterparts to rehire retired examiners emphasizes the importance of competitive salaries and working conditions if the Department is to attract examiners with the management and depository financial institution experience necessary to ensure a continued high level of thrift regulatory oversight. The Department's cross-over examination program, in which thrift examiners are trained for and conduct mortgage examinations and selected mortgage examiners assist with thrift examination activities, is highly successful not only to manage workload and reduce travel expense, but also in alleviating employee burnout. The Department regularly conducts joint thrift and mortgage examiner training conferences.
- Sudden shifts in licensee population and program needs require skills in managing change. Managers must be able to motivate change, choose a suitable change approach, compare change initiatives to avoid failure, and define implementation strategies to support the Department's goals. These desired skill sets must be further developed.
- The Department serves a diverse range of customers. We can best meet the needs of all customers only if we have a fully diversified and trained staff. Despite intensified effort in the hiring process, in exploring our customer base and the services they request, we expect that in the future we will not have enough employees with bilingual skills.

B. ATTRACT AND RETAIN THE RIGHT EMPLOYEES FOR THE JOB.

- The pool of qualified applicants, especially for executive management, information technology and examiner positions, is small, due in part to competition with the federal regulatory agencies' and private sector's ability to offer higher pay and greater flexibility. Alternative sources for acquiring experienced examiners have been implemented. We have signed a contract with the Conference of State Bank Supervisors to participate in a pool of experienced examiners who are available on a temporary hiring basis to meet peak times of demand.
- Extensive travel requirements negatively impact the number of applications for positions in key program areas, particularly examiner positions.

- Developing and retaining examiner staff is key to the Department's continued ability to perform its core functions. The Department has made an extensive ongoing commitment to continuing education training to staff, particularly field examiners. This investment both in time and money accentuates the loss when examiners depart after only a few years.