State of Wisconsin

2011-2013 Biennial Report

Department Of Financial Institutions

October 2013

Contents

Secretary's report.....Pages 3-4

Organizational chart.....Page 5

Major program measurements.....Pages 6-7

- Safety and soundness of banks
- Protecting consumers of financial services
- Facilitate economic growth
- Safety and soundness of credit unions

Statutory reporting requirements.....Page 7

- SS. 230.215 – Part-time employment and flexible-time schedules
- SS. 409.527 – Uniform Commercial Code

Key accomplishments during biennium.....Pages 8-12

- Division of Banking.....Page 8
- Division of Corporate and Consumer Services.....Page 9
- Office of Financial Literacy.....Page 10
- Division of Securities.....Page 11
- Office of Credit Unions.....Page 12

State of Wisconsin
Department of Financial Institutions

Scott Walker, **Governor** Peter Bildsten, **Secretary**

October 15, 2013

The Honorable Scott Walker
Office of the Governor
115 East, State Capitol
Madison, WI 53702

Members of the Wisconsin Legislature
State Capitol Building
Madison, WI 53702

Dear Governor Walker and Legislators:

On behalf of the Wisconsin Department of Financial Institutions (DFI), I am honored to present you the Department's report for the biennium ending June 30, 2013. The important role that DFI plays in the state's economy is underscored by the number of financial institutions and business entities that the department regulates, licenses or registers:

- 212 state-chartered banks and savings institutions.
- 179 state-chartered credit unions.
- 126,693 registered securities representatives.
- 371,926 business entities registered with the Division of Corporations and Consumer Services.

The Department's mission is to ensure the safety and soundness of Wisconsin's financial institutions; protect consumers of financial services; and facilitate economic growth by ensuring access to capital. By fulfilling this mission, DFI plays an important role in helping the state's economy grow, which can help the private sector create the 10,000 new businesses that was set as a goal by Governor Walker.

Among the highlights for the biennium ending June 30, 2013:

- **Safety and soundness of banks and credit unions** – Working with federal regulators, DFI's Division of Banking facilitated the merger or voluntary liquidation of seven state-chartered banks and the closing of two state-chartered institutions during the biennium. The Division issued 12 orders and actions against state-chartered banks and lifted 19 such orders. The Office of Credit Unions worked with its federal counterparts to facilitate the consolidation and/or liquidation of 37 state-chartered credit unions.

- **Reforming government**
  - **Notary public and trademarks** – On July 1, 2011, DFI assumed responsibility for notary public commissions and trademarks from the Office of the Secretary of State. Throughout the biennium, DFI staff worked to streamline the processes for notary public commissions and trademarks, including giving citizens the ability to conduct certain transactions online. The improvements resulted in significantly reduced processing times and expanded payment options for new notary applications and renewals.

- **DFI moves to new location** – DFI moved to a new office location in downtown Madison in November 2012, resulting in annual savings of more than $400,000 in occupancy costs. The move also resulted in a more efficient work environment for DFI's various divisions.

- **Strategic Blight Elimination Program** – DFI partnered with the Wisconsin Department of Justice to fund a pilot program that gave Wisconsin communities the opportunity to apply for funding to demolish blighted residential properties. In total, $1.18 million was awarded to 16 communities for the removal of 86 blighted properties. DFI provided $618,000 of the funding; DOJ provided the remaining $500,000. The program targeted properties that were a pronounced safety issue, occupied a parcel that would be immediately repurposed for a broader strategic development plan, or inhibited the re-emergence of a neighborhood.

- **Financial literacy grants** – Working closely with the Governor's Council on Financial Literacy and DPI, DFI's Office of Financial Literacy established the Financial Literacy Innovation Awards. Under the program, $250,000 was awarded to 24 school districts, with the improved financial literacy courses reaching 12,500 students.

The Department of Financial Institutions is unlike most state agencies in that it is self-supporting. All DFI operational expenses – $36.7 million for the 2011-13 biennium – were covered by fees and assessments collected by the department. In many respects, DFI operates much like a private-sector business. Staff members routinely look for new ways to improve customer service or add efficiency to the organization.

During the biennium, DFI faced a significant workforce challenge – high employee turnover in the Division of Banking and the Office of Credit Unions. DFI, like state regulators across the country, continues to lose talented, experienced staff at all levels to our federal counterparts whose pay structures are significantly higher. DFI will continue to seek ways to address this problem and has been networking with other state regulators to seek best practices on how to address this challenge.

To learn more about DFI, I encourage you to visit our website, www.wdfi.org.

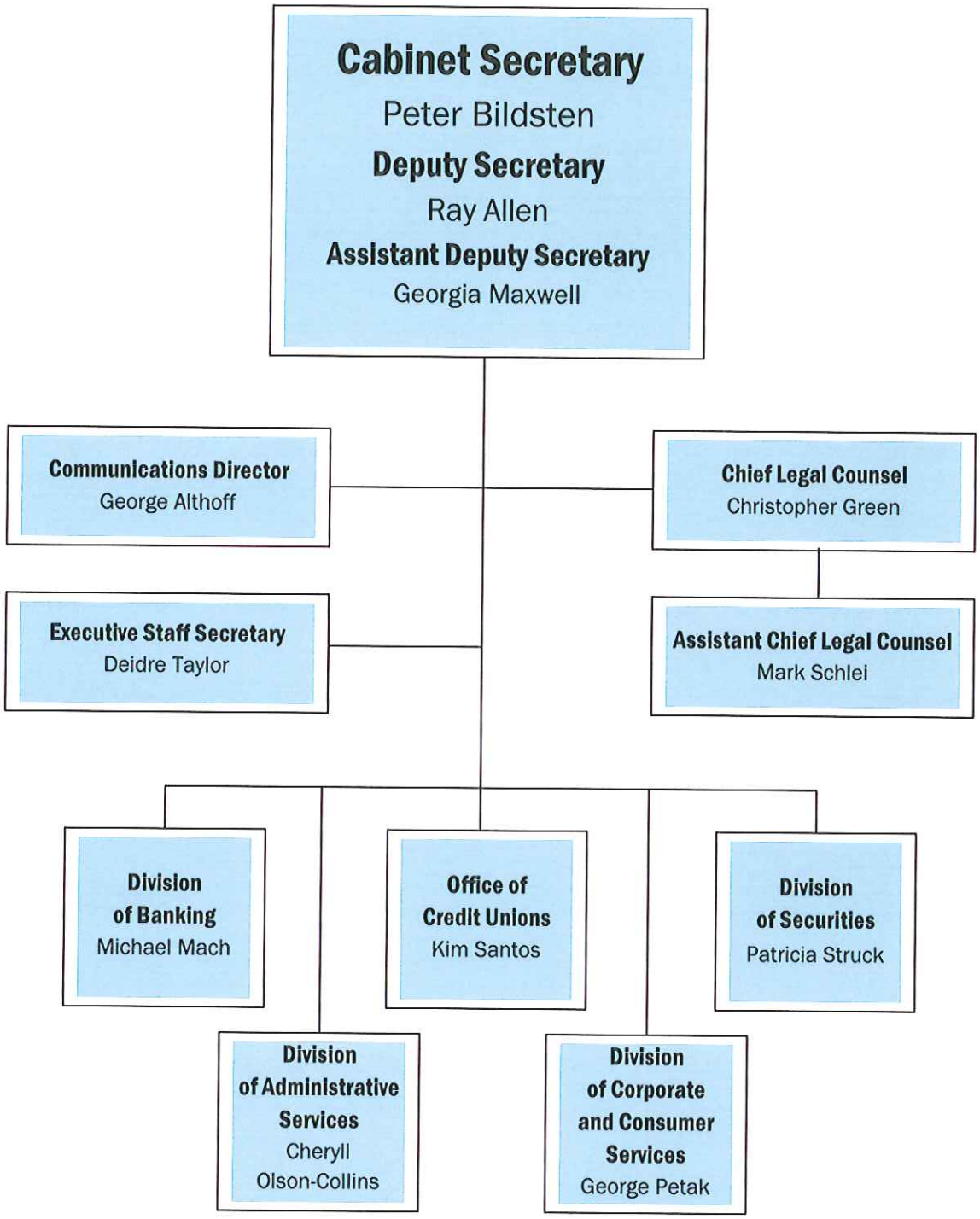
Sincerely,

Peter Bildsten
Secretary

Department of Financial Institutions

Organizational Chart

(As of June 30, 2013)



2011-13 Budget Programs, Goals, Objectives and Activities

Program 1: Supervision of financial institutions, securities regulation and other functions

Goal: Assure the safety and soundness of the state's banking industry

Objective/Activity: Examine state banks and savings institutions for compliance with laws and any issues related to the condition of the financial institutions within established time frames. All banks are to be examined at least every 18 months, with more frequent examinations of larger, more complex institutions. The banking division has entered into alternating examination agreements with the Federal Deposit Insurance Corporation and the Federal Reserve, so approximately 40 percent of all banks should be examined by the department in each calendar year in order to meet that standard.

Performance measures

Calendar year	Number of banks	Exams due	Exams done	% to target
2013	212*	87	49*	113%*
2012	217	87	95	109%
2011	219	87	98	113%

*As of June 30, 2013

Goal: Protect the consumers of financial services

Objective/Activity: Address abuses and violations of rules and statutes through expedient resolution of consumer complaints by the Bureau of Consumer Affairs. Percentage of consumer complaints acted on within five days:

Performance measures

Calendar year	Goal	Actual
2013	97%	99%*
2012	97%	99%
2011	97%	99%

*As of June 30, 2013

Goal: Facilitate economic growth

Objective/Activity: Process new business filings timely to support new business activity. Percentage of charter document filings processed within five days:

Performance measures

Calendar year	Goal	Actual
2013	100%	100%*
2012	100%	100%
2011	100%	100%

*As of June 30, 2013

2011-13 Budget Programs, Goals, Objectives and Activities

Program 2: Supervision of credit unions

Goal: Ensure the safety and soundness of the state's credit unions

Objective/Activity: Maintain cycle of exams as required. Most credit unions are to be examined every 18 months. Credit unions identified as needing additional supervision are to be examined every 12 months.

Performance measures

Calendar year	Number of credit unions	Exams due	Exams done	% to target
2013	179	141	78*	111%*
2012	187	135	125	93%
2011	203	138	113	82%

*As of June 30, 2013

Statutory Reporting Requirements

- **SS. 230.215 – Flexible-time schedules and part-time employment**
  - Flexible-time schedules are used regularly by DFI employees. With the approval of the appropriate supervisors, DFI employees are allowed to set work schedules that maximize the efficiency of agency operations and the level of services provided to the public.
  - Permanent part-time positions – DFI has three permanent part-time positions.

- **SS. 409.527 – Uniform Commercial Code**
  - DFI is in substantial compliance with section 409.527.

Key Accomplishments: Division of Banking

Michael Mach, Administrator

The Division of Banking regulates and supervises state-chartered banks and consumer financial service industries under statutory Chapters 220 through 224. In addition to chartering and regularly examining state banks, the division licenses loan companies, mortgage bankers, mortgage brokers, loan originators, collection agencies, community currency exchanges, sales finance companies, adjustment service companies, sellers of checks, insurance premium finance companies and credit services organizations. It also regulates auto dealers' installment sales contracts. The division investigates applications for expanded banking powers, new financial products, and interstate bank acquisitions and mergers.

2011-2013 Key Accomplishments/Activities

- The assets of the state-chartered banks in Wisconsin totaled $44.5 billion as of June 30, 2013, down from $89.7 billion as of June 30, 2011. The primary factor in that decline was the purchase of Marshall & Ilsley Bank, a state-chartered institution, by BMO Harris, a federally chartered institution.
- The number of state-chartered banks declined from 206 as of June 30, 2011, to 197 as of June 30, 2013, which includes three non-depository trust companies.
- The number of state-chartered savings institutions declined from 16 as of June 30, 2011, to 15 as of June 30, 2013. Assets of savings institutions declined from $4.3 billion as of June 30, 2011, to $4.1 billion as of June 30, 2013.
- Fiduciary assets increased from $3.5 billion as of June 30, 2011, to $4.3 billion as of June 30, 2013.
- Working with federal regulators, DFI's Division of Banking facilitated the merger or voluntary liquidation of seven state-chartered banks and the closing of two state-chartered institutions during the biennium. The Division issued 12 orders and actions against state-chartered banks and lifted 19 such orders.
- The Division's Bureau of Licensed Financial Services produced annual reports of Wisconsin's payday lending industry for calendar years 2011 and 2012. DFI assumed oversight of payday lending effective January 2011, with the approval of 2009 Wisconsin Act 405. On March 1, 2011, the statewide payday lending database mandated by Act 405 went live. Veritec Solutions, LLC is the vendor with whom DFI contracted to provide the database system.

Key Accomplishments: Division of Corp/Consumer Services

George Petak, Administrator

The Division of Corporate and Consumer Services is responsible for examining and filing business records for corporations and other entities. It examines charters; documents that affect mergers, consolidations and dissolutions; and reviews the annual reports of various businesses, including partnerships, corporations, limited liability companies, cooperatives, and out-of-state entities.

The Division examines and files documents under the Uniform Commercial Code, including statements of business indebtedness, consignments, terminations, and financing statements. It also maintains the statewide Uniform Commercial Code lien system.

In addition, the Division processes notary public applications and renewals, trademark registrations, and cable/video service franchise registrations.

2011-2013 Key Accomplishments/Activities

- The Corporations Bureau registered 36,534 new business entities in the 12 months ending June 30, 2013, an increase of 5.2% compared to the previous year. For the 12 months ending June 30, 2012, there were 34,730 new business entities registered with the Division, an increase of 4.9% compared to the previous year.
- As of June 30, 2013, there were 371,926 business entities registered with the Corporations Bureau.
- Between July 1, 2011 and June 30, 2013 the division received 55,335 electronic inquiries and handled more than 80,000 phone calls.
- About 92% of all filings with the Corporations Bureau were done electronically as of June 30, 2013. The Division and Bureau are continually updating and revising applications to allow better customer access and ease of filing.
- In the 12 months ending June 30, 2013, the division processed:
    - 138,069 UCC filings, an increase of 1.1% over the previous year.
    - 16,306 notary public filings, an increase of 4.2% over the previous year.
    - 2,304 trademark filings, an increase of 6.2% over the previous year.
- The Division completed a major "lean government" project involving notary public commissions. The changes have resulted in significantly reduced processing times for new applications and renewals, and expanded payment options for notaries public.
    - The time to process notary applications was reduced by 1,135 hours in one year. This allowed management to reallocate resources to other customer service responsibilities, while improving service to users.
- The Division upgraded the system and streamlined the process of handling more than 80,000 phone calls received.
    - The average customer wait time was reduced to a minute, a 66% reduction from the previous year.
- The Division assumed responsibility for DFI's Office of Financial Literacy during the 2011-13 biennium (report is on following page).

Key Accomplishments: Office of Financial Literacy

David Mancl, Director

The Office of Financial Literacy (OFL) promotes financial literacy as a life skill and provides information to the public on matters of personal finance and investor protection. OFL originates and leads initiatives on financial and economic literacy in order to expand opportunities and security to Wisconsin residents.

2011-2013 Key Accomplishments/Activities

- Governor Walker's Council on Financial Literacy, created April 6, 2011, has been fulfilling its charge to improve financial literacy in Wisconsin. Executive Order #24 specifies that DFI acts as executive director of the council and OFL has directed the council in the following accomplishments:
  - Created the Governor's Financial Literacy Awards program and presented them to 26 individuals and 17 organizations.
  - Established the Financial Literacy Innovation Awards, which incentivized schools to increase financial literacy education by providing a total of $250,000 to 24 school districts reaching 12,500 students.
  - Conducted two Wisconsin Summits on Financial Literacy at Lambeau Field with more than 200 participants at each event.
- OFL launched a first-of-its-kind financial literacy survey of Wisconsin's 424 school districts (97% completion rate as of June 30, 2013).
- Money Smart Week, a financial literacy awareness and education campaign done in partnership with the Federal Reserve Bank of Chicago, was held in 2011 and 2012. The 2012 campaign grew in popularity compared to the 2011 event: The number of partners increased from 154 to 232; attendance jumped from 7,772 to 12,218; and "The Big Read" children's financial literacy story book campaign grew from 64 to 74 locations.
- OFL participated in 18 events involving Wisconsin's Native American communities (189 participants).
- More than 120 registrants attended one or more of the three courses offered through OFL's National Institute of Financial and Economic Literacy training during the biennium. Since the inception of the NIFEL training in 2001, nearly 800 educators have participated. More than 70,000 students have been taught by NIFEL-trained teachers these last two years.
- OFL Director conducted an outreach initiative in 2011 and met with 157 school district administers at 10 CESA locations across the state to encourage them to elevate their commitment to financial literacy education.
- OFL continued its commitment in 2011-13 to *The Money Conference* and helped establish a new conference in Oshkosh. The one-day program, created by OFL in 2001, provides impartial financial education for low- to moderate-income families and has attracted over 1,600 people combined to the annual events.
- Veterans Financial Literacy Initiative – OFL conducted 4 regional financial coach trainings and 5 veteran organizations trainings (231 participants) to help Wisconsin veterans under financial distress connect to personal finance resources and programs.

Key Accomplishments: Division of Securities

Patricia Struck, Administrator

The Division of Securities, created in Section 15.183 (3), Wisconsin Statutes, by 1995 Wisconsin Act 27, regulates the sale of investment securities and franchises under Chapters 551 (the Wisconsin Uniform Securities Law) and 553 (the Wisconsin Franchise Investment Law) of the Wisconsin Statutes. It manages registrations and notice filings for offerings. The Division registers broker-dealers, securities agents, investment advisers and investment adviser representatives and monitors their activities through examinations. It also investigates complaints and, if violations are found, initiates the appropriate administrative, injunctive or criminal action.

20011-2013 Key Accomplishments/Activities

- Following a federal legislative mandate, "mid-sized investment advisers," formerly subject to regulation by the U.S. Securities and Exchange Commission, in 2012 became subject to regulation by state securities regulators. As a result, 54 investment advisers with assets under management of $25 million to $100 million registered with the Division, 31 of them located in Wisconsin. The Division has examined all 31 for compliance with Wisconsin statutes and rules concerning investment advisers.

- The Bureau of Professional Registration and Compliance oversees the registration of securities broker-dealers, investment advisers and their registered professionals. Registration totals as of June 30, 2013 were:
  - 1,755 broker-dealers, a decrease of nearly 3% from 2011.
  - 126,693 securities agents, an increase of 3.3% from 2011.
  - 360 investment advisers, an increase of 22.8% since 2011.

- Division staff conducted on-site examinations of 144 investment advisers and 33 broker-dealers, noting 172 significant deficiencies.

- Currently, there are 23,791 mutual funds filed in Wisconsin, representing a 12% increase from 21,227 filed as of the end of 2010 – which at that time represented an all-time high.

- Currently, 1,220 franchises are registered with the Division.

- In the biennium, the Division issued 120 Cease and Desist orders which resulted in rescission to investors of over $225,000. Further, in the orders resulting from actions by task forces organized and operated by the North American Securities Administrators Association (NASAA), the Division received penalties and costs of over $378,000, in addition to the respondents' agreement to provide liquidity directly to investors who requested it in the Auction Rate Securities cases.

- There were five criminal convictions related to violations investigated by the Division, which resulted in restitution to investors of over $526,000 in two cases. Award of restitution is pending in the other three cases.

Key Accomplishments: Office of Credit Unions

Kim Santos, Director

The Office of Credit Unions regulates state-chartered credit unions and is dedicated to ensuring the safety and soundness of Wisconsin-chartered credit unions, while fostering their development through a progressive regulatory environment.

The Office of Credit Unions charters new credit unions; examines credit union records and assets; acts on applications and requests from credit union that require approval per Chapter 186 of the Wisconsin statutes; approves merger of credit unions within the state; and in cooperation with similar agencies in neighboring states, approves interstate mergers. If a credit union is not in compliance with state law, the Office of Credit Unions may remove its officers, suspend its operations or take possession of the credit union.

2011-2013 Key Accomplishments/Activities

- As of June 30, 2013, the Office of Credit Union regulated 179 state-chartered credit unions with assets totaling $24.3 billion. This represented a decrease of 37 credit unions but an increase of nearly $3 billion in assets since June 30, 2011.
- Total net worth for Wisconsin credit unions as of June 30, 2013 was 10.28% of assets. This ratio increased from a ratio of 9.82% as of June 30, 2011. In dollars, the amount increased over $110 million.
- The return on average assets ratio rose from 0.53% to 0.93%, an increase of 40 basis points in two years. The increased ratio reflected an improving economy and the maintenance of expenses including a reduction in the provision for loan loss expense.
- Total savings deposits increased $2.3 billion in two years to $21.2 billion in total savings as of June 30, 2013.
- Total loans increased $1.2 billion in two years and total loans, as of June 30, 2013, were $17.3 billion. This represented 71.2% of assets.
    - Real estate loans comprised 62.5% of total loans.
    - Personal loans comprised 37.5% of total loans
- Delinquent loans as a percentage of total loans decreased from 1.84% as of June 30, 2011 to 1.26% as of June 30, 2013. The charge-off ratio also dropped from 0.63% to 0.41% over the same time period. Effective lending and collection practices assisted in reducing the delinquency and net loan loss ratios.
- Cash and investments totaled over $5.8 billion as of June 30, 2013 and represented 24% of total assets. The breakdown by major investment categories was:
    - 43.8% of investments in available-for-sale securities.
    - 30.4% of investments in commercial banks, savings and loans, and savings banks.
    - 16.3% in corporate or other credit unions.
    - 9.4% in held-to-maturity securities and other investments.

Additional information about credit union performance may be found in the quarterly financial bulletins. The quarterly bulletins and other information regarding the Office of Credit Unions and credit union activities can be found on the Department of Financial Institutions' website: www.wdfi.org.