
Recommendations for Strengthening Financial Competitiveness in Wisconsin by 2005

FINAL REPORT

Developed by the Task Force on
Financial Competitiveness 2005

December 2000



DEPARTMENT OF
FINANCIAL INSTITUTIONS

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was facilitated by:



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June 2000 to November 2000



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, Governor

John F. Kundert, Secretary

December 11, 2000

Dear Task Force Members:

On behalf of the Wisconsin Department of Financial Institutions (DFI), I am pleased to accept this Final Report of the Task Force on Financial Competitiveness 2005.

As you know, monthly meetings of the Task Force were held from June through November of this year. Task Force Members represented a diverse array of financial services, consumers, policy makers and regulators, and we were fortunate to have so many interested and involved members. I would like to thank each and every one of you for your hard work these last several months.

One of the goals of the Task Force was for individual members to become familiar with and understand other financial services. Working lunch presentations were devoted to the sharing of this information and I'm certain all Task Force members have a better understanding of the various financial industries as a result of these sessions.

Another important accomplishment of the Task Force has been establishing an environment where different industries can work together. As evidence of this, both banks and credit unions continue to support Financial Modernization 2001, an important legislative package affecting both industries. I'm pleased that a recommendation supporting this initiative is a part of this final report.

DFI recognizes the important role of the Task Force in supporting and promoting the state charter and state regulation generally. We pledge to work with Wisconsin's financial services and consumers on an ongoing basis to insure that necessary financial regulations work well. We will also keep Task Force members updated on issues of current interest as well as hold periodic "town hall" meetings throughout the state.

Following DFI's in-depth review of the attached recommendations, this report, along with our formal response, will be submitted to Governor Tommy G. Thompson and members of the Wisconsin State Legislature. Our response will identify those recommendations DFI will pursue and indicate a plan of action for implementing them. A portion of DFI's new quarterly newsletter will include a "scoreboard" on our progress regarding these Task Force recommendations.

Thanks again to all Task Force members and participants, as well as support staff here at DFI, for a job well done. I would also like to extend a special thank you to our facilitators, Jeff and Linda Russell of Russell Consulting, Inc., for their guidance and direction.

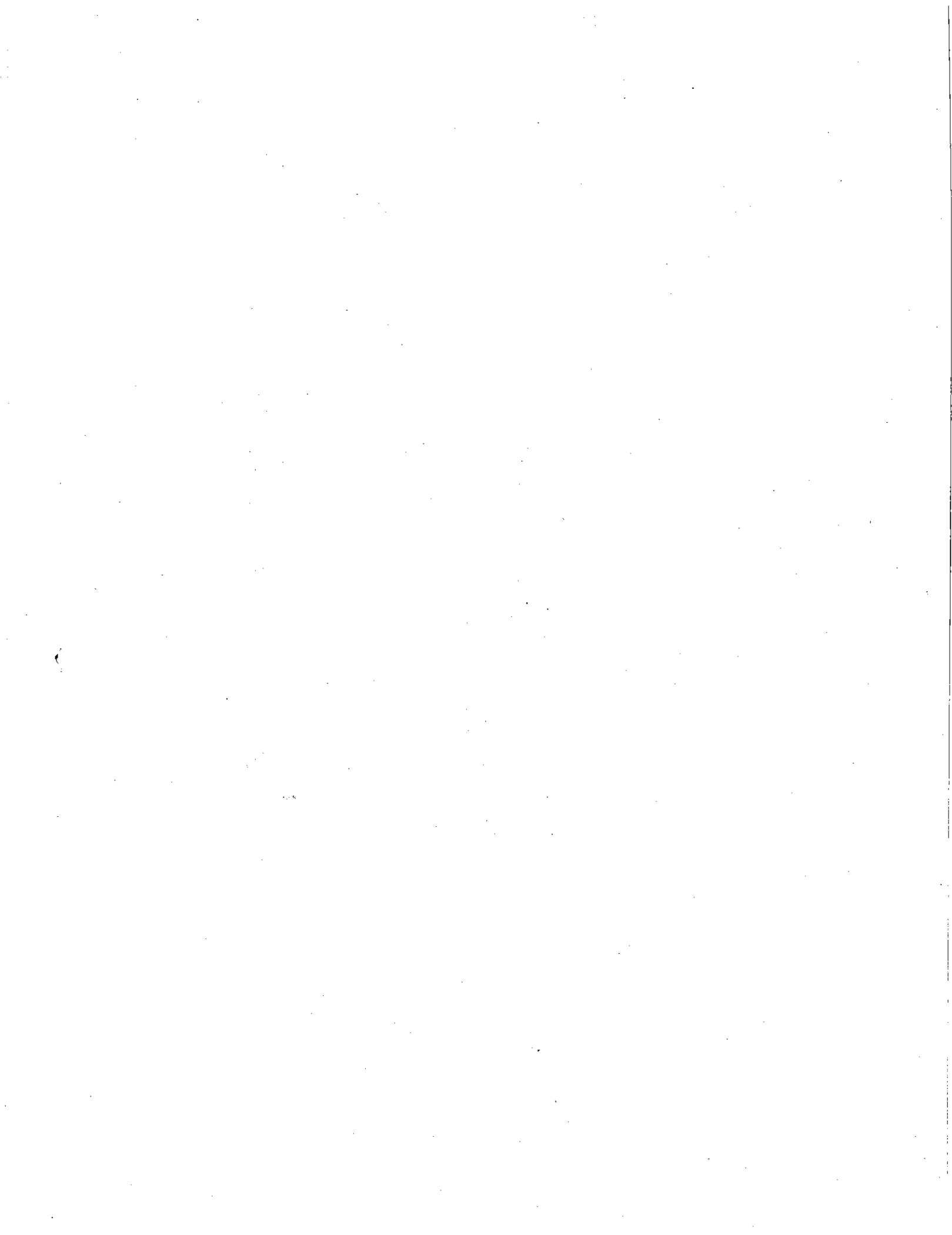
We are confident the work of the Task Force will have a positive affect on Wisconsin's financial services community.

Sincerely,

John F. Kundert
Secretary

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The Task Force & Its Process

In May of 2000, John F. Kundert, Secretary of the Wisconsin Department of Financial Institutions, signed an order creating the Task Force on Financial Competitiveness. This Task Force was charged by this order to "analyze the needs of Wisconsin's financial institutions and services and make recommendations on policy initiatives that will enhance Wisconsin's financial and economic environment by the year 2005."

The order also directed the Department to appoint members to this Task Force representing the diverse array of financial institutions and consumer interests. Groups represented on the Task Force include:

- Wisconsin Bankers Association
- Community Bankers of Wisconsin
- Wisconsin Credit Union League
- Wisconsin Financial Services Association
- Wisconsin Mortgage Bankers Association
- Wisconsin Association of Mortgage Brokers
- Wisconsin Deferred Payment Association
- Insurance Industry
- Investment Companies and others from the Securities Community
- Consumer Credit Counseling Services
- Financial Education Advocacy Groups
- Financial Consumer Advocacy Groups
- Governor's Office
- State Senate
- State Assembly
- Wisconsin Office of the Commissioner of Insurance
- Wisconsin Department of Commerce
- Federal Reserve
- Federal Deposit Insurance Corporation
- Securities and Exchange Commission
- National Association of Securities Dealers

See *Appendix A* for a listing of all Task Force members.

The first meeting of the Task Force was June 29, 2000. The Task Force met monthly through November 14th. To guide them in their work, the Task Force created several documents (a revised charge, vision, and guiding principles) and developed preliminary recommendations through the work of five subcommittees. These subcommittees were: *Meeting the Needs of Financial Consumers*, *The Changing Marketplace*, *The Regulatory Environment*, *Viability of the State Charter*, and *Financial Services in the New Economy*. See *Appendix B* for a listing of the subcommittees, the Task Force members assigned to each, and other non-Task Force subcommittee members.

During each of the six Task Force meetings, presentations were made to the Task Force on a wide array of information on financial services and institutions. See **Appendix C** for a listing of all the Task Force presentations.

In late October and early November, the Task Force conducted three Listening Sessions in Eau Claire, Appleton, and Milwaukee/Madison to gather public comments on and reactions to the recommendations. At each session, members from the Task Force subcommittee reviewed their preliminary recommendations. A "reaction panel" of local experts offered their reactions to the preliminary recommendations. The reaction panel was followed by comments from the general public. The results from these listening sessions were integrated into the Task Force's final recommendations on November 14th. See **Appendix D** for information on Task Force members and Reaction Panel representatives who presented at each Listening Session and the number of participants attending each session.

Appendix E through **Appendix I** includes the reports from each of the five Task Force subcommittees. Each subcommittee report includes: (1) Subcommittee Charge; (2) Subcommittee Findings (the *findings of fact* that were identified by each subcommittee and which formed the basis of each subcommittee's subsequent recommendations); and (3) Subcommittee Recommendations.

Appendix J includes a list of additional written resources that were made available to Task Force members. These resources are available on request from the Wisconsin Department of Financial Institutions.

Task Force Charge

The Wisconsin Department of Financial Institutions created and empowered the Task Force on Financial Competitiveness 2005 to accomplish the following objectives:

1. Identify existing and emerging issues that are or will be influencing both the competitiveness of Wisconsin organizations that provide financial services and the quality and availability of financial services.
2. Define the potential effects of these existing and emerging issues on both the competitiveness of Wisconsin organizations that provide financial services and the quality and availability of financial services provided to Wisconsin consumers.
3. Develop recommendations for consideration by the Secretary of the Department of Financial Institutions to enhance the regulatory and economic environment in respect to both the strength and vitality of Wisconsin organizations that provide financial services and the quality and availability of these services. These recommendations should address:
 - Policy Initiatives
 - Statutory Changes
 - Regulatory Enhancements
 - The Role and Function of DFI

[The Task Force approved this revised charge at its 7/9/2000 meeting]

A Vision for Financial Competitiveness 2010

Through the collective efforts by and in one partnership among financial service organizations, consumers, and Wisconsin government, Wisconsin's financial institutions and services will lead the nation in integrity and financial strength, enabling all consumers, regardless of income, to have improved access to quality financial services, choices in their financial services, and protection of their financial interests.

Our public/private partnership will accomplish this vision through . . .

- Wisconsin leading and innovating in financial services/quality
- DFI, working in partnership with others, helping create a regulatory and enforcement environment that is appropriate, efficient, effective, innovative, and focused on positive change, and which supports consumer confidence in Wisconsin's financial services
- Wisconsin outpacing the nation in making risk capital available to businesses
- Wisconsin leading the nation in job creation
- Wisconsin consumers demonstrating financial literacy
- Wisconsin leading in using technology to support financial transactions/access
- Stronger financial institutions and services enabling Wisconsin to be an even *greater* place to live, work, and start a business
- Wisconsin controlling the destiny of its financial services
- Policy makers embracing innovative State policies and implementing these policies to become more business friendly
- Government providing seamless, one-stop services to businesses and consumers
- Tax/regulatory structures promoting new businesses, encouraging business growth, and helping retain businesses – all while providing equal opportunities and advantages to all financial service providers
- Wisconsin charters being viable and competitive
- Wisconsin being an effective partner in the national, regional, and global economy

Core Principles to Guide the Development of Recommendations

Consumers

1. Consumers who are well-educated about financial products will make more informed choices and be better equipped to live a successful life.
2. Financial institutions will be encouraged to do business with consumers at all economic levels.
3. Making decisions locally as much as possible enhances customer service and strengthens the local economy.
4. Education will be provided to businesses and consumers that contributes to the development and use of products related to the new economy.
5. The most current technologies available will be used to facilitate the efficient delivery of financial services to consumers.

Financial Regulation

6. Wisconsin regulations will create a competitive environment for all types of financial service providers.
7. Simplified regulations will promote better consumer understanding of the financial products and services they are purchasing.
8. The best way to ensure consumer access to quality financial services is to have safe, sound, and effectively regulated financial service providers.
9. Wisconsin regulations will continue to ensure the safety and soundness of Wisconsin financial institutions without being burdensome.
10. Consideration of the competitiveness of Wisconsin businesses and Wisconsin chartered businesses should be considered in determining the optimal level of regulation.
11. Regulations will be non-punitive toward services that take prudent risks in helping consumers or the underserved.

Business Growth

12. Innovation and competition in business arrangements and products will be encouraged and facilitated.
13. Well-informed policy makers (regulators, legislators, etc.) will make more effective and innovative decisions that help promote a healthy business environment.
14. The appropriate balance in favor of safety and soundness will be assured while promoting the availability of capital for business development.

DFI and the Role of State Government

15. DFI will foster a spirit of cooperation to increase the number and availability of financial services.
16. DFI will a) promote the safety and soundness of Wisconsin's financial system; b) provide all financial service providers with an equal opportunity to compete with cost effective innovative products and services and to rapidly adapt to changes in the market place; c) protect consumers against unfair, fraudulent, and deceptive practices; and d) promote economic literacy.

Task Force Recommendations

The final recommendations offered by the Task Force on Financial Competitiveness 2005 are grouped by the *type* of recommendation offered.

The recommendations are *not* listed in order of importance.

Since some recommendations address multiple issues, some are listed multiple times. Multiple listings of a recommendation, however, does not suggest greater importance by the Task Force.

The categories for the Task Force Recommendations are:

- **Consumer Education/Protection**
- **Enhancing Services to Financial Consumers**
- **Addressing/Removing Barriers to Competition**
- **New Business Development/Promoting Venture Capital**
- **Strengthening Wisconsin's Business Climate**
- **Legislative & Regulatory Reform**
- **Department of Financial Institutions**

See Appendix C for a listing of the recommendations by Subcommittee—with will the level of support offered by the full Task Force.

Consumer Education/Protection

1. **Promote Financial Education:** Financial education should be based on certain minimum core principles and definitions and be required for K-12 students with a curriculum which is age and life style appropriate, sensitive to local community needs, and focused on developing knowledge and skills to become wise financial consumers. Financial education should be accessible, available, and change with needs over a life span, and free of financial promotion and commercial bias. Need to build public awareness through community outreach, Public Service Announcements, and aggressive partnership with community leaders recognizing the importance of financial education as a life skill. To be literate we need to have a dictionary of understanding. Have common definitions in all disclosures. Require the program, but develop funding mechanisms. Must be multi-lingual to keep pace with state growth.

We need an adult education component that recognizes financial education as a life skill, recognizing this is important for a prepared workforce. Must be multi-lingual to keep pace with state growth. Need to build public awareness through community outreach, Public Service Announcements, and aggressive partnership with community leaders recognizing the importance of financial education as a life skill.

2. **Promote Financial Education:** Wisconsin schools should have a core curriculum for financial education based on minimum core principles and definitions
 - Financial services
 - Credit
 - Curriculum that is aimed at students and parents
 - Use of computers
 - Personal finance
 - K-12
 - Cooperation between DPI and DFI
 - Should be a funded mandate
 - Take advantage of existing private sector and not-for-profit educational materials (while ensuring that materials are free of financial promotion and commercial bias)
3. **Define & Promote Consumer Privacy & Security Laws:** Wisconsin should be a leader in defining and promoting rational laws governing privacy of information and security while balancing the legitimate business interests of the financial services industry.
 - Internet transactions
 - E-commerce
 - Personal data
4. **Regulatory Environment Should Allow Providers to Serve Consumers While Protecting Consumer Interests:** Regulators and regulations should be responsive enough to allow providers of financial services to provide innovative products and services and encourage entrepreneurship while protecting consumers.

5. ***Adopt E-Signature Legislation:*** Adopt new e-signature legislation for the State of Wisconsin to facilitate electronic transactions.
6. ***Balance Consumer & Business Interests in Regulation Development:*** Create an administrative review body, which would balance consumer and business interests in the development of regulations and remove the rule-making process from legislative review.
7. ***Ensure that DFI is More Responsive to Consumer Act Enforcement:*** The Department of Financial Institutions should review enforcement procedures in place regarding the Wisconsin Consumer Act and become more responsive to the needs of the consumer in enforcement. Regulation needs to keep pace with the changing financial services environment.
8. ***Define Predatory Lending:*** Predatory lending needs to be defined.
9. ***Regulate Credit Card Advertising:*** Regulate terms of advertising credit cards to counteract consumer misunderstanding. (Federal Trade Commission, Dept. of Agriculture can regulate).

Enhancing Services to Financial Consumers

1. ***Encourage Providers to Serve Underserved Areas:*** Explore incentives to get financial institutions located in under-served areas. Copy Legacy Bank model (Community Development Financial Institutions) and expand concept throughout the state. Explore incentives for financial institutions to offer low cost accounts.
2. ***Address Barriers to the Unbanked:*** Identify and address barriers that preclude the unbanked from using mainstream financial service providers.
3. ***Ensure Technology Access for the Unbanked:*** Make up-to-date technology/computers/Internet access available to unbanked; public access via churches, libraries and other community organizations, etc. Incorporate use of technology in teaching of finance and technology literacy that will assist in overall education for the unbanked, rural and low income.
4. ***Provide Financial Incentives for Investments in Lower Income Communities:*** The state should provide financial service providers with financial incentives to invest in lower income communities and serve lower income consumers with meaningful products (to include lifeline banking similar to New York and Illinois) at affordable rates.
5. ***Reform Wisconsin's Tax Laws:*** Reform Wisconsin's tax and other laws to encourage a) people to maintain their state residency, b) new services, c) the making of risk investments, d) the location of businesses in underserved areas, and e) job creation.

Addressing/Removing Barriers to Competition

1. ***Remove Barriers to Competition:*** Identify and remove barriers that adversely impact the ability of Wisconsin's financial services industry to compete at a regional, national and international level.
 - Consistent with protection of consumers interests
 - Cooperation between business and regulatory agency
 - Wisconsin should be a leader in providing business friendly procedures to review and update laws to encourage new financial products and Wisconsin based providers of credit and financial services for the benefit of its citizens
2. ***Seek out Best Practices:*** Review the laws and regulations of other states to identify and recommend the best practices to encourage competition.
3. ***Remove Inconsistencies with Federal/Other State Laws that Restrict Competition:*** Review and consider elimination of inconsistencies with other states and federal laws that restrict competition and continue to work with Federal regulators and other states to develop uniform regulations, disclosures, and joint exams.

New Business Development/Promoting Venture Capital

1. ***Encourage Venture Capital for New Economy Businesses:*** Wisconsin should be a leader in creating a regulatory and tax environment that encourages venture capital for new economy businesses.
 - Partnerships with UW System, public and private
 - State incentives
 - To encourage incubator venture capital
2. ***Encourage Venture Capital Investment/Business Development:*** Devote resources to encourage venture capital investment and business development through the creation of a Venture Capital Task Force that would study venture capital investment and make recommendations, research what other states have done to promote venture capital development, explore the development of new independent venture funds, court representatives of venture capital firms and create a vehicle to gather consistent and accurate data on venture capital investment in Wisconsin.
3. ***Support Increased Availability of Venture Capital:*** The state should support programs aimed at increasing the availability of venture capital (e.g., Facilitator Capital, CAPCO, and the CapVest Fund) and other private sector sources.
4. ***Encourage State Government Venture Fund Investments:*** Encourage continued State of Wisconsin investment in venture funds that target Wisconsin businesses.
5. ***Promote Entrepreneurial Post-Secondary Classes:*** Promote and encourage entrepreneurial classes for all students in post-secondary public institutions.
6. ***DFI Facilitates Training/Education to Providers Regarding Risks & Opportunities of the New Economy:*** DFI facilitates training and education to providers of financial services and regulators on evaluating the opportunities and risks in the New Economy.
7. ***Reform Wisconsin's Tax Laws:*** Reform Wisconsin's tax and other laws to encourage a) people to maintain their state residency, b) new services, c) the making of risk investments, d) the location of businesses in underserved areas, and e) job creation.

Strengthening Wisconsin's Business Climate

1. ***Create Incentives for Attracting/Retaining a Quality Workforce:*** Develop greater incentives to retain and attract a quality work force in Wisconsin.
2. ***Promote Wisconsin's Business Success:*** Promote Wisconsin through a national advertising campaign demonstrating Wisconsin's business successes.
3. ***Revise Income/Franchise Tax Structure:*** Revise the income/franchise tax structure to more accurately reflect the business of the financial services industry.
4. ***Enact Financial Modernization Legislation:*** Legislature should enact the compromise financial modernization legislation supported in 1999/2000 (SB 274) by all the financial industry trade groups. This legislation includes necessary parity powers for state depository institutions to maintain their competitiveness with federally chartered counterparts.
5. ***Change Tax Policy Negatively Affecting Retention of Business Capital:*** Change tax policy to reduce tax barriers prohibiting Wisconsin from retaining business capital.
6. ***Reform Wisconsin's Tax Laws:*** Reform Wisconsin's tax and other laws to encourage a) people to maintain their state residency, b) new services, c) the making of risk investments, d) the location of businesses in underserved areas, and e) job creation.

Legislative & Regulatory Reform

1. **Develop Biennial Strategic Marketing Plan:** DFI shall develop a biennial strategic marketing plan, which coincides with the state's biennial budget. The plan should be directed to inform all stakeholders including consumers, legislators, and financial institutions regarding the advantages of the state charter. The plan should include periodic town hall meetings with legislators at a district financial institution.
2. **Enact Financial Modernization Legislation:** Legislature should enact the compromise financial modernization legislation supported in 1999/2000 (SB 274) by all the financial industry trade groups. This legislation includes necessary parity powers for state depository institutions to maintain their competitiveness with federally chartered counterparts.
3. **Regulatory Environment Should Allow Providers to Serve Consumers While Protecting Consumer Interests:** Regulators and regulations should be responsive enough to allow providers of financial services to provide innovative products and services and encourage entrepreneurship while protecting consumers.
4. **Encourage the Drafting of Model Legislation for Emerging Financial Services Issues:** Request the Conference of State Bank Supervisors (a national association of state financial institution regulators) to establish a model legislative language committee. This would create a mechanism to draft model legislation for emerging financial services issues. This committee would be similar to the process established by the Conference of State Bank Supervisors for examinations of multi-state institutions.
5. **Adopt E-Signature Legislation:** Adopt new e-signature legislation for the State of Wisconsin to facilitate electronic transactions.
6. **Create a More Competitive Environment through Functional Regulation:** Provide a more competitive environment for all financial service providers through functional regulation.
7. **DFI Reviews Statutes & Regulations Bi-Annually for Impacts on State Charter Viability:** Review the existing Wisconsin statutes and regulations bi-annually to determine which statutes and regulations put state chartered financial institutions at a disadvantage and propose necessary legislative or regulatory solutions. For example, Wisconsin's interstate banking and branching statutes should be reexamined to assure their competitiveness with other states' statutes.
8. **Seek out Best Practices:** Review the laws and regulations of other states to identify and recommend the best practices to encourage competition.

9. ***Balance Consumer & Business Interests in Regulation Development:***
Create an administrative review body, which would balance consumer and business interests in the development of regulations and remove the rule-making process from legislative review.

Department of Financial Institutions

1. ***Develop Biennial Strategic Marketing Plan:*** DFI shall develop a biennial strategic marketing plan, which coincides with the state's biennial budget. The plan should be directed to inform all stakeholders including consumers, legislators, and financial institutions regarding the advantages of the state charter. The plan should include periodic town hall meetings with legislators at a district financial institution.
2. ***DFI Coordinates Regular Meetings with Financial Industry Stakeholders:*** Financial industry trade groups, consumer groups, and industry representatives should meet regularly to provide information to the Department of Financial Institutions for its strategic planning process. The Department of Financial Institutions should act as a coordinator to maintain open lines of communication between these groups.
3. ***DFI Facilitates Training/Education to Providers Regarding Risks & Opportunities of the New Economy:*** DFI facilitates training and education to providers of financial services and regulators on evaluating the opportunities and risks in the New Economy.
4. ***DFI Reviews Statutes & Regulations Bi-Annually for Impacts on State Charter Viability:*** Review the existing Wisconsin statutes and regulations bi-annually to determine which statutes and regulations put state chartered financial institutions at a disadvantage and propose necessary legislative or regulatory solutions. For example, Wisconsin's interstate banking and branching statutes should be reexamined to assure their competitiveness with other states' statutes.

Appendix A: Task Force Membership

Chairman	John F. Kundert, Secretary Wisconsin DFI 345 West Washington Avenue, 5 th Floor Madison, WI 53703
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Appendix B: Subcommittee Membership

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Gerard Randall, Jr.
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Tom Haag
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Wisconsin Bankers Association

Connie Kilmark
Kilmark & Associates

Kathy Soderbloom
Office of State Senator Judy Robson

Sue Grady
Department of Public Instruction

Staff: David Mancl, Director
Office of Financial Education

Ginger Larson, Director
Office of Credit Unions

The Changing Marketplace

Chairman: Jim Martin
TYME Corporation

Members: Deborah Fabritz
Robert W. Baird

Ed Heiser
Whyte Hirschboeck Dudek, SC

Representative Suzanne Jeskewitz
Wisconsin State Assembly

Tamara Kling
CT Corporation

Martin Langer
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Susan M. Madson
Federal Deposit Insurance Corporation

Joe McNeil
Strong Capital Management

Other Members: Kim Kindschi
Wisconsin Bankers Association

Rick McGuigan
Community Bankers of Wisconsin

Bob Richards

Staff: Ray Allen, Administrator
Division of Corporate and Consumer Services

Jacquelyn Rader, Administrator
Division of Administrative Services and Technology

Kim Straka, Director of Communications
Department of Financial Institutions

The Regulatory Environment

Chairman: James D. Friedman
Quarles & Brady, LLP

Members: Greg Baer
Mister Money USA

Jim Brown
UW-Milwaukee
Center for Consumer Affairs

Sam Harrison
Access Financial Services of Wisconsin

Mary Keefe
Securities and Exchange Commission

James E. Kopp
Anchor Bank

Carla Romano
National Association of Securities Dealers, District 8

Kathleen Hyland Schluter
Northwestern Mutual Life Insurance Co.

Ray Unger
Unger Capital Management

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Wisconsin Department of Revenue

Representative Neal Kedzie
Wisconsin State Assembly

Lisa Lee
Department of Financial Institutions

Mike Seider
Wisconsin Credit Union League

Other Members: Dennis Donahue
Associated Collectors, Inc.

Staff: Patricia Struck, Administrator
Division of Securities

Dave Anderson, Executive Assistant
Department of Financial Institutions

Lisa Roys, Policy Advisor
Department of Financial Institutions

Viability of the State Charter

Chairman: Paul C. Adamski
The Pineries Bank

Members: Secretary John "Jack" Kundert
Department of Financial Institutions

Senator Gwen Moore
Wisconsin State Senate

Other Members: James Sheriff
Godfrey & Kahn

Erin Bilot
Office of State Representative Suzanne Jeskewitz

Rebecca Larson
Office of State Senator Mary Panzer

Rose Oswald Poels
Wisconsin Bankers Association

Staff: Michael Mach, Administrator
Division of Banking

John Gervasi, Administrator
Division of Savings Institutions

Financial Services in the New Economy

Chairman: Richard Cahill
Federal Reserve Bank of Chicago

Members: Secretary Brenda J. Blanchard
Department of Commerce

Terry Burrington
Financial Marketing Corporation

Brett Davis
Office of Governor Tommy G. Thompson

Eileen Mallow
Office of the Commissioner of Insurance

Representative John LaFave
Wisconsin State Assembly

Lon Roberts
Ruder Ware & Michler, SC

Richard Schlimm
Wisconsin Community Action Program Association

James Smessaert
West Allis Savings Bank

Senator Robert Welch
Wisconsin State Senate

Phil Albert
Department of Commerce

Other Members: Daryll Lund
Community Bankers of Wisconsin

Jon Henkes
University of Wisconsin

Staff: Terry Grosenheider, Deputy Secretary
Department of Financial Institutions

Christopher Green, General Counsel
Department of Financial Institutions

Appendix C: Task Force Presentations

June 29, 2000 Task Force Meeting

Department of Financial Institutions Overview

- Lisa Roys, Policy Advisor
- Terry Grosenheider, Deputy Secretary
- Jacquelyn Rader, Division of Administrative Services and Technology
- Kim M. Manka, Director of Communications
- Michael Mach, Division of Banking
- John A Gervasi, Division of Savings Institutions
- Ray Allen, Division of Savings Institutions
- David Mancl, Office of Financial Education

State Strategies for the New Economy

- John Thomasian, Director, Center for Best Practices - National Governors Association

Financial Modernization

- Dave Anderson, Executive Assistant - Wisconsin Department of Financial Institutions
- John Ryan, Conference of State Bank Supervisors (CSBS)
- Deborah Fischione, North American Securities Administrators Association (NASAA)
- Jay Stevenson, American Council of State Savings Supervisors (ACSSS)
- Mary Martha Fortney, National Association of State Credit Union Supervisors (NASCUS)

August 17, 2000 Task Force Meeting

Business and Regulatory Climate in Other States

- Deborah Bortner, Director of Securities, Washington Department of Financial Institutions
- Scott D. Clarke, Assistant Commissioner - Banking Bureau, Illinois Office of Banks and Real Estate
- Manny Kursky, Deputy Superintendent of Banks, New York State Banking Department
- Laura Udis, Uniform Consumer Credit Code Administrator, State of Colorado

Payday Lending

- Greg Baer, Mister Money USA

Mortgage Brokers

- Sam Harrison, Access Financial Services

Debt Collection

- Dennis Donohue, Associated Collectors

The Office of the Commissioner of Insurance and Insurance Regulatory Issues

- Eileen Mallow, Assistant Deputy Commissioner, Office of the Commissioner of Insurance

A Vision of the Future

- David Zach, Innovative Futures

September 6, 2000 Task Force Meeting

The New Economy and What it Means for Wisconsin

- David J. Ward, Senior Vice President Emeritus of the University of Wisconsin and President of Northstar Economics

The Insurance Industry

- R.D. Boschulte, American Family Insurance
- Kathleen Schluter, Northwestern Mutual

The Credit Union Industry

- Mary Cunningham, CUNA Credit Union

Investment Advisors

- Ray Unger, Unger Capital Management
- Joe McNeil, Strong Capital Management

October 4, 2000 Task Force Meeting

Consumer Perspectives on Financial Service Issues

- Jim Brown, UW-Milwaukee. Center for Consumer Affairs
- Bill Whitford, UW-Madison Law School
- Mary Fons, Fons Law Office
- Richard Schlimm, Wisconsin Community Action Program Association

Pawnbrokers

- Greg Baer, Mister Money USA

Licensed Lending

- Ed Heiser, Whyte Hirschboeck Dudek

November 14, 2000 Task Force Meeting

The Role of Federal Regulators

- Susan M. Madson, Deputy Regional Director, Federal Deposit Insurance Corporation

- Richard Cahill, Vice President for Regional and Community Bank Supervision, Federal Reserve Bank of Chicago
- Mark Keefe, Regional Director, Securities and Exchange Commission

The Banking Industry

- Victoria Strobel, M&I Corporation
- Paul Adamski, The Pineries Bank
- James D. Smessaert, West Allis Savings Bank

Consumer Credit Counseling

- Patrick Vandenberg, Consumer Credit Counseling Service

Appendix D: Listening Sessions

Eau Claire - October 18, 2000

Presentation Panel:

- Dave Anderson, Department of Financial Institutions
- Victoria Strobel, M&I Corporation
- Kim Kindschi, Wisconsin Bankers Association
- Rose Oswald Poets, Wisconsin Bankers Association
- Phil Albert, Department of Commerce

Reaction Panel:

- Bruce Davis, Wisconsin Business Innovation Corporation - Spooner
- John Torgerson, Preferred Mortgage Company - Eau Claire
- David Phillips, Northcentral Technical College - Wausau
- Charlie Grossklaus, Royal Credit Union - Eau Claire
- Gary Weirauch, Citizens State Bank of Loyal

Number of Attendees: 22

Appleton - November 6, 2000

Presentation Panel:

- Daryll Lund, Community Bankers of Wisconsin
- Paul Adamski, The Pineries Bank
- Kim Kindschi, Wisconsin Bankers Association
- Patrick Vandenberg, Consumer Credit Counseling Service
- James E. Kopp, Anchor Bank

Reaction Panel:

- Karl Pnazek, CAP Service, Inc. - Stevens Point
- Cathy Tierney, Community First Credit Union - Appleton
- Don Peters, Associated Banc-Corp - Green Bay
- Dick Pamerin, Premier Community Bank - Marion

Number of Attendees: 41

Milwaukee/Madison - November 9, 2000

Presentation Panel:

- James Sheriff, Godfrey & Kahn
- James Friedman, Quarles & Brady
- Jim Brown, UW- Milwaukee Center for Consumer Affairs
- Jim Martin, TYME Corporation
- James Smessaert, Ledger Bank

Reaction Panel:

- Scott Kennison (retired)
- David Locke, McFarland State Bank
- Mike Meeuwsen, First Northern Savings bank - Green Bay

Number of Attendees: 60

Appendices E-I: The Subcommittee Process & Recommendations

Appendix E: Meeting the Needs of Financial Consumers

Appendix F: The Changing Marketplace

Appendix G: The Regulatory Environment

Appendix H: Viability of the State Charter

Appendix I: Financial Services in the New Economy

Each of these Task Force Subcommittees met over a three month period to define their issue, identify desired financial competitiveness outcomes for their area, develop “findings” that reflect the current state of financial competitiveness in their area, and then develop their recommendations for action.

The following reports present each Subcommittee’s recommendations as reviewed and approved by the full Task Force on November 14th.

Levels of Task Force Support

At its November 14th meeting, the facilitators guided the full Task Force in reviewing each of the Subcommittees’ recommendations. For each recommendation, the facilitators asked if the specific recommendation had the *full support* of the Task Force. If so, this recommendation was identified as a “Full Consensus” recommendation. If there was less than full support, the recommendation was identified as receiving *general support* (less than one-third of members opposed) or *qualified support* (more than one-third of members opposed). The recommendations that follow are grouped according to the level of support offered by the full Task Force. Where there was *general* or *qualified* support, the numbers of people indicating some level of disagreement—and the general reasons for their disagreement—are noted.

Appendix E: Meeting the Needs of Financial Consumers

Each subcommittee was asked to define their assigned issue, identify the consequences of Wisconsin *not* addressing the issue, the desired outcome if the issue is addressed successfully, and the underlying causes driving this issue. These dimensions of the charge were finalized by the subcommittee prior to developing its findings and recommendations.

This subcommittee report includes: (1) Subcommittee Charge; (2) Subcommittee Findings; and (3) Subcommittee Recommendations.

1. Subcommittee Charge

A. The Issue Defined

Consumer access to financial services industry and how it has responded to consumer demands and what strategies can be deployed to enhance access.

To include major concerns:

- Proliferation of niche players (e.g., payday lenders);
- Education by and for financial institutions and consumers;
- Maximization of technology to ensure efficient delivery;
- Decrease in the digital divide;
- Regulatory climate in Wisconsin.

B. Consequences of Not Addressing this Issue

- Impact on quality of life issues;
- Negative economic impact on the absence of effective access to services that include credit/savings;
- Absence of services will keep cycle of poverty/debt;
- Welfare reform issues re: need for access to banking services;
- Widening of the "digital divide;"

- Increase in bankruptcies;
- Mis-education of fraud, truth in advertising, etc.;
- Weak or non-existent relationship with financial institutions.

C. Desired Outcomes

- Increase of consumers in the mainstream financial services pipeline;
- Development of true access for certain sectors;
- Mandatory financial literacy curriculum in Milwaukee Public Schools;
- Increased coordination between financial institutions.

D. Underlying Causes Driving this Issue

- Lack of education and/or counseling for consumers;
- Lack of enforcement of existing laws;
- Lack of viable alternatives;
- Existing lost structures/Issues of unsuitability;
- Structural problems/Federal vs. State Issues;
- Fear or apathy of consumer;
- Supportive regulatory environment for customer outreach initiatives.

2. Subcommittee Findings

Each Task Force subcommittee was charged with defining their issue, identifying the desired outcomes from addressing the issue, and developing "findings of fact" regarding their assigned issue.

The *Findings of Fact* represent information gathered by the subcommittee to aid and guide it in its recommendations development process. The findings were based on presentations made to the subcommittees by state and national experts and on data gathered by DFI and shared with the subcommittees.

The top priority findings that follow are listed in order of importance as determined by each subcommittee.

A. Financial Literacy

1. There are no real standard courses for personal finance. Wisconsin schools lack standard curriculum for financial education. There is an absence of an effective financial literacy program in school system today. There are no mandatory personal finance classes required at the high school level.
2. There are no standards between financial institutions. Coordination between financial institutions is needed.
3. Funding must be secured for new financial education curriculum. The educational system will support the financial institutions of tomorrow.
4. There is a lack of financial education. The impact is more severe on low-income people. Parents are relied upon to teach this information and they do not know any more than their children do. Consumer financial education is most effective when offered across an individual's life span. There is a need for a buffet of services for teachable moments.
5. Consumers of all income classes do not have an understanding of rights and obligations under credit card agreements.
6. There is a lack of financial literacy/interest by students.

B. Predatory and Sub-Prime Lending

1. Increased awareness; and definition of sub-prime and predatory mortgage lending is very important.
2. Lack of access to traditional financial institutions leaves unbanked to alternative lending which perpetuates fundamental distrust and inability to join financial economy.
3. Pay Day Lending customers are lower income people and represent a disproportionate percentage of borrowers. 80% obtain greater than 3 Pay Day Lending's per year; 9% obtain 25; default rate of 1%. Only 13 states have no regulation (Woodstock). Check cashing bus prevalent in NW communities (Squires).
4. A market exists; it has to be regulated.
5. Asset development for the poor is needed to bridge the gap between rich and poor. Predatory lending is a big impediment for poor. Health insurance is another issue for the poor.
6. Federal financial regulators do not have a definition of PL; do not have a systematic data on PL, and what data they do have is anecdotal at best (Senate Banking Committee).
7. Sub-prime lending should be used as temporary measure not as way of life. (8 points/4 votes)
8. If we act hastily to stop predatory lending without knowing what it is, we could end up cutting off legitimate loan sources and ending the home ownership dreams for millions (Senate Banking Committee Chairman, Pratt's Letter).
9. There is no central governing body (legislation) for all financial institutions.

10. Predatory mortgage practices such as flipping, rollover fees, etc. represent an all-consuming problem.

C. Meeting Needs of Unbanked

1. There is an absence of effective savings vehicle for low-income consumers. We cannot have IDAs without a savings vehicle.
2. There is a need to work with low-income consumers to accumulate wealth. People lack the ability to acquire assets via product offerings e.g. IDAs.
3. Low-income consumers spend a higher percentage of their income on transaction fees than the general population (Squires).
4. Community banks set-up in poor neighborhoods can be profitable and serve unbanked if they take seriously the education of the unbanked (S. Lanier, Legacy Bank).
5. Echo study by Squires & O'Connor. Significant amount of population i.e. 22-30% constitutes unbanked population.
6. Financial institutions squabble over gaining market share often ignoring the unbanked and potentially new financial users
7. Many unbanked are denied access because of consumer reporting methods. A vehicle is needed to rehabilitate those who have fallen out of the system but desire to reenter it.
8. FL and need for financial understanding is the first step in assisting the unbanked.
9. Traditional brick and mortar offices with traditional bank products (i.e. loans greater than \$1,000 with lengthy paperwork to complete) do not fit with the typical needs of the unbanked consumers.)
10. Debit cards are needed for those who want to avoid over draft charges. (See article ref. Paychecks into purchasing card as a good alternative; people feel good about themselves).
11. The congressional mandate... all government payments electronic by 1999 will change, not only how... today's unbanked fed. Payment recipients access their funds, but also the competitive landscape of financial services provision in lower income communities (FA21stC)."
12. 13-22 percent of population identified as unbanked is low income.

D. Leveraging Technology for Service Delivery

1. There are many new ways to commit consumer fraud on the Internet.
2. Appropriate use of technology will be available; access to technology is important because of digital divide especially for low-income people. This is a digital divide issue. Households in rural areas are least likely to have access followed by minorities in central cities. While technology is an opportunity, the problem of access remains.

3. Leveraging technology for service delivery is a positive solution for consumers. The Internet is a very important tool for financial literacy/financial education. It may assist in meeting the needs of unbanked. Controlled use for service functions can be a significant benefit.
4. New technologies are lowering cost structures and spurring new product and delivery system designs that may soon portend greater access to traditional banking institutions (FA21st C).
5. Existing technology used in a market driven solutions can help banks reach new markets i.e. unbanked consumer market.
6. Technology can be used to better regulate. The Internet can be used as an effective distance-learning tool to reach unbanked and for financial literacy.
7. There is a lot of missed information on consumer protection being provided by entities unregulated. There is a lot of anxiety about protection of consumers here at home.

E. Enforcement of Existing Consumer Protections

1. Institutions engaged in debt collection are governed by two sets of rules - federal and state and they sometimes conflict. Third party financial institutions governed by federal and state; creditors by state rules.
2. Department of Financial Institution's report on Wisconsin Consumer Act complaints indicate violations increased 22% from 1998 to 1999. This shows a need for enforcement. Mortgage bank complaints increased 5-fold 44 to 297. Out of 905 complaints, only 173 were verified.
3. Some numbers may demonstrate that enforcement is improving and not a problem. 250 complaints may indicate a problem or that there is an increasing number of informed consumers.

3. Subcommittee Recommendations

These subcommittee recommendations are listed by the *level of consensus* achieved by the full Task Force at its November 14th meeting.

A. Areas of Full Task Force Consensus

1. **Promote Financial Education:** Financial education should be based on certain minimum core principles and definitions and be required for K-12 students with a curriculum which is age and life style appropriate, sensitive to local community needs, and focused on developing knowledge and skills to become wise financial consumers. Financial education should be accessible, available, and change with needs over a life span, and free of financial promotion and commercial bias. Need to build public awareness through community outreach, Public Service Announcements, and aggressive partnership with community leaders recognizing the

importance of financial education as a life skill. To be literate we need to have a dictionary of understanding. Have common definitions in all disclosures. Require the program, but develop funding mechanisms. Must be multi-lingual to keep pace with state growth.

We need an adult education component that recognizes financial education as a life skill, recognizing this is important for a prepared workforce. Must be multi-lingual to keep pace with state growth. Need to build public awareness through community outreach, Public Service Announcements, and aggressive partnership with community leaders recognizing the importance of financial education as a life skill.

2. **Encourage Providers to Serve Underserved Areas:** Explore incentives to get financial institutions located in under-served areas. Copy Legacy Bank model (Community Development Financial Institutions) and expand concept throughout the state. Explore incentives for financial institutions to offer low cost accounts.
3. **Address Barriers to the Unbanked:** Identify and address barriers that preclude the unbanked from using mainstream financial service providers.
4. **Ensure Technology Access for the Unbanked:** Make up-to-date technology/computers/Internet access available to unbanked; public access via churches, libraries and other community organizations, etc. Incorporate use of technology in teaching of finance and technology literacy that will assist in overall education for the unbanked, rural and low income.

B Areas of General Agreement – With Reservations Noted

5. **Ensure that DFI is More Responsive to Consumer Act Enforcement:** The Department of Financial Institutions should review enforcement procedures in place regarding the Wisconsin Consumer Act and become more responsive to the needs of the consumer in enforcement. Regulation needs to keep pace with the changing financial services environment.

Reservations: Eight members expressed concerns that this Act should simply be enforced, rather than trying to make it "more responsive."

6. **Define Predatory Lending:** Predatory lending needs to be defined.

Reservations: Eight members expressed concerns about *whom* will define predatory lending and how would the definition be applied.

7. **Regulate Credit Card Advertising:** Regulate terms of advertising credit cards to counteract consumer misunderstanding. (Federal Trade Commission, Dept. of Agriculture can regulate).

Reservations: Eight members expressed concerns that this would not address the underlying problem and that it would merely impose new restrictions and regulations on Wisconsin financial institutions.

C. Areas with More Limited Agreement

8. **Adopt Federal Law:** Adopt federal law for Wisconsin collectors and creditors.

Reservations: Nineteen members expressed concerns that this recommendation was not fully explored or explained by the subcommittee.

Appendix F: The Changing Marketplace

Each subcommittee was asked to define their assigned issue, identify the consequences of Wisconsin *not* addressing the issue, the desired outcome if the issue is addressed successfully, and the underlying causes driving this issue. These dimensions of the charge were finalized by the subcommittee prior to developing its findings and recommendations.

This subcommittee report includes: (1) Subcommittee Charge; (2) Subcommittee Findings; and (3) Subcommittee Recommendations.

1. Subcommittee Charge

A. The Issue Defined

- What evolving needs will DFI face due to the increasing speed in which transactions occur?
- Will data marts, business exchanges or other private databases replace government's role as a depository for information?
- Should DFI facilitate e-business activities and, if so, how can DFI facilitate these activities?
- What is the legal status of electronic signatures in Wisconsin and the United States today? And how is that likely to evolve?
- Should DFI assist in the business transformation that is taking place? If so, how can it best do this?
- What internal databases, applications or functions (if any) need to be integrated?
- What are Wisconsin businesses' legal expectations concerning privacy in a global marketplace?
- What is the impact of changing demographics (e.g., the aging population) on the marketplace and how can these workforce issues be addressed?
- Should we address inter-industry conglomerates? (FDIC)
- Extent of regulation on non-bank products and services;

- Cross border issues, online investing, banking, etc., who has jurisdiction, regulation (what is in place today);
- Technology gap; electronic signatures bill.

B. Consequences of Not Addressing this Issue

- Losing charters will result in more federal charters and a loss of franchise value;
- Fraud – customers at greater risk and financial organizations have greater security issues (i.e. hackers, etc.);
- Not regulate to the extent consumers are driven away from state-chartered banks or banks convert – we need to remain flexible;
- There would be a loss of revenue from businesses not licensed;
- Resources to support technology – internal/external (brain drain);
- Technology creates movement of funds, which may contribute to bank instability and have an effect on the financial institutions and their core deposits;
- Affect on rural communities.

C. Desired Outcomes

Desired Outcome:

- Efficiency increase;
- Revenue increase;
- Consumer confidence in the internet and increased online activity due to better regulations;
- More informed consumers;
- Create business environment, aid retention, attraction – regulations that allow Wisconsin businesses to compete naturally;
- Disclosures/existing laws incorporated – e-commerce issue into existing laws;
- DFI – well trained staff – E-commerce/retrained;
- DFI takes lead in allowing financial institutions to compete in the full-range of financial services.

Measure of Success:

- Business start-ups, particularly in the e-commerce area;
- Transformation of traditional businesses to e-businesses;
- Decrease in complaints.

D. Underlying Causes Driving this Issue

- Technology advances;
- Better educated consumers;
- Employment picture;
- Changing definition of what a financial institution is;
- Information availability online/media;
- Move toward cashless society – level of consumer use;
- Government move toward automated systems;
- Competition among businesses.

2. Subcommittee Findings

Each Task Force subcommittee was charged with defining their issue, identifying the desired outcomes from addressing the issue, and developing “findings of fact” regarding their assigned issue.

The *Findings of Fact* represent information gathered by the subcommittee to aid and guide it in its recommendations development process. The findings were based on presentations made to the subcommittees by state and national experts and on data gathered by DFI and shared with the subcommittees.

The top priority findings that follow are listed in order of importance as determined by each subcommittee.

Top Priority Findings – The Basis for the Recommendations

1. Global economics - cross borders compliance - global economy, cross border/state/international.

2. Operating and regulatory requirements are becoming increasingly complex for financial organizations.
3. Consumer demand drives development of new and non-traditional types of providers of consumer credit, i.e., pay day lenders.
4. State regulations may not provide acceptable environment for development and innovative deployment of new technology.
5. Marketplace change is occurring more rapidly than regulators can respond.
6. Consumers have greater access to more information than ever before.
7. Consumer confidence in understanding and using barriers must be identified, i.e., language, culture. Various barriers (culture, language and economics) impact consumer access.
8. Consumers worry about mistakes and confirmation of orders relating to Internet.
9. Consumers have more direct involvement with their finances than ever before.
10. Wisconsin faces shortage of skilled workers.
11. Wisconsin schools have no core financial standardized education curriculum.
12. Recognition of "brain drain" and its effect on our future economy.
13. Consumers are concerned about their personal identification and privacy.
14. Businesses are faced with implementing federal privacy regulations.
15. Availability and cost effectiveness of technology is a concern.
16. The potential for fraud and loss grows exponentially with electronic commerce.
17. More non-traditional providers & entities are offering financial services, i.e., John Deere, General Motors & General Electric.
18. Availability of risk capital and appropriate legislation to encourage new start-ups is lacking.
19. Greater availability of credit could have adverse consequences or positive consequences.

3. Subcommittee Recommendations

These subcommittee recommendations are listed by the *level of consensus* achieved by the full Task Force at its November 14th meeting.

Areas of Full Task Force Consensus

1. **Promote Financial Education:** Wisconsin schools should have a core curriculum for financial education based on minimum core principles and definitions
 - Financial services
 - Credit
 - Curriculum that is aimed at students and parents
 - Use of computers
 - Personal finance
 - K-12
 - Cooperation between DPI and DFI
 - Should be a funded mandate
 - Take advantage of existing private sector and not-for-profit educational materials (while ensuring that materials are free of financial promotion and commercial bias)
2. **Remove Barriers to Competition:** Identify and remove barriers that adversely impact the ability of Wisconsin's financial services industry to compete at a regional, national and international level.
 - Consistent with protection of consumers interests
 - Cooperation between business and regulatory agency
 - Wisconsin should be a leader in providing business friendly procedures to review and update laws to encourage new financial products and Wisconsin based providers of credit and financial services for the benefit of its citizens
3. **Encourage Venture Capital for New Economy Businesses:** Wisconsin should be a leader in creating a regulatory and tax environment that encourages venture capital for new economy businesses.
 - Partnerships with UW System, public and private
 - State incentives
 - To encourage incubator venture capital
4. **Define & Promote Consumer Privacy & Security Laws:** Wisconsin should be a leader in defining and promoting rational laws governing privacy of information and security while balancing the legitimate business interests of the financial services industry.
 - Internet transactions

- E-commerce
 - Personal data
5. ***Create Incentives for Attracting/Retaining a Quality Workforce:***
Develop greater incentives to retain and attract a quality work force in Wisconsin.

Appendix G: The Regulatory Environment

Each subcommittee was asked to define their assigned issue, identify the consequences of Wisconsin *not* addressing the issue, the desired outcome if the issue is addressed successfully, and the underlying causes driving this issue. These dimensions of the charge were finalized by the subcommittee prior to developing its findings and recommendations.

This subcommittee report includes: (1) Subcommittee Charge; (2) Subcommittee Findings; and (3) Subcommittee Recommendations.

1. Subcommittee Charge

A. The Issue Defined

- How is Gramm-Leach-Bliley going to affect the environment going forward?
- How does "competition" between the states relate to the charge of the task force?
- In the area of licensed financial services, some industries are not well-enough educated about their regulations, etc.
- Are Internet financial services subject to the same regulations as others? What recourse do consumers have with complaints against internet service providers? (SEC pointed out that the rules are the same but enforcement is more difficult)
- How does DFI handle the complaints it receives? Is it a case where complaints are not dealt with or that complainants don't know how complaints are resolved?

B. Consequences of Not Addressing this Issue

- Loss of local control;
- Loss of competition/choice;
- Loss of small service providers;
- Loss of particular services;

- Regulation that creates a hostile environment for businesses;
- Preemption;
- Loss of voice/influence on Wisconsin consumers;
- Negative perceptions of industry;
- Ill-conceived policies;
- Stifling of economic growth;
- Attraction of dishonest "service providers;"
- Image of State of Wisconsin suffers;
- Loss of tax revenue;
- Operating under out-dated state statutes and regulations;
- Continued legal expenses and litigation.

C. Desired Outcomes

Desired Outcome:

- Simple, uniform, concise, consistent and accessible regulations;
- A competitive environment for all industry participants (big and small);
- Regulations that cover products, rather than industries (seamless regulation, vertical and horizontal);
- Reasonable regulation;
- Strong vital industry;
- Consumer understanding and protection;
- Department that is an advocate for innovation;
- Well-informed policy makers;
- Effective communication of goals, policies and objectives to industry and consumers;
- Cost-effective regulation.

Measure of Success:

- Clean audits/exams;
- Number of legitimate consumer complaints (quality vs. quantity);
- Number of charters – state vs. federal.

D. Underlying Causes Driving this Issue

- Federal regulatory changes (GLB);
- Expected increase in consolidations;
- Move to federal charters;
- New industries;
- Competitiveness;
- Compliance needs;
- Us vs. Them (Regulator vs. Industry);
- Lack of communication within DFI and to the industries;
- Preemption;
- Consumer demands/attitudes;
- Diverse products;
- Innovation;
- Technology.

2. Subcommittee Findings

Each Task Force subcommittee was charged with defining their issue, identifying the desired outcomes from addressing the issue, and developing "findings of fact" regarding their assigned issue.

The *Findings of Fact* represent information gathered by the subcommittee to aid and guide it in its recommendations development process. The findings were based on presentations made to the subcommittees by state and national experts and on data gathered by DFI and shared with the subcommittees.

The top priority findings that follow are listed in order of importance as determined by each subcommittee.

Top Priority Findings – The Basis for the Recommendations

1. Attraction of business requires a balance between consumer interests and safety and soundness while still encouraging innovation and competition.
2. Wisconsin is perceived by some as having an anti-business reputation.
3. Current regulation needs to adapt to the rapidly changing financial services marketplace in order to promote risk taking research and the growth of new businesses.
4. Some Wisconsin law is more restrictive than Federal law and may be counterproductive to stimulating business or protecting consumers.
5. Policy makers often don't grasp the secondary effect of the policies they consider.
6. Wisconsin's tax structure does not encourage business to "do the right thing."
7. Wisconsin will continue to lose state-based and state chartered financial service providers without regulatory change.
8. Privacy is a significant consumer and competitiveness issue.
9. Entities are doing business in Wisconsin without being licensed.
10. The rule of law is the foundation of prosperity.
11. Wisconsin's licensing structure is flawed.
12. Wisconsin Consumers could be better educated about regulation.
13. Wisconsin does not encourage venture capital investment.
14. Wisconsin is not technologically advanced and does not devote enough resources to technology development.

3. Subcommittee Recommendations

These subcommittee recommendations are listed by the *level of consensus* achieved by the full Task Force at its November 14th meeting.

Areas of Full Task Force Consensus

1. **Promote Wisconsin's Business Success:** Promote Wisconsin through a national advertising campaign demonstrating Wisconsin's business successes.
2. **Encourage Venture Capital Investment/Business Development:** Devote resources to encourage venture capital investment and business development through the creation of a Venture Capital Task Force that would study venture capital investment and make Recommendations, research what other states have done to promote venture capital development, explore the development of new independent venture funds, court representatives of venture capital firms and create a vehicle to gather consistent and accurate data on venture capital investment in Wisconsin.
3. **Revise Income/Franchise Tax Structure:** Revise the income/franchise tax structure to more accurately reflect the business of the financial services industry.

Areas of General Agreement – With Reservations Noted

4. **Create a More Competitive Environment through Functional Regulation:** Provide a more competitive environment for all financial service providers through functional regulation.

Reservations: One member withheld support due to the recommendation (as written) not being compatible with consumer protection laws and that the recommendation should not include "payday lenders" and similar industries. Another member supported the recommendation as long as it means that each product is regulated in the same way regardless of financial institution.

5. **Balance Consumer & Business Interests in Regulation Development:** Create an administrative review body, which would balance consumer and business interests in the development of regulations and remove the rule-making process from legislative review.

Reservations: Seven members withheld support due to the new administrative review body removing legislative oversight and concerns about the composition of the administrative review body.

6. **Seek out Best Practices:** Review the laws and regulations of other states to identify and recommend the best practices to encourage competition.

Reservations: One member withheld support due to the concern that this initiative needed to be balanced with protecting consumer interests.

7. **Reform Wisconsin's Tax Laws:** Reform Wisconsin's tax and other laws to encourage a) people to maintain their state residency, b) new services, c) the making of risk investments, d) the location of businesses in underserved areas, and e) job creation.

Reservations: Three members withheld support due to concerns that part "a" implied the removal of Wisconsin's progressive income tax.

8. **Remove Inconsistencies with Federal/Other State Laws that Restrict Competition:** Review and consider elimination of inconsistencies with other states and federal laws that restrict competition and continue to work with Federal regulators and other states to develop uniform regulations, disclosures, and joint exams.

Reservations: One member expressed concern that this recommendation failed to explicitly state that law/rule changes must be balanced with the needs of consumers. Another member indicated a concern that the recommendation didn't include language that specifically strengthens the dual charter.

9. **Adopt E-Signature Legislation:** Adopt new e-signature legislation for the State of Wisconsin to facilitate electronic transactions.

Reservations: One member withheld support because the recommendation did not explicitly state that consumer interests would be protected.

Appendix H: Viability of the State Charter

Each subcommittee was asked to define their assigned issue, identify the consequences of Wisconsin *not* addressing the issue, the desired outcome if the issue is addressed successfully, and the underlying causes driving this issue. These dimensions of the charge were finalized by the subcommittee prior to developing its findings and recommendations.

This subcommittee report includes: (1) Subcommittee Charge; (2) Subcommittee Findings; and (3) Subcommittee Recommendations.

1. Subcommittee Charge

A. The Issue Defined

- Access to local regulator by Wisconsin customers;
- How to insure viability of state charter in interstate commerce with separate laws in 50 states;
- As parent companies of licensed financial services companies establish federally chartered entities, states also lose the ability to license;
- Parity powers/universal charter;
- Consistent education of legislators and staff of benefits and distinctions between state and federal charters;
- Interstate protocol with federal regulators;
- OTS regulation of state charters;
- Federal regulation of insurance companies;
- Ability to fill niches through state regulation – aggressive regulation to create niches (i.e. internet banking);
- Interest in escrow accounts.

B. Consequences of Not Addressing this Issue

- Lose whole system of state regulation;

- Reduced consumer protection;
- Reduced local decision-making;
- Federal broad brush “system of regulation;”
- Fee Issues/taxpayers having to support DFI;
- State innovation and products diminish;
- Loss of state accessibility/ flexibility;
- Legislative loss of control of federal financial institutions;
- Lose competition between regulators.

C. Desired Outcomes

Desired Outcome:

- Continuing to maintain and improve a strong and viable environment for state chartered financial service companies.

Measure of Success:

- Maintain/grow percentage of financial assets in state chartered financial institutions vs. federal/national.

D. Underlying Causes Driving this Issue

- Passage of Gramm-Leach-Bliley Act;
- Failure of passage of the Universal Bank Bill;
- State Charter perceived to be less valuable than the Federal Charter;
- Increased merger/expansions and increased interstate offering of retail financial services.

2. Subcommittee Findings

Each Task Force subcommittee was charged with defining their issue, identifying the desired outcomes from addressing the issue, and developing “findings of fact” regarding their assigned issue.

The *Findings of Fact* represent information gathered by the subcommittee to aid and guide it in its recommendations development process. The findings were based on presentations made to the subcommittees by state and national experts and on data gathered by DFI and shared with the subcommittees.

The top priority findings that follow are listed in order of importance as determined by each subcommittee.

Top Priority Findings – The Basis for the Recommendations

1. Wisconsin's financial institution laws do not include the type of flexibility, parity, and industrial bank provisions that other states have.
2. The legislature needs to understand the importance of keeping Wisconsin financial institutions state chartered.
3. Laws, regulations, and legislation affecting only state chartered institutions, although well intended, should be avoided because they create an unlevel playing field.
4. Financial institutions prefer a state charter because of the advantages of accessibility, flexibility, cost effectiveness, and innovation.
5. Trade groups working in a cooperative spirit enhance the possibility of favorable legislation.
6. Dual system equals innovation and competition.
7. Wisconsin interest on escrow law defeats the goal of keeping and attracting state charters.
8. Multi-state insurance companies and trust providers (state-chartered) do not have a seamless structure of regulation.

3. Subcommittee Recommendations

These subcommittee recommendations are listed by the *level of consensus* achieved by the full Task Force at its November 14th meeting.

Areas of Full Task Force Consensus

1. **Develop Biennial Strategic Marketing Plan:** DFI shall develop a biennial strategic marketing plan, which coincides with the state's biennial budget. The plan should be directed to inform all stakeholders including consumers, legislators, and financial institutions regarding the advantages

of the state charter. The plan should include periodic town hall meetings with legislators at a district financial institution.

2. **Enact Financial Modernization Legislation:** Legislature should enact the compromise financial modernization legislation supported in 1999/2000 (SB 274) by all the financial industry trade groups. This legislation includes necessary parity powers for state depository institutions to maintain their competitiveness with federally chartered counterparts.
3. **Encourage the Drafting of Model Legislation for Emerging Financial Services Issues:** Request the Conference of State Bank Supervisors (a national association of state financial institution regulators) to establish a model legislative language committee. This would create a mechanism to draft model legislation for emerging financial services issues. This committee would be similar to the process established by the Conference of State Bank Supervisors for examinations of multi-state institutions.
4. **DFI Coordinates Regular Meetings with Financial Industry Stakeholders:** Financial industry trade groups, consumer groups, and industry representatives should meet regularly to provide information to the Department of Financial Institutions for its strategic planning process. The Department of Financial Institutions should act as a coordinator to maintain open lines of communication between these groups.

Areas of General Agreement – With Reservations Noted

5. **DFI Reviews Statutes & Regulations Bi-Annually for Impacts on State Charter Viability:** Review the existing Wisconsin statutes and regulations bi-annually to determine which statutes and regulations put state chartered financial institutions at a disadvantage and propose necessary legislative or regulatory solutions. For example, Wisconsin's interstate banking and branching statutes should be reexamined to assure their competitiveness with other states' statutes.

Reservations: One member objected to this recommendation because the language lacked a reference to balancing the state charter's viability with consumer interests.

Appendix I: Financial Services & the New Economy

Each subcommittee was asked to define their assigned issue, identify the consequences of Wisconsin *not* addressing the issue, the desired outcome if the issue is addressed successfully, and the underlying causes driving this issue. These dimensions of the charge were finalized by the subcommittee prior to developing its findings and recommendations.

This subcommittee report includes: (1) Subcommittee Charge; (2) Subcommittee Findings; and (3) Subcommittee Recommendations.

1. Subcommittee Charge

A. The Issue Defined

- How can Wisconsin's financial industries participate in meeting the challenges and seizing the opportunities of the new economy?

B. Consequences of Not Addressing this Issue

- Loss of small institutions, community ownership;
- Negative impact on Wisconsin's tax base in the long term (decreasing property values and decreasing tax revenue);
- Institutions in Wisconsin will become more "boutique," serving only a local niche.

C. Desired Outcomes

Desired Outcome:

- Anyone who wants to participate in the New Economy has access to the knowledge;
- Wisconsin participants in world economy is better than other states in the region;
- Ready access to capital for New Economy businesses;
- Viable alternatives maintained to provide choice and local/state control.

Measure of Success:

- Number of new financial service providers;
- Number of state charters (for chartered institutions);
- Assets controlled by state charters;
- Number of new businesses;
- Amount of venture capital invested in state regardless of the source;
- Average per capita income vs. national average;
- Tax burden on businesses.

D. Underlying Causes Driving this Issue

- Lack of venture capital;
- Efficiency of capital flows;
- Tax structure;
- Local non-uniform ordinances and restrictions;
- Conservative attitudes by venture capitalists in Wisconsin;
- Insufficient venture capital networks;
- Regulators – How they examine and that institutions are reluctant to get into new areas because of how examiners will look at it.

2. Subcommittee Findings

Each Task Force subcommittee was charged with defining their issue, identifying the desired outcomes from addressing the issue, and developing “findings of fact” regarding their assigned issue.

The *Findings of Fact* represent information gathered by the subcommittee to aid and guide it in its recommendations development process. The findings were based on presentations made to the subcommittees by state and national experts and on data gathered by DFI and shared with the subcommittees.

The top priority findings that follow are listed in order of importance as determined by each subcommittee.

Top Priority Findings – The Basis for the Recommendations

1. Consumers need financial services.
2. Wisconsin remains short of venture capital and "angel" network formation.
3. The New Economy is here.
4. Businesses lack the current technology they need to succeed in the future.
5. Privacy and resulting regulation will be an important element of the goods and services delivered in the New Economy.
6. Financial institutions are reluctant to take more aggressive lending strategies based on regulators' view of their practices/activities.
7. Regulators are unprepared for the New Economy and new powers given to financial services companies.
8. Lower income consumers are likely to fall even further behind in the New Economy because of increasing importance of the Internet in financial transactions and well-being. Approximately 20% of consumers are unbanked. Poverty rates are stubborn.
9. Wisconsin investment in research and development lags most neighboring states.
10. Multi-functional, and more complex, entities will be a major part of the New Economy.
11. Businesses and consumers will need a stable and consistent regulatory environment that adopts technologies in a prudent fashion.
12. Competition and a change in funding sources have put tremendous pressure on financial institutions' profitability.
13. The Internet will definitely impact the delivery of financial services and regulation of financial institutions.
14. Wisconsin ranks fourth lowest in entrepreneurship (and a very low rate of new companies and below average rate of new jobs from young companies).
15. Business formation/dissolution will be more rapid, complex and virtual.
16. The findings and discoveries of our post-secondary education institutions are not being utilized fully.
17. Well-educated populace provides human capital.
18. State's tax structure impacts capital retention.

3. Subcommittee Recommendations

These subcommittee recommendations are listed by the *level of consensus* achieved by the full Task Force at its November 14th meeting.

Areas of Full Task Force Consensus

1. **Support Increased Availability of Venture Capital:** The state should support programs aimed at increasing the availability of venture capital (e.g., Facilitator Capital, CAPCO, and the CapVest Fund) and other private sector sources.
2. **Encourage State Government Venture Fund Investments:** Encourage continued State of Wisconsin investment in venture funds that target Wisconsin businesses.
3. **Promote Entrepreneurial Post-Secondary Classes:** Promote and encourage entrepreneurial classes for all students in post-secondary public institutions.
4. **Provide Financial Incentives for Investments in Lower Income Communities:** The state should provide financial service providers with financial incentives to invest in lower income communities and serve lower income consumers with meaningful products (to include lifeline banking similar to New York and Illinois) at affordable rates.
5. **Change Tax Policy Negatively Affecting Retention of Business Capital:** Change tax policy to reduce tax barriers prohibiting Wisconsin from retaining business capital.
6. **Regulatory Environment Should Allow Providers to Serve Consumers While Protecting Consumer Interests:** Regulators and regulations should be responsive enough to allow providers of financial services to provide innovative products and services and encourage entrepreneurship while protecting consumers.
7. **DFI Facilitates Training/Education to Providers Regarding Risks & Opportunities of the New Economy:** DFI facilitates training and education to providers of financial services and regulators on evaluating the opportunities and risks in the New Economy.

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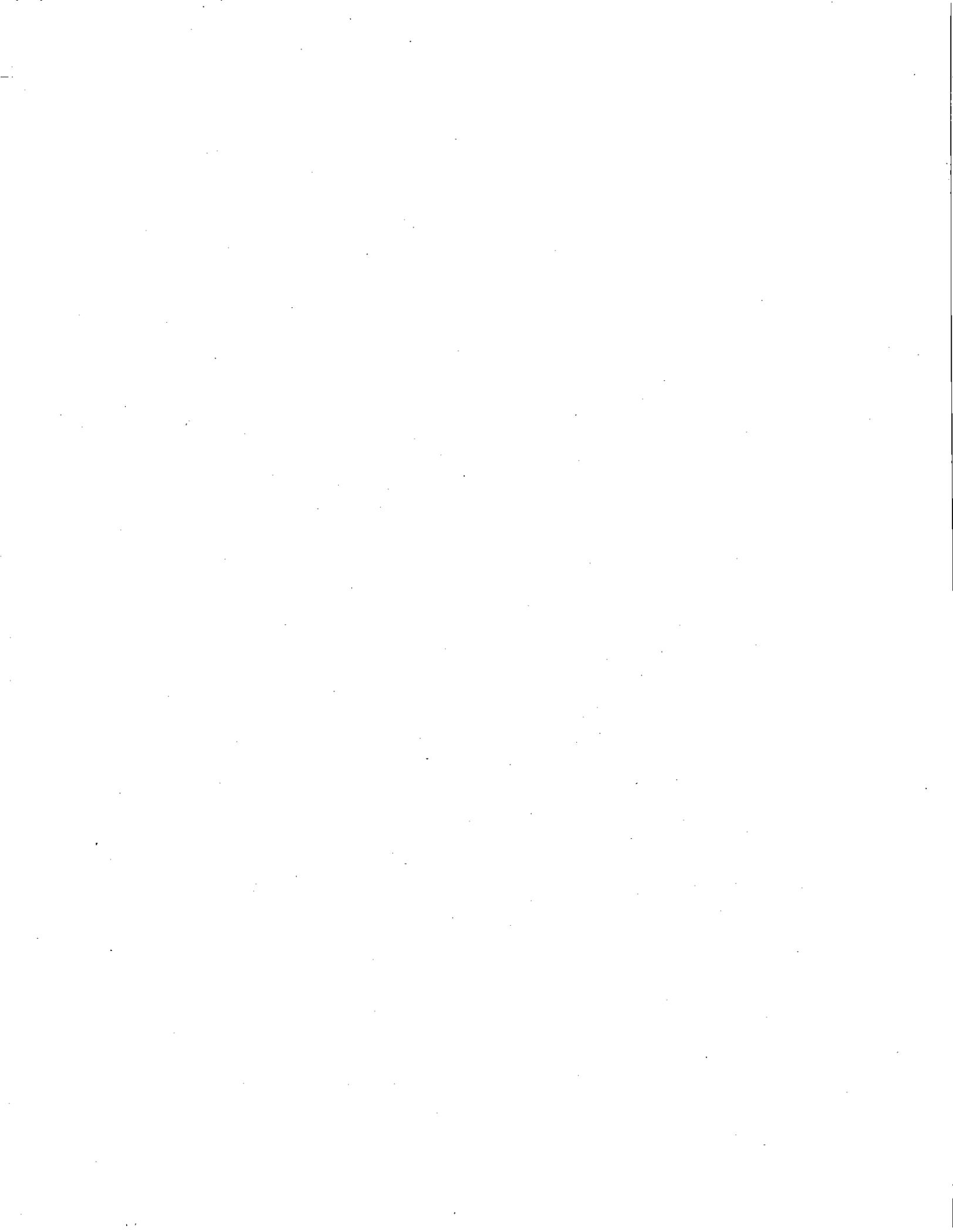
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State of Wisconsin

Scott McCallum, Governor

Department of Financial Institutions

John F. Kundert, Secretary

TO: Task Force on Financial Competitiveness 2005

FROM: John F. Kundert, Secretary
Department of Financial Institutions

SUBJECT: Response to Task Force Report

DATE: January 8, 2001

I am pleased to begin the new year by providing you with the official response to the Final Report of the Task Force on Financial Competitiveness 2005 (Task Force) from the Wisconsin Department of Financial Institutions (DFI). I would be remiss if I failed to thank each and every one of you, once again, for the outstanding jobs you did as members of the Task Force. As I indicated in my "forward" to the report, DFI is confident the work of the Task Force will have a positive effect on Wisconsin's financial services community.

I have included in this memorandum a recommendation-by-recommendation response to the report that outlines DFI's position regarding each recommendation made. For those recommendations the Department will pursue, I have also provided a general plan for implementation. This plan will be the basis for regular updates as part of a "scoreboard" on our progress that will appear in each edition of our new quarterly newsletter.

Top Priorities

From the standpoint of DFI's strategic plan, let me indicate at the outset that five priorities have emerged from the work of the Task Force:

- Financial Education. DFI recognizes the importance of financial education and understands that there needs to be a greater effort put forth to coordinate the variety of resources already available to the consumers of financial services and products. While DFI questions the role of state government in mandating financial education, the Department does support local school districts adding financial education to their core curricula. Financial education at the primary, secondary and post-secondary levels would give young people the tools they need to make informed decisions regarding their personal finances.

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- Enact Financial Modernization Legislation. DFI will continue to work with the Community Bankers of Wisconsin, the Wisconsin Bankers Association, and the Wisconsin Credit Union League in support of the enactment of the compromise financial modernization legislation proposed in the last legislative session (SB 274 - ASA1). This legislation includes necessary parity powers for state banks and savings institutions and modernizes existing provisions of state law for credit unions.
- Encourage Venture Capital Investment and Development. DFI will work with other state agencies and its regulated entities to promote venture capital investment and development. Availability of venture capital will be a key component of Wisconsin's success in the "New Economy" and, as a primary link between state government and the financial services sector, DFI has an obligation to work cooperatively with others in this area.
- Encourage Providers to Serve Underserved Individuals. DFI will assist in facilitating discussion on the provision of financial services in underserved areas and to underserved populations. DFI will also work with financial service providers and consumer representatives to better identify the barriers that preclude the underserved from using mainstream financial services.
- Adopt E-Signature Legislation. DFI supports adoption of the Uniform Electronic Transactions Act (UETA) by the Wisconsin State Legislature and will work cooperatively with other state agencies and representatives of Wisconsin's financial and business communities to that end. As a regulator of financial services and as the keeper of corporate registration records and Uniform Commercial Code (UCC) lien filings, DFI recognizes the need to do everything necessary to more effectively facilitate the development of electronic commerce in Wisconsin.

Response to Recommendations

Below is a listing of each recommendation and my recommendation-by-recommendation response. The order in which the recommendations are presented does not imply any priority given each by the Department. Based on my responses, we have also prepared and have attached the first "recommendation scorecard" which will be published in each edition of DFI's newsletter beginning this upcoming spring to keep you updated on our progress.

Promote Financial Education

It is important to note that there were three recommendations on financial education and entrepreneurship training adopted by the Task Force, including one from the Subcommittee on Meeting the Needs of Financial Consumers and two from the Subcommittee on the Changing Market Place. For purposes of this response, I have combined all three in the recommendation box below:

Financial education should be based on certain minimum core principles and definitions and be required for K-12 students with a curriculum which is age and life style appropriate, sensitive to local community needs, and focused on developing knowledge and skills to become wise financial consumers. Financial education should be accessible, available, change with needs over a life span, and be free of financial promotion and commercial bias. Need to build public awareness through public service announcements, and aggressive partnerships with community leaders recognizing the importance of financial education as a life skill. To be literate we need to have a dictionary of understanding. Have common definitions in all disclosures. Require the program, but develop funding mechanisms. Must be multi-lingual to keep pace with state growth.

Wisconsin schools should have a core curriculum for financial education based on minimum core principles and definitions:

- *Financial services*
- *Credit*
- *Curriculum that is aimed at students and parents*
- *Use of computers*
- *Personal finance*
- *Made available throughout K-12*
- *Cooperation between DFI and DPI*
- *Should be a funded mandate*
- *Take advantage of existing private sector and not-for-profit educational materials (while ensuring that materials are free of financial promotion and commercial bias)*

We need an adult education component that recognizes financial education as a life skill, recognizing this is important for a prepared workforce. Must be multi-lingual to keep pace with state growth. Need to build awareness through community outreach, public service announcements, and aggressive partnership with community leaders recognizing the importance of financial education as a life skill.

Promote and encourage entrepreneurial classes for all students in post-secondary educational institutions.

As mentioned previously, the Department does not support mandated financial education or entrepreneurial classes at the elementary, secondary or post-secondary level, although we would strongly encourage all K-12 school districts and private schools across the state to voluntarily include financial education as a core component in their curricula. To the extent possible, we would also encourage private-public partnerships to fund those programs so any additional expense would not be a burden on local or state taxpayers.

Specifically, the Department will do the following in response to the Task Force's recommendations on financial education:

- 1) Continue to develop materials, offer programs, and establish financial education partnerships through DFI's "Your Money Matters" program.
- 2) Use DFI's leadership in the National and State Jump\$tart Coalition as an avenue to develop and promote, in conjunction with the Wisconsin Department of Public Instruction, a voluntary K-12 financial education curriculum for Wisconsin's public and private schools.
- 3) Create an informational packet on financial education and distribute to all candidates for State Superintendent of Public Instruction.
- 4) Reestablish the Secretary's Council on Financial Education as a means to focus on financial education for post-secondary students and the general public.
- 5) Promote financial literacy to the presidents of the University of Wisconsin and the Vocational Technical and Adult Education Systems and the Wisconsin Association of Private Colleges and identify specific steps that can be taken to voluntarily facilitate financial literacy and entrepreneurship education among Wisconsin's college students.
- 6) Develop and implement a public information campaign designed to promote financial literacy.
- 7) Develop and disseminate a "Your Money Matters" brochure containing definitions of major terms encountered by consumers in their day-to-day involvement with consumer financial transactions.
- 8) Develop and implement an outreach program for Wisconsin's minority and senior communities.
- 9) Identify key financial education materials produced by DFI and translate them into other languages where needed.
- 10) Develop and implement an intensive training institute for Wisconsin educators, which provides curriculum, materials and instruction on aspects of financial education for students.

11) Use DFI's videoconference facility to deliver consumer financial education.

Define and Promote Consumer Privacy Safeguards

Wisconsin should be a leader in defining and promoting rational laws governing privacy of information and security while balancing the legitimate business interests of the financial services industry.

- *Internet Transactions*
- *Personal Data*
- *E-Commerce*

DFI shares the concerns raised by Task Force members regarding privacy and the need to balance personal privacy protection with the operational concerns of the industries we regulate. The department also recognizes that most privacy standards relating to Wisconsin's financial services are being set by federal regulators as a result of the passage of Gramm-Leach-Bliley by the United States Congress in October of 1999 and as directed by President Bill Clinton in December of 2000.

Specifically, the Department will pursue the following in response to the Task Force's recommendation on privacy:

- 1) Prepare a paper for members of the Wisconsin State legislature on the privacy provisions of Gramm-Leach-Bliley and outlining the relationship between Federal privacy requirements and DFI's regulatory role. DFI will also make staff available for personal briefings upon request.
- 2) Establish an internal working group to examine existing privacy provisions in the statutes and rules administered by DFI and make recommendations to the Secretary on possible statutory and rule revisions after the privacy provisions of Gramm-Leach-Bliley take full effect.
- 3) Continue to oppose use of the social security number as an identifier on Uniform Commercial Code lien filings.

Regulatory Environment Should Allow Providers to Serve Consumers While Protecting Consumer Interests

Regulators and regulations should be responsive enough to allow providers of financial services to provide innovative products and services and encourage entrepreneurship while protecting consumers.

This recommendation articulates an operational philosophy of DFI and is a core attitude of DFI staff. As such, our implementation plan for this recommendation would be to continue our commitment to maintaining a regulatory environment that allows financial service providers to meet the needs of consumers while protecting consumer interests.

Adopt E-Signature Legislation

Adopt new e-signature legislation for the State of Wisconsin to facilitate electronic transactions.

Because of the important role electronic transactions play in the financial services arena, DFI has always been sensitive to the need for Wisconsin statutes to remain current with regard to electronic signatures. Since DFI took a leadership role with the Governor's Commission on the use of Electronic Signatures, the Department has consistently supported legislative efforts to facilitate electronic commerce.

Specifically, DFI will pursue the following in response to the Task Force recommendation on electronic signatures:

- 1) Support, in every way possible, the adoption of the Uniform Electronic Transactions Act (UETA) by the Wisconsin State Legislature.
- 2) Develop and distribute to members of the Wisconsin legislature a paper on the use of electronic signatures in the financial services sector that outlines the significance of UETA to Wisconsin's financial services.
- 3) Establish an internal working group to recommend changes in the state statutes and rules administered by DFI to facilitate the use of electronic transactions by the financial service industries regulated and licensed by the department.

Balance Consumer and Business Interests in Regulation Development

Create an administrative review body that would balance consumer and business interests in the development of regulations, and remove the rule-making process from legislative review.

Operationally, DFI currently balances consumer and business interests in the development of regulations and it would be an ongoing goal of the Department to continue doing so.

While DFI recognizes the success other states have had in creating alternative processes in the promulgation of administrative rules and appreciates the interest of the Task Force in these alternative approaches, the department respects the tried and true process that has evolved in the State of Wisconsin. The process includes a public hearing and "open comment" period, providing an opportunity for open discussion on its potential affects. The Department also respects the role played by the Wisconsin legislature in Wisconsin's administrative rules process and would not want to recommend anything that would limit the important check and balance it provides.

Ensure that DFI is More Responsive to Consumer Act Enforcement

The Department of Financial Institutions should review enforcement procedures in place regarding the Wisconsin Consumer Act and become more responsive to the needs of the consumer in enforcement. Regulation needs to keep pace with the changing financial services environment.

The 28-year-old Wisconsin Consumer Act is in dire need of revision and the two-year work of the Wisconsin Consumer Act Review Committee from 1997 through 1998 must be brought to closure through the adoption of a revised Wisconsin Consumer Act. In addition, a revised Wisconsin Consumer Act will provide an excellent opportunity for DFI's Wisconsin Consumer Act section to review its internal procedures and enhance its already excellent record of mediating and resolving consumer complaints with financial service providers. To these ends, DFI will pursue the following:

- 1) Propose a revised Wisconsin consumer credit act to the state legislature, which will be introduced during the 2001-02 session.
- 2) Following adoption of a new Wisconsin consumer credit act, conduct an internal review of procedures and recommend procedural changes to enhance enforcement of the act.
- 3) Following adoption of a new act, develop and implement a consumer and merchant education outreach program.

Define Predatory Lending

Predatory lending needs to be defined.

DFI recognizes how significant the issue of "predatory lending" has become across the nation. The Department also recognizes that there are several efforts underway nationally to cope with

abusive lending practices and that there is a tremendous need to educate Wisconsin's financial service consumers about abusive lending practices.

Specifically, DFI will pursue the following in response to the Task Force recommendation on predatory lending:

- 1) Develop a paper on "abusive lending practices," including a review of proposed federal and state legislation and regulations on the subject.
- 2) Monitor pending federal action on abusive lending practices and support efforts deemed to be in the best interests of Wisconsin's consumers.
- 3) Evaluate proposals on "predatory lending" likely to be introduced in the Wisconsin legislature.
- 4) Develop and disseminate a "Your Money Matters" brochure on "abusive lending practices," providing consumers with a checklist of practices to avoid when securing a loan.

Regulate Credit Card Advertising

<p><i>Regulate terms of advertising credit cards to counteract consumer misunderstanding.</i></p>

DFI is sympathetic to Task Force concerns over consumer misunderstanding relating to credit card advertising campaigns. The Department also recognizes, however, that credit card services are largely located outside the state of Wisconsin and, in many cases, are associated with nationally chartered institutions. DFI feels that better-educated consumers are in a better position to understand the numerous credit card offers they receive.

To that end, the Department will develop and disseminate a "Your Money Matters" brochure on credit card solicitations, advising consumers of things to consider when entering into a credit card agreement.

Encourage Providers to Serve Underserved Areas/Provide Financial Incentives for Investments in Lower Income Communities

For purposes of this response, I have combined the following two recommendations from the Subcommittee on Meeting the Needs of Financial Consumers.

Explore incentives to get financial institutions located in underserved areas. Copy Legacy Bank model (Community Development Financial Institutions) and expand concept throughout the state. Explore incentives for financial institutions to offer low cost accounts.

The State should provide financial service providers with financial incentives to invest in lower income communities and serve lower income consumers with meaningful products (to include lifeline banking similar to New York and Illinois) at affordable rates.

The "Community Development Financial Institutions" program is administered by the U.S. Department of the Treasury and provides incentives for financial institutions to serve underserved areas. In an effort to encourage providers to serve underserved areas, the Department will do the following:

- 1) Provide information on "Community Development Financial Institutions" to each trade association and encourage the associations to advise their members of this unique program.
- 2) Publish an article in one of its upcoming quarterly newsletters on "Community Development Financial Institutions."
- 3) Invite a spokesperson from the "Community Development Financial Institutions" program to attend the first "Stakeholder Roundtable" hosted by the Department (See pg. 12 response item two).

In addition to providing information on the "Community Development Financial Institutions" program as indicated above, the Department will invite speakers from Illinois and New York to make a presentation on lifeline banking at the first "Stakeholder Roundtable."

Address Barriers to the Unbanked/ Ensure Technology Access for the Unbanked

Once again, I have combined two recommendations below from the Subcommittee on Meeting the Needs of Financial Consumers as they deal with related subjects.

Identify and address barriers that preclude the unbanked from using mainstream financial service providers.

Make up-to-date technology/computers/Internet access available to the unbanked; provide public access via churches, libraries and other community organizations, etc. Incorporate the use of technology in teaching of finance and technology literacy that will assist in overall education for the unbanked, rural and low income.

DFI shares the concern of the Task Force regarding barriers to the unbanked. As a means to begin a dialog on this important issue, the Department will:

- 1) Facilitate a roundtable discussion with various financial services industries, their trade associations and consumer representatives to identify various barriers and develop a consensus strategy for their elimination.
- 2) Conduct a videoconference for interested consumers and financial consumer providers on eliminating barriers to the unbanked.

Reform Wisconsin's Tax Laws/Change Tax Policy Negatively Affecting the Retention of Business Capital

For purposes of responding, I have combined two individual recommendations on tax policy that originated with the Subcommittee on Financial Services and the New Economy and the Subcommittee on the Regulatory Environment.

Reform Wisconsin's tax and other laws to encourage: a) people to maintain their state residency; b) new services; c) the making of risk investments; d) the location of businesses in underserved areas; and e) job creation.

Change tax policy to reduce tax barriers prohibiting Wisconsin from retaining business capital.

Responsibility for implementation of these recommendations lies outside of DFI's purview. As such, we will share these particular recommendations with the Governor, members of the Wisconsin State Legislature, and the Wisconsin Departments of Revenue and Commerce.

Remove Barriers to Competition

Identify and remove barriers that adversely impact the ability of Wisconsin's financial services industry to compete at a regional, national and international level.

- *Consistent with protection of consumer interests.*
- *Cooperation between business and regulatory agency.*
- *Wisconsin should be a leader in providing business friendly procedures to review and update laws to encourage new products and Wisconsin based providers of credit and financial services for the benefit of its citizens.*

DFI continually reviews the laws and regulations it administers and recommends statutory or rule changes to keep them current. The Department has also sought advice from the industries impacted by the changes it pursues. Specifically regarding this recommendation, however, the Department will do the following:

- 1) Continue reviewing laws and regulations administered by the Department on a regular basis and recommend changes that remove barriers to competition.
- 2) Request industry and consumer comment on Department-sponsored legislative initiatives before they are introduced as legislation.
- 3) Solicit from various industry trade associations recommendations on specific statutory and regulatory changes regarding barriers to competition.

Seek Out "Best Practices"

Review the laws and regulations of other states to identify and recommend the best practices to encourage competition.

In response to this recommendation, DFI will do the following:

- 1) Conduct a survey of the regulatory agencies in each state to have them identify what they consider to be their best practices encouraging competition.
- 2) Arrange follow-up visits to particularly innovative states for key DFI staff to learn first-hand about innovative practices and, on the basis of the visits, prepare staff recommendations on how to develop these best practices in Wisconsin.

Remove Inconsistencies with Federal/Other State Laws that Restrict Competition

The Subcommittee on the Regulatory Environment and the Subcommittee on the Viability of the State Charter developed related recommendations on inconsistent statutes and regulations. Both recommendations are presented below:

Review and consider elimination of inconsistencies with other states and federal laws that restrict competition and continue to work with Federal regulators and other states to develop uniform regulations, disclosures, and joint exams.

Review the existing Wisconsin statutes and regulations biennially to determine which put state chartered financial institutions at a disadvantage and propose necessary legislative or regulatory solutions. For example, Wisconsin's interstate banking and branching statutes should be reexamined to assure their competitiveness with other states' statutes.

Working with our Federal regulatory counterparts is something we do on an ongoing basis. Additionally, DFI maintains a high level of involvement with our national supervisory associations, with DFI staff serving on the Boards of Directors of groups like the North American Securities Administrators Association and the American Council of State Savings Supervisors. The Office of Credit Unions is also represented on the Board of Directors of the National Association of State Credit Union Supervisors. In response to this particular recommendation, the Department will pursue the following:

- 1) Create an internal working group to identify areas where there are inconsistencies with the laws and regulations of other states and the federal government and make recommendations to address them.
- 2) Convene a round table discussion group that includes representation from the Wisconsin Bankers Association and the Community Bankers of Wisconsin to reexamine Wisconsin's interstate banking and branching statutes in relation to those in our surrounding states.
- 3) Continue to work through our federal regulatory counterparts and our national supervisory associations to develop uniform regulations and disclosures.

Encourage Venture Capital Development for "New Economy" Businesses, Support Increased Availability of Venture Capital, and Encourage State Government Venture Fund Investments

Between the Subcommittee on Financial Services in the New Economy and the Subcommittee on the Regulatory Environment, a series of four venture capital related recommendations were developed and are presented together in the box below:

Wisconsin should be a leader in creating a regulatory and tax environment that encourages venture capital for new economy businesses, through:

- *partnerships with the UW-System and other public and private entities;*
- *state incentives; and*
- *encouragement of "incubator" venture capital.*

Resources should be devoted to encourage venture capital development through the creation of a Venture Capital Task Force that would study capital investment and make recommendations, research what other states have done to promote venture capital development, explore the development of new independent venture funds, court representatives of venture capital firms, and create a vehicle to gather consistent and accurate data on venture capital investment in Wisconsin.

The state should support programs aimed at increasing the availability of venture capital (e.g. Facilitator Capital, CAPCO, the CapVest Fund) and other private sector sources.

State of Wisconsin investment in venture funds that target Wisconsin businesses should be encouraged.

As the state's primary point of interface with the financial services sector, DFI feels it has a stake in the venture capital arena. DFI recognizes its dual role of regulation to enhance consumer protection while providing a healthy environment in which to do business. DFI also sees a role for itself in promoting the general investment of Wisconsin-based businesses in themselves and Wisconsin's continued economic success. Finally, the Department is committed to supporting specific efforts that promote the economic well being of rural Wisconsin. Specifically, DFI will pursue the following:

- 1) Forward these recommendations to the Governor, the State Legislature, the Wisconsin Department of Administration, the Department of Commerce and the State Investment Board so they can consider those aspects of the recommendations outside the purview of DFI.
- 2) In lieu of creating a Venture Capital Task Force, work with other state agencies and the private sector in planning and executing a "Governor's Summit on Venture Capital," designed to, among other things, study venture capital investment in Wisconsin and make recommendations, research what other states have done to promote venture capital development, explore the development of new independent venture funds, develop a strategy for courting representatives of venture capital firms, create a vehicle to gather consistent and accurate data on venture capital investment in Wisconsin, and encourage State of Wisconsin investment in venture funds that target Wisconsin business.
- 3) Support the creation of a Wisconsin Venture Capital Association to pursue the development of an aggressive venture capital policy for the State of Wisconsin.
- 4) Actively support the development of the Community Bankers of Wisconsin CapVest program and other similar programs involving financial institutions deemed safe and sound and which comply with all regulatory standards.
- 5) Create and staff an "Invest Wisconsin" program to protect and promote economic growth through educating companies and investors on business financing issues.
- 6) Continue to be involved with and support the work of the Wisconsin Rural Capital Study Group, a project of Wisconsin Rural Partners, Inc., a private non-profit organization dedicated to enhancing the quality of life in rural Wisconsin.

Facilitate Training/Education to Financial Service Providers Regarding Risks and Opportunities in the New Economy

DFI should facilitate training and education to providers of financial services and regulators on evaluating the risks and opportunities of the new economy.

In response to this recommendation, DFI will:

- 1) Provide training for all examiners on evaluating risk in the New Economy.
- 2) Conduct a videoconference for all interested financial service providers on risk and opportunities in the New Economy.

Create Incentives for Attracting/Retaining a Quality Workforce

Develop greater incentives to retain and attract a quality workforce in Wisconsin.

Since implementation of this recommendation falls outside the purview of DFI, we will forward it to the Governor, the State legislature and the Wisconsin Departments of Workforce Development and Commerce.

Promote Wisconsin's Business Success

Promote Wisconsin through a national advertising campaign demonstrating Wisconsin's business successes.

Since implementation of this recommendation also falls outside the purview of DFI, we will forward it to the Governor, the State legislature and the Wisconsin Department of Commerce.

Develop a Biennial Strategic Marketing Plan

DFI shall develop a biennial marketing plan, which coincides with the state's biennial budget. The plan should be directed to inform all stakeholders including consumers, legislators, and financial institutions regarding the advantages of the state charter. The plan should also include periodic town hall meetings with legislators at a district financial institution.

While this recommendation from the Subcommittee on the Viability of State Charter was focused on issues involving the state charter for banks, we would interpret it to be applicable in some ways to the broader base of financial services in the State of Wisconsin. Specifically, DFI will do the following to pursue implementation of this recommendation:

- 1) DFI will continue to develop a department-wide strategic plan on a biennial basis based on staff and stakeholder input.
- 2) A specific marketing plan to promote the advantages of the state bank and savings institution charter will be designed and implemented. Development of the plan will include the involvement of the Wisconsin Bankers Association and the Community Bankers of Wisconsin and listening sessions hosted by local legislators in representative legislative districts across the state. The plan will also be updated on a biennial basis.
- 3) A marketing plan will also be developed to promote the advantages of state regulation generally and will also involve representatives of the broader financial services industry regulated by DFI as well as listening sessions hosted by local legislators in representative legislative districts across the state. This plan will also be updated on a biennial basis.

Coordinate Regular Meetings with Financial Industry Stakeholders

Financial industry trade groups, consumer groups, and industry representatives should meet regularly to provide information to the Department of Financial Institutions for its strategic planning process. The Department of Financial Institutions should act as a coordinator to maintain open lines of communication between these groups.

The success of this Task Force was based on the commitment of the participants to open discussion. DFI shares this commitment and will convene regular "Stakeholder Roundtables" with financial industry trade groups and consumer representatives to discuss important financial service issues of the day.

Encourage the Drafting of Model Legislation for Emerging Financial Service Issues

Request the Conference of State Bank Supervisors (a national association of state financial institution regulators) to establish a model legislative language committee. This would create a mechanism to draft model legislation for emerging financial service issues. This committee would be similar to the process established by CSBS for examinations of multi-state institutions.

In response to this recommendation, DFI will write the President/CEO and the Board of Directors of the Conference of State Bank Supervisors forwarding the recommendation.

Create a More Competitive Environment through Functional Regulation

Provide a more competitive environment for all financial service providers through functional regulation.

Functional regulation has always been part of DFI's operational philosophy. As such, the Department will continue its commitment to functional regulation as part of its operational philosophy.

Conclusion

This memorandum establishes a comprehensive framework for the implementation of virtually all recommendations submitted to DFI by the Task Force on Financial Competitiveness 2005. The Department's commitment to implementing these recommendations should be interpreted as a total validation of the important work completed by the Task Force. We also look forward to keeping you apprised of our progress in implementing the recommendations as outlined.

It should be pointed out that our implementation timeframe for each recommendation will vary and that it would be unrealistic to expect immediate implementation of each. It is my sense that this response and the plans it outlines will guide the operations of the department through the year 2005.

cc: Governor Scott McCallum
Wisconsin State Legislature
Task Force Subcommittee Members
Task Force Steering Committee Members
Other Interested Parties