State of Wisconsin

2013-2015 Biennial Report

Department Of Financial Institutions

October 2015

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State of Wisconsin

Department of Financial Institutions

Scott Walker, **Governor** | Ray Allen, **Secretary**

October 15, 2015

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

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

Dear Governor Walker and Legislators:

On behalf of the Wisconsin Department of Financial Institutions (DFI), I am honored to present you the Department's report for the biennium ending June 30, 2015. The important role that DFI plays in the state's economy is underscored by the number of financial institutions and business entities that the department regulates, licenses or registers. That total includes:

- 185 state-chartered banks and savings institutions.
- 154 state-chartered credit unions.
- 137,428 registered securities representatives.
- 400,068 business entities registered with the Division of Corporate and Consumer Services.

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

Among the highlights for the biennium ending June 30, 2015:

- **Safety and soundness of banks and credit unions** – Working with federal regulators, DFI's Division of Banking facilitated the merger or voluntary liquidation of 12 state-chartered banks and the closing of one state-chartered institution during the biennium. The division issued three orders and actions against state-chartered banks and lifted 25 such orders. The Office of Credit Unions worked with its federal counterparts to facilitate the consolidation and/or liquidation of 25 state-chartered credit unions.

- **Charitable organizations** – On Nov. 1, 2013, the regulation of charitable organizations, professional fund raisers, fund raising counsels, and professional employer organizations and groups was transferred to DFI from the Department of Safety and Professional Services. During the biennium, DFI worked to strengthen the process of timely notification of filing deadlines for charitable organizations. As of June 30, 2015, there were 8,976 such organizations registered with DFI, an increase of 34% compared to Dec. 31, 2013.

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- **Strategic Blight Elimination Program** – DFI partnered with the City of Milwaukee on a blight elimination program that resulted in the demolition of 205 vacant, dilapidated properties in the Transform Milwaukee Initiative corridor. As announced by Governor Walker, DFI provided $2 million in funding for the project, while the City of Milwaukee invested just over $1.1 million. The program targeted properties that were a pronounced safety issue, occupied a parcel that would be immediately repurposed for a broader strategic development plan, or inhibited the re-emergence of a neighborhood.

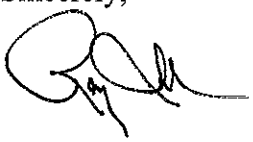
- **Financial literacy grants** – Working closely with the Governor's Council on Financial Literacy and DPI, DFI's Office of Financial Literacy established the Financial Literacy Innovation Awards. Under the program, $350,000 was awarded to 26 school districts, with the improved financial literacy courses reaching about 12,500 students. Due in part to this program, the number of Wisconsin high schools that now have a required course in personal financial literacy increased to 63%, up from 49% in 2012.

The Department of Financial Institutions is unlike most state agencies in that it is self-supporting. All DFI operational expenses – $34.8 million for the 2013-15 biennium – were covered by fees and assessments collected by the Department. In many respects, DFI operates much like a private-sector business. Staff members routinely look for new ways to improve customer service or add efficiency to the organization.

During the biennium, DFI continued its efforts to address an ongoing workforce challenge – high employee turnover in the Division of Banking and the Office of Credit Unions. DFI, like state regulators across the country, had been losing talented, experienced staff at all levels to our federal counterparts whose pay structures are significantly higher. With the support of the Governor's Office and Legislature, DFI was able to make significant strides in terms of pay equity to reduce the loss of experienced talent. Based on feedback from Wisconsin bank and credit union executives, the continuity provided by longer-term examiners is viewed as a positive factor during the on-site exam process.

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

Sincerely,

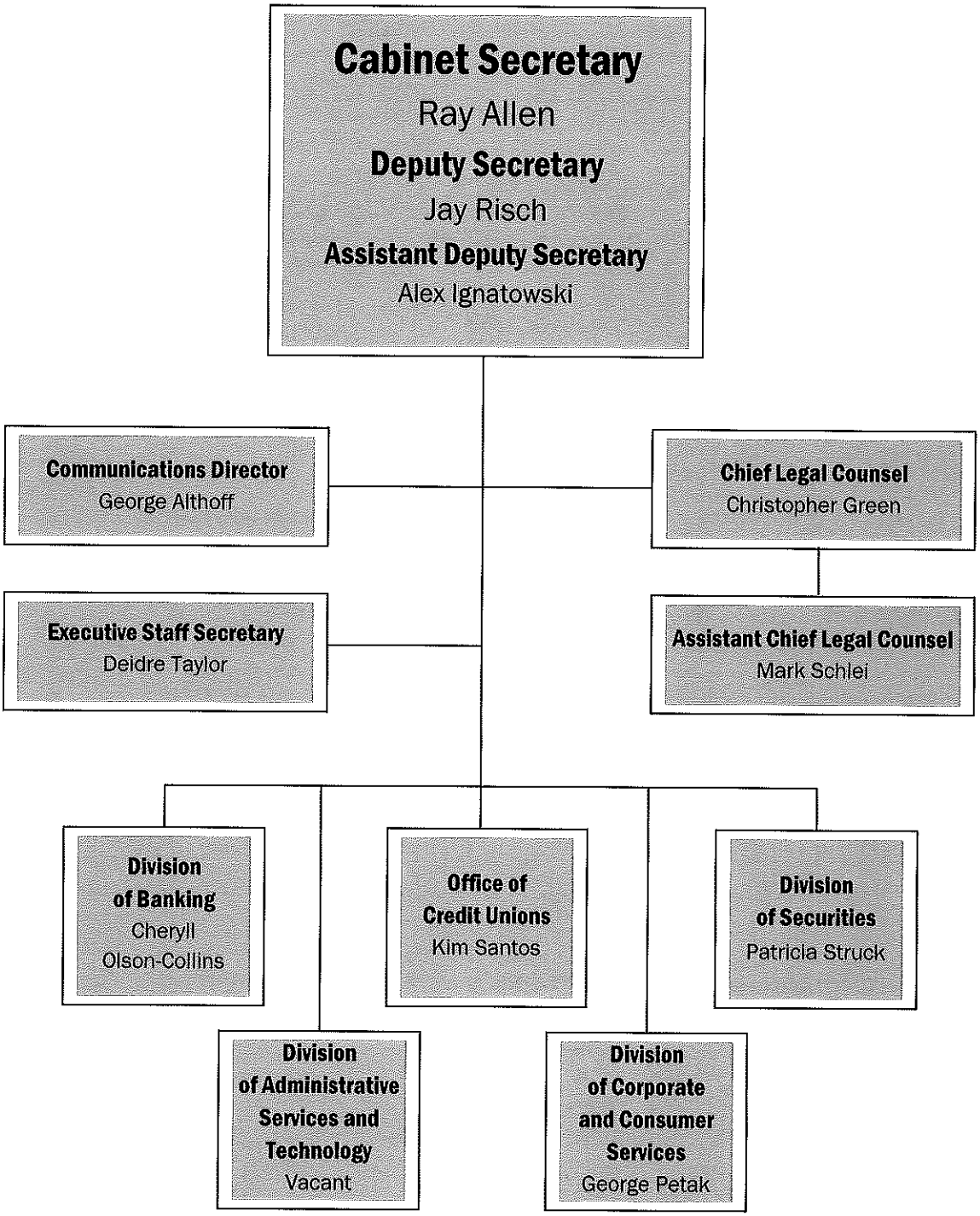


Ray Allen
Secretary

Department of Financial Institutions

Organizational Chart

(As of October 1, 2015)



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

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

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

Performance measures

Calendar year	Number of banks	Exams due	Exams done	% to target
2015	202*	87	50*	115%*
2014	205	87	99	114%
2013	211	87	96	110%

*As of June 30, 2015

Goal: Protect the consumers of financial services

Objective/Activity: Address abuses and violations of rules and statutes through expedient resolution of consumer complaints by the Bureau of Consumer Affairs. Average number of days from receipt of complaint to resolution:

Performance measures

Calendar year	Goal	Actual
2015	25 days	25.2 days*
2014	25 days	19.9 days
2013	25 days	24.7 days

*As of June 30, 2015

Goal: Facilitate economic growth

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

Performance measures

Calendar year	Goal	Actual
2015	100%	100%*
2014	100%	100%
2013	100%	100%

*As of June 30, 2015

Program 2: Supervision of credit unions

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

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

Performance measures

Calendar year	Number of credit unions	Exams due	Exams done	% to target
2015	154*	100	62*	124%*
2014	160	108	115	106%
2013	171	136	138	101%

*As of June 30, 2015

Statutory Reporting Requirements

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

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

Key Accomplishments: Division of Banking

Cheryll Olson-Collins, Deputy Administrator

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

2013-2015 Key Accomplishments/Activities

- As of June 30, 2015, assets of the state-chartered banks in Wisconsin totaled $48.0 billion, up from $40.5 billion compared to June 30, 2013.
- The number of state-chartered banks declined from 197 as of June 30, 2013, to 188 as of June 30, 2015, (the 188 total includes three non-depository trust companies).
- Net loans and leases at state-chartered banks totaled $33.5 billion as of June 30, 2015, up from $30.0 billion as of June 30, 2013.
- The number of state-chartered savings institutions declined from 15 as of June 30, 2013, to 14 as of June 30, 2015. Assets of savings institutions declined from $4.098 billion as of June 30, 2013, to $4.064 billion as of June 30, 2015.
- Fiduciary assets increased from $4.3 billion as of June 30, 2013, to $5.4 billion as of June 30, 2015.
- From July 1, 2013 through June 30, 2015, there were 11 mergers with state-chartered institutions, one voluntary liquidation, 12 acquisitions of an in-state bank holding company or in-state bank by a bank holding company, one conversion of a national bank to a state bank, three banks that relocated their main offices, and six institutions that changed their names. In addition, one bank was closed during the biennium. Over this time period, the division cancelled the charters of 16 state institutions as a result of mergers, bank closures or voluntary liquidation. The division also entered into three new orders with state-charted institutions and terminated 25 such orders.
- The division's Bureau of Licensed Financial Services produced annual reports of Wisconsin's payday lending industry for calendar years 2013 and 2014. DFI assumed oversight of payday lending effective January 2011, with the approval of 2009 Wisconsin Act 405.
- In November 2013, the regulation of charitable organizations, professional fund raisers, fund raising counsels, and professional employer organizations and groups was transferred to DFI from the Department of Safety and Professional Services. As of June 30, 2015, there were 8,976 such organizations registered with DFI.

Key Accomplishments: Division of Corp/Consumer Services

George Petak, Administrator

The Division of Corporate and Consumer Services is responsible for examining and filing business records for corporations and other entities. It examines charters; documents that affect mergers, consolidations and dissolutions; and reviews the annual reports of various businesses, including partnerships, corporations, limited liability companies, cooperatives, and out-of-state entities. The division examines and files documents under the Uniform Commercial Code, including statements of business indebtedness, consignments, terminations, financing statements; and it maintains the statewide Uniform Commercial Code lien system. In addition, the division processes notary public applications and renewals, trademark and tradename registrations, and cable/video service franchise registrations.

2013-2015 Key Accomplishments/Activities

- The Corporations Bureau successfully partnered with the IT and fiscal team to design and implement a new Enterprise Receipting system, updating and modernizing the practices and procedures of the bureau. The result is full compliance with generally accepted accounting principles while streamlining the process and eliminating much of the paper previously handled and processed by bureau staff. Turnaround times for new business filings remained well below the statutory five-day turnaround.
- The Corporations Bureau expanded the utilization of contracted lockbox/scanning services, significantly reducing the need to handle paper forms and money previously received through the USPS.
- The Corporations Bureau saw an increase of 4.7% in new business creations in the 12 months ending June 30, 2014, compared to the previous year. In the year ending June 30, 2015, new business creations also were up 4.7% over the prior year.
- As of June 30, 2015, there were 400,068 business entities registered with DFI, a net increase of 35,699 compared to Dec. 31, 2010.
- The Corporations Bureau made significant strides with IT support over the last two years pursuing online, auto-filing capabilities for all high-volume forms.
- In the 12 months ending June 30, 2015, the Corporations Bureau processed 341,211 total documents with 26,034 received online and 100% automatically filed; 274,764 received online (about 90% automatically filed); and 40,413 paper documents filed.
- In the 12 months ending June 30, 2015, the UCC Bureau processed 161,487 UCC filings, up 0.9% from the previous year; 15,458 notary public filings, up 2.4% from the previous year; and 3,557 trademark filings, up 28.6% from the previous year.
- Approximately 88% of all filings with the Corporations Bureau are now filed online.
- The UCC Bureau completed scanning and indexing of all 2014 and 2015 notary commission applications to enable immediate desktop access for all end-users. All applications for new and/or renewal commissions are now being scanned when received.
- The division successfully completed the conversion to digital images of 7.7 million microfilm and microfiche documents, enabling efficient storage and retrieval of those images for timely access for all end-users.

Key Accomplishments: Office of Financial Literacy

David Mancl, Director

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

2013-2015 Key Accomplishments/Activities

- Governor Walker's Council on Financial Literacy, created April 6, 2011, has been fulfilling its charge to improve financial literacy in Wisconsin. Executive Order #24 specifies that DFI acts as executive director of the council and OFL has directed the council in the following accomplishments:
  - Conducted two Governor's Financial Literacy Awards programs and presented them to 14 individuals and 22 organizations.
  - With funding provided by DFI, conducted a second round of the Financial Literacy Innovation Awards. A total of $350,000 was awarded to 26 school districts for the purpose of increasing personal financial education, reaching 12,500 students.
  - Conducted two Wisconsin Summits on Financial Literacy at Lambeau Field, averaging more than 200 participants at each event.
- OFL completed a first-of-its-kind financial literacy survey of Wisconsin's 424 school districts (97% completion rate as July 1, 2013), then conducted a follow-up survey April 24, 2014. Key finding was 63% of school districts with high schools have a required course in personal financial literacy, up from 49% since 2012.
- Money Smart Week, a campaign done in partnership with the Federal Reserve Bank of Chicago, was held in 2014 and 2015 (its 10th anniversary). The 2014 and 2015 campaigns grew in popularity compared to the 2013 event: The number of partners increased from 232 to 490; attendance jumped from 12,218 to 21,223; and "The Big Read" children's financial literacy story book campaign grew from 74 to 116 locations.
- OFL participated in 18 events involving Wisconsin's Native American communities (189 participants).
- More than 120 registrants attended one or more of the three courses offered through the National Institute of Financial and Economic Literacy training. Since the inception of NIFEL training in 2001, nearly 890 educators have participated. More than 84,000 students have been taught by NIFEL-trained teachers these last two years.
- OFL conducted an outreach initiative in 2014 and met face to face with 65 school districts across the state to encourage them to elevate their commitment to financial literacy education (15 of the districts implemented a PFL course graduation requirement).
- OFL continued its commitment to The Money Conference in six cities. The one-day program, created by OFL in 2001, provides impartial financial education for low- to moderate-income families and attracted over 1,900 people combined.
- OFL continued its commitment to the Finance and Investment Challenge Bowl, an interactive educational game for youth. The event has expanded to eight regional tournaments and a statewide championship.

Key Accomplishments: Division of Securities

Patricia Struck, Administrator

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

2013-2015 Key Accomplishments/Activities

- In November 2013, Governor Walker signed Act 52 which created a registration exemption under the securities law for "crowdfunding." Effective June 1, 2014, a Wisconsin business may raise up to $1 million ($2 million with audited financials) from state investors through portals or "internet site operators." DFI created a new online filing system to receive filings from issuers and internet site operators. During the last two years, the division has devoted a significant amount of time to inquiries and presentations concerning crowdfunding.

- The Bureau of Professional Registration and Compliance oversees the registration of securities broker-dealers, investment advisers and their registered professionals. Registration totals as of June 30, 2015 were:
  - 1,680 broker-dealers, a decrease of more than 4% compared to 2013.
  - 137,428 securities agents, an increase of 8.4% compared to 2013.
  - 364 investment advisers, an increase of 1.1% compared to 2013. (A 22% increase reflected in the last biennial report was a result of the 2012 switch of certain investment advisers from SEC to state registration.)

- Division staff conducted on-site examinations of 183 investment advisers and 46 broker-dealers, representing a 29% increase in total exams during the two-year period.

- As of June 30, 2015, there were 26,648 mutual funds filed in Wisconsin, representing a 12% increase compared to June 30, 2013.

- As of June 30, 2015, there were 1,321 franchises registered with the division, an 8% increase since June 30, 2013.

- During the biennium, the division issued 83 cease and desist orders against persons/entities who violated Chapter 551. Investigations returned more than $64,000 to investors through rescissions and settlements. Orders through North American Securities Administrators Association task force actions, relating to registration issues, resulted in the division's collection of penalties and costs exceeding $327,800. There were 11 criminal convictions related to violations investigated by the division, resulting in orders of restitution of more than $12.9 million.

Key Accomplishments: Office of Credit Unions

Kim Santos, Director

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

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

2013-2015 Key Accomplishments/Activities

- As of June 30, 2015, the Office of Credit Union regulated 154 state-chartered credit unions with assets totaling $27.7 billion. This represented a decrease of 25 credit unions but an increase of more than $3 billion in assets since June 30, 2013.
- Total net worth for Wisconsin credit unions as of June 30, 2015 was 10.82% of assets. This ratio increased from 10.28% as of June 30, 2013. In dollars, the amount increased by more than $537 million.
- The return on average assets ratio rose from 0.93% to 1.04%, an increase of 11 basis points in two years. The increased ratio reflected an improving economy and the maintenance of expenses, including a reduction in the provision for loan loss expense.
- Total savings deposits increased $2.6 billion in two years to $23.8 billion in total savings as of June 30, 2015.
- Total loans increased $3.7 billion in two years and total loans, as of June 30, 2015, were more than $21 billion. Loans represented 75.83% of assets.
    - Real estate loans comprised 61% of total loans.
    - Personal and other loans comprised 39% of total loans
- Delinquent loans as a percentage of total loans decreased from 1.26% as of June 30, 2013, to 0.81% as of June 30, 2015. The charge-off ratio also dropped from 0.41% to 0.25% over the same time period. Effective lending and collection practices assisted in reducing the delinquency and net loan loss ratios.
- Cash and investments totaled more than $5.3 billion as of June 30, 2015, and represented 19% of total assets. The breakdown by major investment categories was:
    - 45.5% of investments in available-for-sale securities.
    - 27.1% of investments in commercial banks, savings and loans, and savings banks.
    - 12.6% in corporate or other credit unions.
    - 14.8% in held-to-maturity securities and other investments.

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