APPENDIX E: WORKFORCE PLAN FY2011-FY2015

I. AGENCY OVERVIEW

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

A. AGENCY MISSION

The Department of Savings and Mortgage Lending's mission is to ensure the safety and soundness of state chartered savings institutions in Texas and provide consumer protection for citizens acquiring mortgage loan products through mortgage bankers or mortgage brokers. The Department seeks to promote and enhance the savings bank charter and mortgage banker and mortgage broker operations to provide the credit necessary to support the residential housing and real estate finance needs of an expanding Texas economy.

B. GOVERNING LEGISLATION

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

The 73rd and 58th Legislatures, respectively, enacted the Texas Savings Bank Act (Subtitle C. Savings Banks, Finance Code, Vernon's Texas Codes Annotated) and the Texas Savings and Loan Act (Subtitle B. Savings and Loan Associations) for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes. Although there are no remaining state savings and loan associations in Texas, the Texas Savings and Loan Act remains in effect.

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

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

The 81st Legislature enacted the Texas S.A.F.E. Act and other significant modifications to Chapters 156 and 157. Compliance with the federal mandates addressed by this legislation expands the field of individuals subject to residential mortgage licensing by eliminating the de minimis level of originations, and eliminating the exemptions for individuals employed by mortgage bankers under Chapter 157, governmental entities, independent third party processors and underwriters. A preliminary determination by the Department of Housing and Urban Development (HUD), found the portion of the Texas S.A.F.E. Act that provides an exemption from licensing for certain non-profit organizations, to be inconsistent with the model S.A.F.E. Act, if the exemption is applied to individuals.

C. Strategic Structure

Goal A: Thrift Safety and Soundness. Aggressively enforce safety and soundness standards in the state chartered thrift industry and compliance with the Texas Finance Code in a manner that is constructive and maintains the interest of depositors, creditors and borrowers of savings institutions as paramount. [Subtitle B, Savings and Loan Associations and Subtitle C, Savings Banks, Texas Finance Code]

Strategy A-1-1. Thrift Examination And Supervision. Perform full and limited scope examinations and participate with federal regulators in examinations according to the priority examination schedule; monitor and enforce the safe and sound operations of state chartered savings institutions and their compliance with applicable laws and regulations.

Goal B: Mortgage Regulation. Protect Texas home buyers through fair and effective regulation of mortgage originating individuals and businesses. [Subtitle E, Mortgage Broker License Act, Chapter 156, and Mortgage Banker Registration Act, Chapter 157, Texas Finance Code]

Strategy B-1-1. Mortgage Broker Licensing. Process, investigate and evaluate mortgage originator license applications and registrations; establish continuing education course standards; enforce compliance with standards of conduct.

Strategy B-1-2. Mortgage Broker Examination. Ensure effective and efficient examination of mortgage originators through fair, responsible, and comprehensive investigation and enforcement of regulatory requirements regarding procedures and standards of conduct.

Strategy B-1-3. Texas OnLine. Provide for the processing of occupational licenses, registrations, or permit fees through TexasOnline. Estimated and nontransferable.

Goal C: Consumer Responsiveness. Ensure responsiveness to inquiries, requests and complaints from the industry, citizens, public officials, and other state and federal governmental entities. [Texas Finance Code-Chapter 13, Savings and Loan Department, §13.011; Chapter 156, Mortgage Brokers, §156.301, et. seq.; and Chapter 157, Mortgage Bankers, §157.007 and §157.008]

Strategy C-1-1. Complaint And Inquiry Process. Provide a forum for registering complaints, responding to requests and inquiries and taking appropriate action when warranted. Respond appropriately to requests or inquiries to obtain information regarding financial institutions and mortgage originators, giving particular priority to requests from state and federal agencies conducting civil and criminal investigations.

II. Agency Demographics

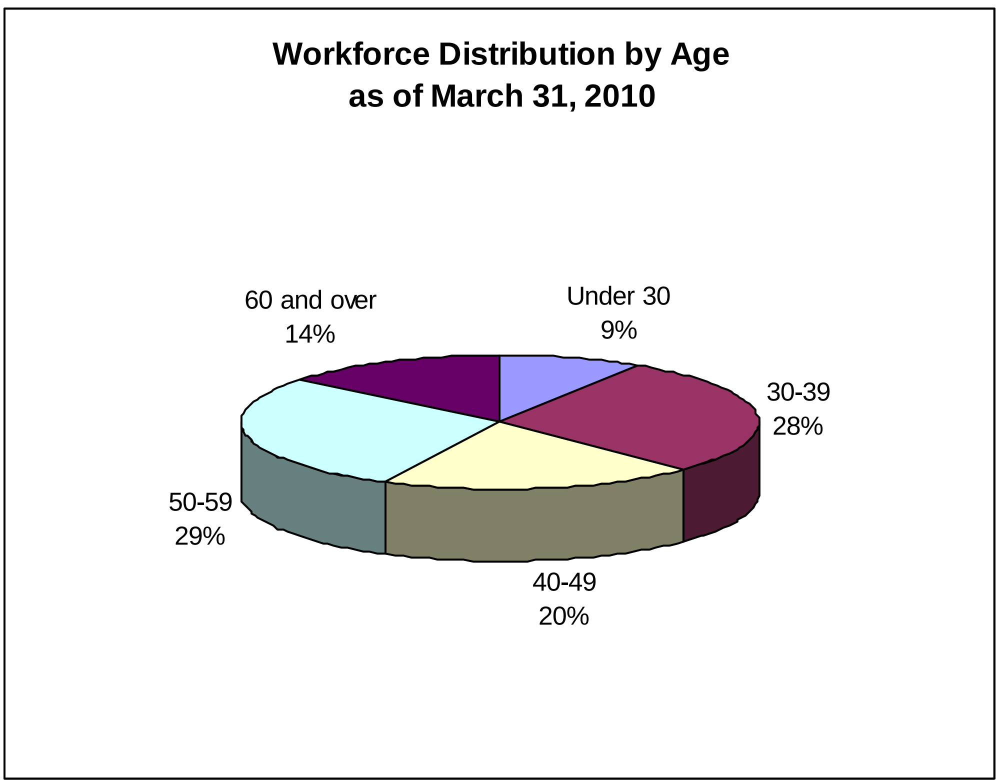
A. Composition of Agency Staff

The charts below represent the agency staff composition as of March 31, 2010.

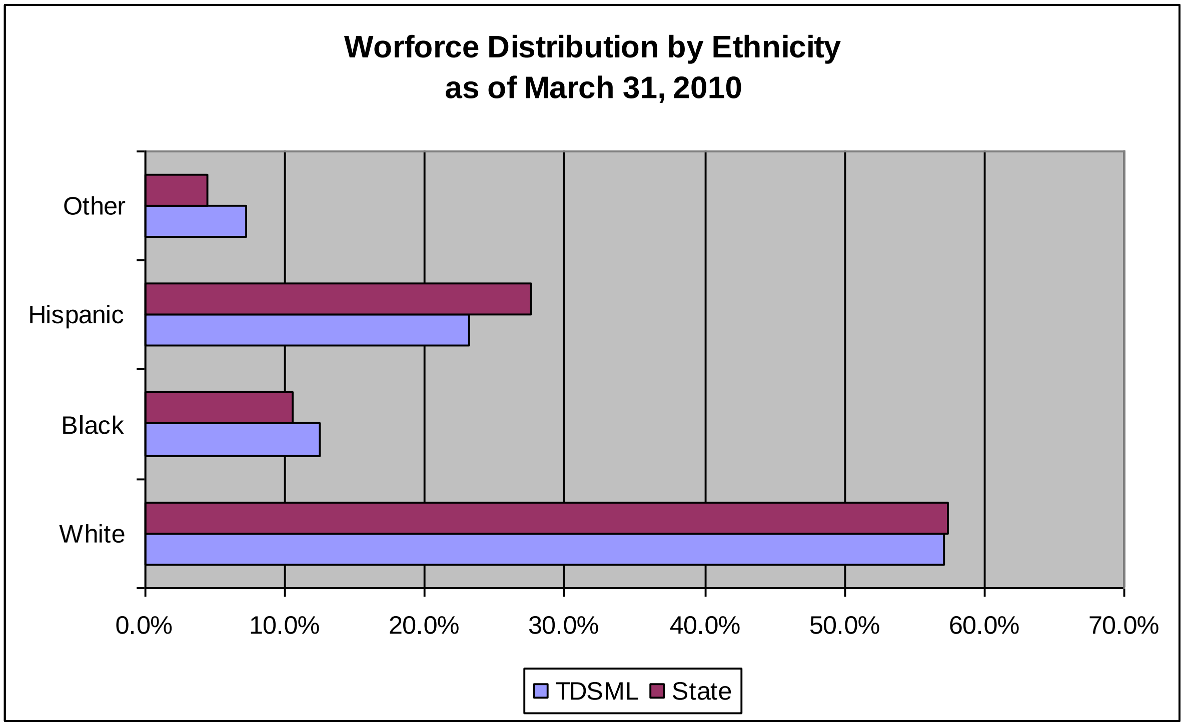
The current workforce of 56 employees is comprised of 32 females (57.1%) and 25 males (42.9%). Seven employees (14.3%) are over age 59, sixteen (28.6%) are in their 50s, eleven (19.6%) are in their 40s, and the average age of staff is 45 years. The Department faces a massive departure of knowledge in the next ten years.

The employees' length agency of service distribution has shifted significantly due to a mixture of significant staff growth several years ago that subsequently slowed combined with reduced turnover rates. As a result 18.0% (down from 21% two years ago) of employees have less than two years of agency service, but 40% (up from 22.6% two years ago) now have more than five years service. With 85 authorized FTEs the agency now has access to adequate staffing, but a decline in revenue combined with shifting workload, has brought down the FTE levels below the cap. The Department has filled the gap with temporary employees whenever feasible.

The chart below shows the agency staff composition by age as of March 31, 2010.



The following chart compares the agency staff composition by ethnicity as of March 31, 2010 to the statewide civilian workforce composition as reported by the Civil Rights Division of the Texas Workforce Commission in January 2007.



B. Employee Turnover

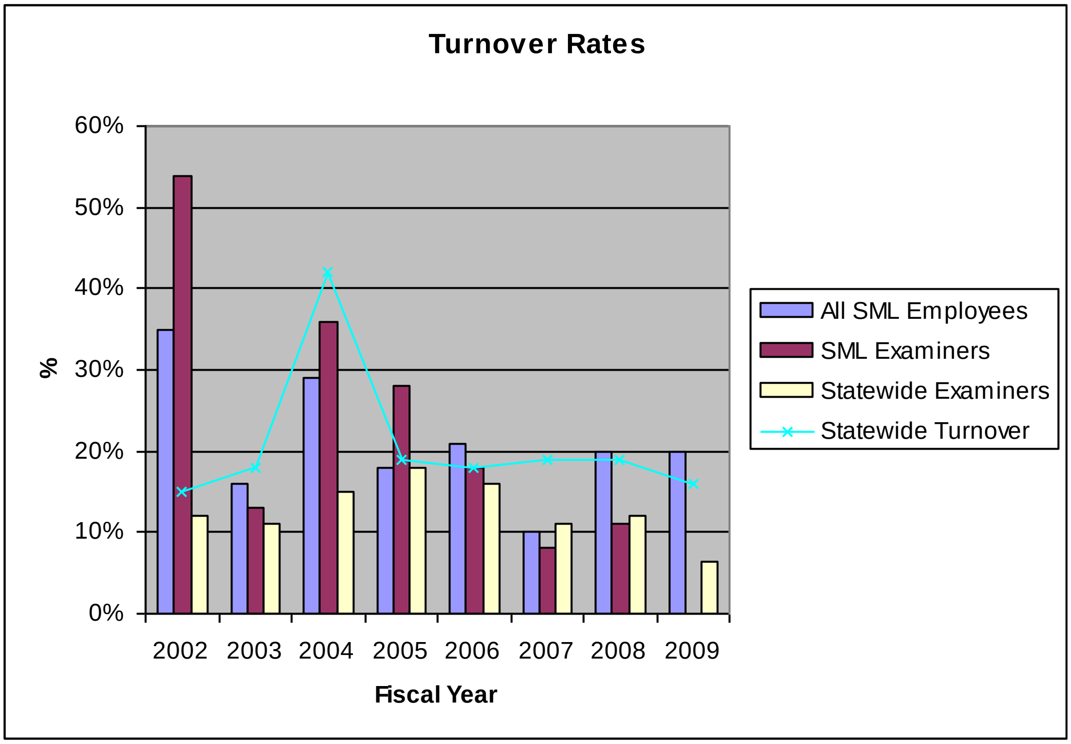
Authorized FTE count has grown every biennium and has increased from 17 in FY 2000 to 72 in FY 2009, not including the authorized employees under the contingency riders. The legislature authorized 85 FTE for FY2010 and 2011 prior to passage of HB2774. Historically, the Department has observed certain turnover trends directly related to the addition of new programs, starting in FY 2000. Turnover has been high the first year of each biennium as new or expanded programs were implemented and additional FTEs were absorbed and then dropping in the second year as new staff was trained and settled into programs.

Financial examiner turnover has been of a significant concern as they perform one of the essential functions of the agency. Well-trained financial examiners are widely sought after by state regulatory agency, federal counterparts, and private sector. The problem has been analyzed and addressed continuously and as a direct result, the financial examiner turnover has decreased from 28% in FY 2005 to 0% in FY 2009.

Turnover challenges every employer, impacting recruitment, selection and training, and diminishing productivity, experience and talent. Over the years the agency has developed and adjusted its processes, training schemes, internal documentation, and other internal changes to shorten the learning curve and facilitate new employees' immersion into the Department's functions and culture. Additional efforts at employee satisfaction and culture change include expanded flex hour schedules, work from home, relaxed dress code, and implementation of Governor's fitness program.

The Department continues to search for tools and mechanisms to combat turnover in all groups of employees and to keep the levels of employee satisfaction high.

The graph below compares agency turnover to statewide turnover for FY 2002-2009, as well as the financial examiner turnover to statewide financial examiner turnover. Interagency transfers are included because the negative effects of turnover are experienced regardless of the former employee's destination. The exceptionally high statewide turnover in FY 2004 is due to the reorganization of the health and human services agencies.



Fiscal Year 2008-09 Turnover by Length of Service

Employees with less than five years of experience accounted for 89.5% of agency turnover (excluding the reduction in force terminations). Turnover is particularly high among administrative staff due to low salaries and a heavy workload. Turnover is calculated for the biennium to level the impact of the Department's history of high turnover in year one and lower turnover in year two, excluding the effect of the reduction in force terminations.

Length of Service	SML % of Employees	State % of Employees	% of SML Turnover	% of State Turnover
Less than 2 years	31.3	22.1	26.3	44.8
2-5 years	40.4	16.2	63.2	17.3
5-10 years	16.5	18.9	5.3	14.3
10-15 years	6.5%	15.8	5.3	7.9
15-20 years	4.1	12.1	0	4.2
More than 20 years	1.2	15.0	0	6.3

Fiscal Year 2008-09 Turnover by Age

Employees under the age of 40 comprised 57.9% of the Department's turnover.

Age	SML % of Employees	State % of Employees	% of SML Turnover	% of State Turnover
Under 30 years	18.1	15.6	36.8	33.8
30-39 years	22.0	21.8	21.1	22.1
40-49 years	24.4	28.3	10.5	16.9
50-59 years	26.6	25.8	21.1	18.1
60 years and over	8.9	8.0	10.5	8.5

C. Retirement Eligibility

Retirement will account for a significant number of separations over the next three years, and a critical loss of institutional knowledge and expertise in key positions. The commissioner, director of licensing, and chief thrift examiner and other high level positions are currently eligible or will be eligible for retirement within five years.
By the end of fiscal year 2015, five employees will become eligible for retirement under the rule of 80, and nine more will become eligible with age 60 and five years service. Currently, three employees are already eligible to retire under the latter rule. Besides the four executives mentioned above, the potential retirees include an attorney, eight examiners, two investigators, and three administrative staff. These employees have extensive tenure with the Department and a wealth of institutional knowledge. The average state service of the potential retirees in their year of eligibility is 12 ¼ years. It is important to ensure that this knowledge and organizational experience is not lost.

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

III. The Department's Future Workforce Profile

A. Workforce Changes

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

- Improving licensing database functionality to provide faster, more accurate information;
- Ensuring continued connectivity to the FDIC examination reporting system;
- Enhancing the agency intranet to provide centralized, immediate access to important documents, tools, and training materials; and
- Increasing use of technology in examination and inspection activities.

- Challenges to the implementation of technological initiatives include:

- Implementation of the National Mortgage Licensing System & Registry (NMLSR) mandated by the SAFE Act, despite its initial expense and lack of some features necessary for effective regulatory oversight including examination, complaint, and enforcement information;
- Workforce decentralization; and
- Loss of experienced, long tenured employees in critical positions.

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

B. THE CHANGING NUMBER OF EMPLOYEES

Each of the last five legislatures has increased the state's regulatory coverage of the financial services industry by adding FTEs to the mortgage originator regulation program. With the growth in this program, the Department has added additional examiners, investigators, licensing technicians, accountants, attorneys, and general administrative support staff.

In response to the mortgage crisis and all its economic impact on the mortgage lending and the regulated industries, the agency reduced the number of employees corresponding to the declining licensee population. Staff has remained flexible and fluid to respond to rapidly changing business needs. Employees with other primary duties currently perform budgeting and planning, purchasing and facilities management, and administrative support and human resources tasks. Investigators are being cross trained as examiners and thrift examiners perform mortgage loan originator examinations in order to utilize time effectively.

The above trend is shifting as a substantially wider population of mortgage originators never before required to be licensed will under the federal SAFE Act be required to be licensed by the department including non-profit organizations, governmental entities, third party processors and underwriters as well as seller financing transactions that previously had a de minimis level that has now been preempted. Additionally our examination staff will need to be expanded to not only meet the increased requirements for mortgage banker and savings and loan examinations but to supplement our now maturing state saving bank examination team.

C. FUTURE WORKFORCE SKILLS NEEDED

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

- Financial institution regulation and examination experience;
- In-depth knowledge of the depository financial and mortgage services industries;
- Audit and investigative techniques;
- Knowledge of business, accounting, finance, economics and the law;

- Technical skills associated with new programs;
- Familiarity with regulatory processes, especially those necessitated by economic changes;
- Accounting, budgeting and strategic planning;
- Risk assessment modeling;
- Business process re-engineering, analysis and redesign;
- Negotiation and change management;
- Ability to interpret and apply relevant rules, regulations and statutes;
- Information technology expertise;
- Customer service orientation;
- Clear, concise, and accurate report and technical writing;
- Effective written and verbal communications; and
- Bilingual abilities.

IV. Gap Analysis

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

A. Employees Need Additional Training in Critical Skills

- A significant percentage of employees identified as eligible retirees are either in management positions or positions requiring extensive knowledge of a program. To ensure successful administration of programs without interruption, these key positions must be targeted for succession planning. Previously the staff was stretched just to perform necessary tasks without taking additional time for training of replacements and FTE caps had negatively impacted the Department's ability to effectively cross-train. With the additional FTEs granted during recent legislative sessions, the Department now has adequate authorized FTEs to manage its programs, successfully cross-train and transfer knowledge,

- Three of the six executive management employees will be retirement eligible within the next five years. The financial institution, mortgage industry, legislative, management, and state reporting experience imbued in these individuals will almost certainly force the agency to compete with other state and federal agencies for a dwindling pool of persons qualified to handle the agency's intricate regulatory and reporting requirements unless cross-training and exposure of current employees is accomplished. To be successful, succession planning must include exposure to these activities, and preferably for more than one employee.

- Eight examiners (32% of the current examination team), including the chief thrift examiner, are currently or will be retirement eligible within five years. The remaining examination staff has an average tenure of 60 months of agency service, a dramatic increase from the 26 month average four years ago, and a direct result of the decrease in turnover. The increase in tenure, as well as the dramatic gap between employees who will soon be eligible for retirement and the tenure of remaining staff is common throughout the agency. A recent initiative by federal regulatory counterparts to rehire retired examiners emphasizes the importance of competitive salaries and working conditions if the agency is to attract examiners with the management and depository financial institution experience necessary to ensure a continued high level of thrift regulatory oversight. The Department's cross-over examination program in which thrift examiners are trained for and conduct mortgage broker examinations and selected mortgage broker examiners assist with thrift examination activities is highly successful not only to manage workload and reduce travel expense, but also in alleviating employee burnout. The Department regularly conducts joint thrift and mortgage broker examiner training conferences.

- Sudden shifts in licensee population and as a result in the programs administered by the Department require skills in managing change. Managers must be able to motivate change, choose a suitable change approach, compare change initiatives to avoid failure, and define implementation strategies to support the agency's goals. These desired skill sets must be further developed.

- The Department serves a diverse range of customers. We can best meet the needs of all customers only if we have a fully diversified and trained staff. Despite intensified effort in the hiring process, in exploring our customer base and the services they request, we expect that in the future we will not have enough employees with bilingual skills.

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

- The pool of qualified applicants, especially for executive management and examiner positions, is small, due in part to competition with the federal regulatory agencies' and private sector's ability to offer higher pay and greater flexibility. Alternative sources for acquiring experienced examiners have been implemented. We have successfully hired three seasoned commissioned examiners and have signed a contract with the Conference of State Bank Supervisors to participate in a pool of experienced examiners who are available on a temporary hiring basis to meet peak times of demand.

- Extensive travel requirements negatively impact the number of applications for positions in key program areas, particularly examiner positions.

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

Younger employees (by age and length of service) are not staying with the agency. This group is driven by salary. The rate at which younger, less tenured employees are leaving affects the agency's ability to position key staff members for promotion, career development, and succession planning.

V. Strategy Development

To address the gaps between the current workforce and future demands, the Department has developed the following goals for the current workforce plan.

Gap	Current employees lack critical and future workforce skills.
Goal	Further develop a competent and well-trained workforce.
Rationale	Employees are the agency's most valuable resource. Their training and development is critical to the Department's success. We continue to analyze knowledge levels and tailor training to develop competencies and prepare staff for additional responsibilities. The Department also must prioritize critical competencies to determine its ability to develop staff for anticipated vacancies. The FDIC provides the premier training in financial regulation free of tuition and lodging in Washington, DC.
Action Steps	• Identify new skill sets required as a result of vacancies or program changes and expand training opportunities accordingly. • Recruit experienced staff and use in house training and mentoring programs in addition to outside training to transfer knowledge. • Expand training opportunities to include programs on management skills. • Develop future leaders by creating development paths to prepare lower-level examiners to move into jobs with higher-level requirements. • Develop strategies to retain knowledge by promoting the transfer of knowledge as an agency value.

Gap	Attract and retain the right employees for the job.
Goal	Become an employer of choice among Texas agencies and federal counterparts.
Rationale	Employee retention is critical to the Department's success. Working within the strictures of the appropriation process and revenue collection, we must strive to attract and retain capable employees.
Action Steps	• Encourage managers to recruit, select and retain quality staff. • Recruit mid-level managers from outside the agency. • Identify internal candidates with the qualifications to fill key positions and use mentoring programs to match seasoned employees with new ones. • Hold management accountable through performance evaluations for their outreach and retention efforts. • Use available mechanisms to hire employees at a compensation level adequate to attract them. • Use any mechanism available within the appropriation structure to reward employees with compensation adequate to retain them.