



Washington State Department of
Financial Institutions

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Director of Banks

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Presentation to the
Infrastructure and Public Depository
Task Force

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Discussion Topics

- Introduction to DFI
- Bank Charter Selection
- Federal Regulators
- Prudential Regulation
- CAMELS Rating System, Areas of Review
- Regulatory Enforcement Action
- Forming a Bank (under current rules)
- Cannabis Banking in Washington

DFI – Mission, Function and Funding

- **Mission.** DFI regulates financial services to protect and educate the public and promote economic vitality.
- **Regulation of Financial Service Providers.** DFI provides regulatory oversight for our state's financial service providers.
- **Self-Funding.** DFI is self-supporting. DFI's operating revenues are paid by the financial service providers we regulate.
- **Director-**Gloria Papiez



ROLES OF DFI DIVISIONS

DIVISIONS:	Banks	Credit Unions	Consumer Services	Securities	Administration
Core mission:	<ul style="list-style-type: none"> • Safety and Soundness • Compliance 	<ul style="list-style-type: none"> • Safety and Soundness • Compliance 	<ul style="list-style-type: none"> • Consumer Protection • Compliance 	<ul style="list-style-type: none"> • Consumer Protection • Compliance 	<ul style="list-style-type: none"> • Administrative Support
Jurisdiction:	State Chartered Banks and Trust Companies	State Chartered Credit Unions	Non-Depository Financial Institutions: <ul style="list-style-type: none"> • Consumer Loan Companies • Mortgage Brokers • Mortgage Loan Originators • Residential Mortgage Loan Servicers • Check Casher and Sellers • Payday Lenders • Escrow Companies and Officers • Money Transmitters and Currency Exchangers • Providers of TAX Refund Anticipation Loans (RALS) 	Securities Broker/Dealers WA Securities Offerings Investment Advisers and Reps Small business (technical assistance only) Investment Fraud Franchises Business Opportunities Offerings	Legal Affairs Policy and Legislative Public Records Information Technology Budget & Accounting Human Resources Communications & Outreach Facilities
Core Activities:	<ul style="list-style-type: none"> • Chartering • Examination • Enforcement • Education and Outreach 	<ul style="list-style-type: none"> • Chartering • Examination • Enforcement • Education and Outreach 	<ul style="list-style-type: none"> • Licensing • Examination • Enforcement • Education and Outreach 	<ul style="list-style-type: none"> • Registration • Examination • Enforcement • Education and Outreach 	<ul style="list-style-type: none"> • Agency Management • Administrative Services • Education and Outreach

Banking Conditions in Washington

The Numbers

Banks are stable and in good condition

Consolidation of State Chartered Banks

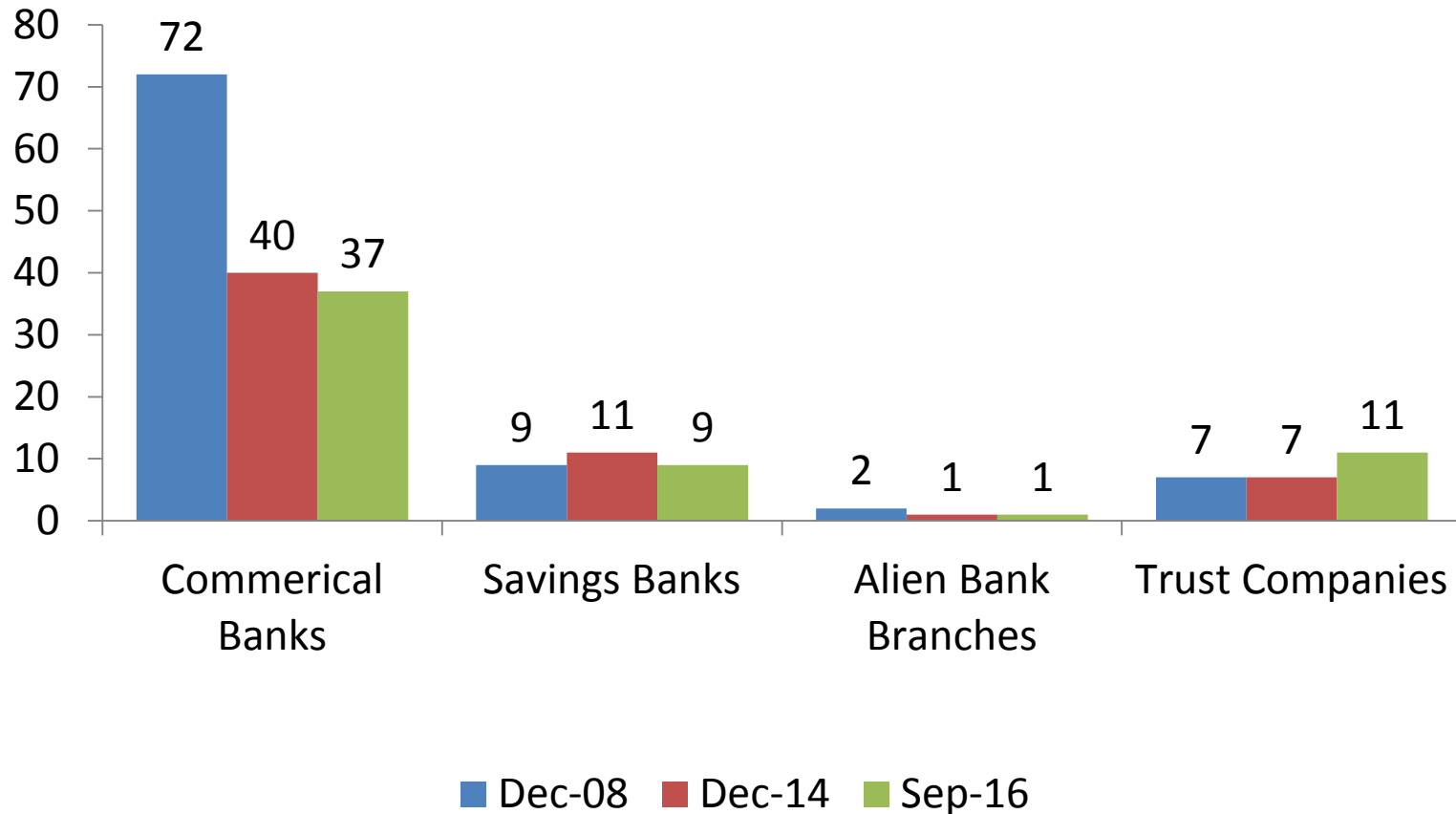
- **57** in 2012; **51** in 2015; and **45** now
- No new banking activity

Growth in Assets – Organic and merger/acquisition

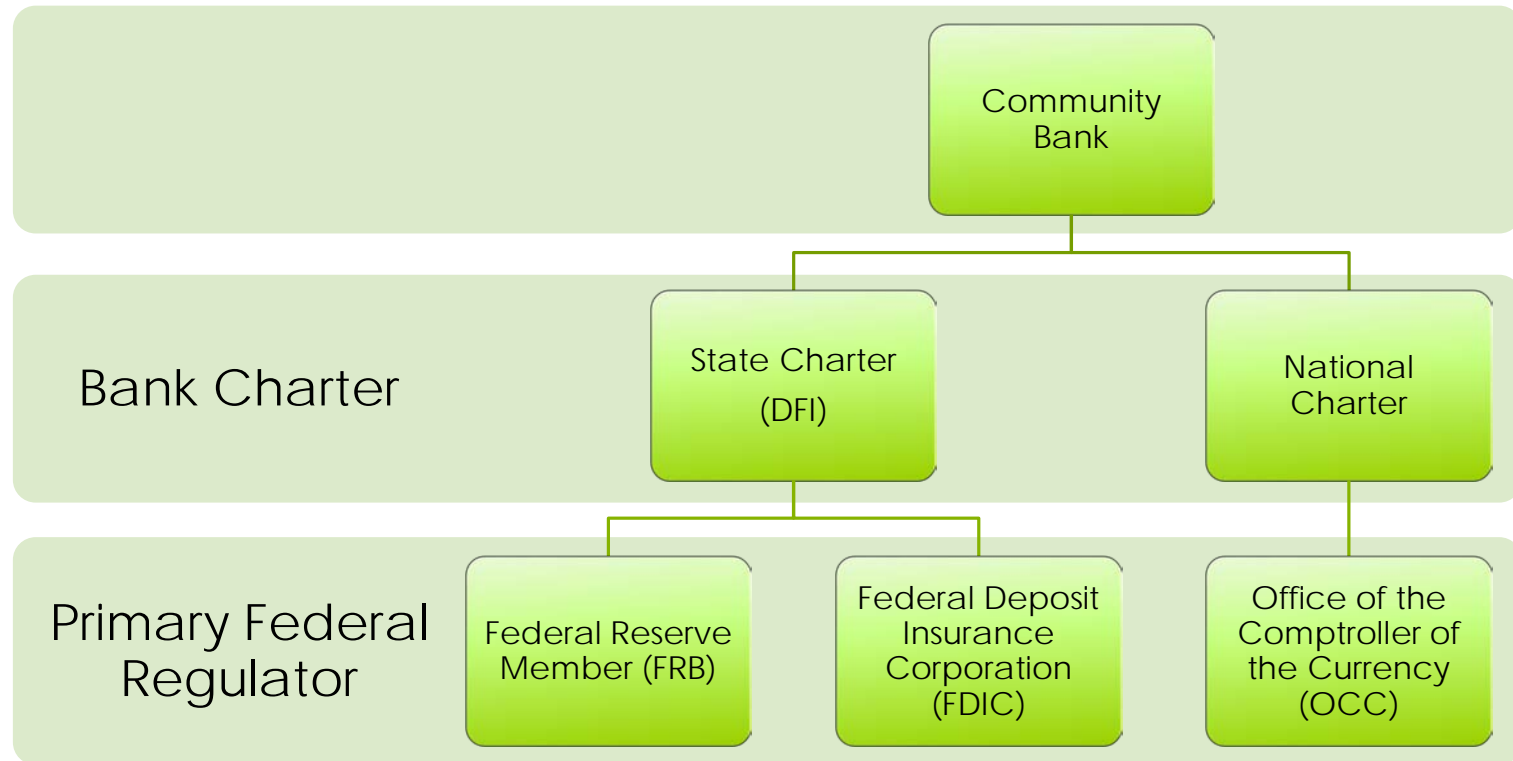
- Total assets grew from \$48.7 billion to \$55.4 billion in the past 2 years
- Average bank size grew from \$974 million to \$1.23 billion in assets in the past 2 years
- Washington loan growth rate 10% outpaces national average of 7%



Pre and Post Crisis Snapshot Number of Institutions: 2008-2016



How is a Bank Chartered?



Federal Banking Regulators



cfpb



Federal Banking Regulators

- Federal Deposit Insurance Corporation (FDIC) – Insurer of deposits, supervises state-chartered non-member banks, receiver and resolution of failed banks
- Federal Reserve (FRB) – Supervises state-chartered member banks, bank holding companies, provides access to the payment system
- Consumer Financial Protection Bureau (CFPB) – Supervises consumer compliance on banks over \$10 Billion in assets
- Office of the Comptroller of the Currency (OCC) – Supervises national banks

What is a Prudential Regulator?

- Supervises depository institutions and establishes requirements and limits on risk taking
- Enforces state and federal laws
- Conducts Safety and Soundness Examination and Consumer Compliance Examinations – *all banks regulated essentially the same*
- Goal is to provide access to credit and protect depositors funds

Safety and Soundness - CAMELS

- Capital
- Asset Quality
- Management
- Earnings
- Liquidity
- Sensitivity to Market Risk



<https://www.youtube.com/user/FDICchannel>

Other Areas of Review

- Regulatory Reporting - Call Report
- Bank Secrecy Act/Anti Money Laundering and Office of Foreign Asset Control
- Information Technology and Security
- Mortgage Banking
- Audit Function
- Internal Routines and Controls
- Compliance with Rules and Regulations

Federal and State Regulations Snapshot

- Hundreds of rules and regulations. A few examples:
 - Real Estate Lending Standards / LTV Requirements (Part 365 FDIC R&R)
 - Capital Maintenance (Part 325 FDIC R&R)
 - Standards for Safety and Soundness (Part 364 FDIC R&R)
 - State Legal Lending Limit – Washington RCW 30A.04.111 (20% of Bank Capital)
 - FRB Regulation O – Insider transactions

Washington State Banks – Statutes and Rules

- RCWs
 - 30A Washington Commercial Bank Act
 - 32 Washington Savings Bank Act
- WAC 208-512

Regulatory Supervisory Powers

- Once considered less than satisfactory
 - examination frequency increases
- Informal Enforcement Action
- Formal Enforcement Action - Public
 - Consent Orders (Cease and Desist)
 - Individuals and Organizations
 - Civil Money Penalties
- Closure

Industry Consolidation & Stats

- 5,787 FDIC insured banks as of Q2 2017
 - 1985 this number was > 18,000
- Banks with less than \$10B in assets control 18% of the industry
- 78% of all banks are state chartered
- While 4 national banks hold 41% of the industry assets
- Handful of new banks formed in 2016 and 2017 (none in Washington)
 - Very traditional business model and lots of capital

How to form a Bank?

- *FDIC Handbook for Organizers of De Novo Institutions – April 2017, good guidance*
- Form a Board of Directors
- Select Bank Management
- Create a Business Plan & Financial Projections (define the market need)
- Determine how much capital is needed taking into consideration business plan and risk profile
- Application and investigation

Banking the Marijuana Industry

- Several banks and credit unions actively bank the industry (primarily accept deposits)
- Written Guidance
 - Cole Memorandum
 - FinCEN Guidance (FIN-2014-G001)
 - Suspicious Activity Reports
- Liquor and Cannabis Board
 - Application Process
 - Ongoing Monitoring



Q&A