

# STATE BANK DEPARTMENT

## Enabling Laws

Act 179 of 2014  
A.C.A. §23-46-101 et seq.

## History and Organization

The State Bank Department was established by Act 113 of 1913. Its duties are to perform periodic examinations of state chartered banks, bank holding companies, trust companies and other entities to determine safety and soundness and compliance with laws and regulations.

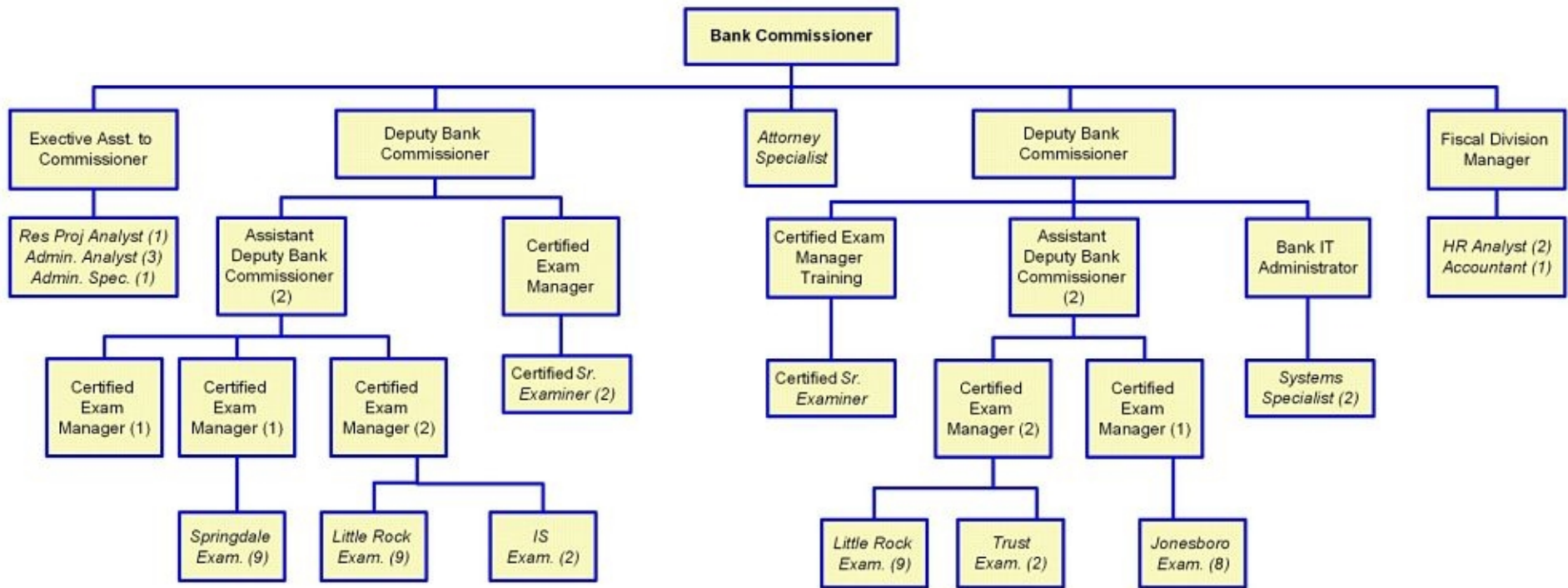
These examinations are accomplished by on-site evaluation of assets and liabilities, adequacy of internal routines and controls, the competency of management, the adequacy of capital of the institution, and other evaluations as performed by examiners.

The Bank Commissioner is charged with the responsibility of ensuring all state banks operate in compliance with state and federal laws. She also has responsibility for the approval of new branches, changes in ownership, and Plans of Exchange, whereby bank stock is exchanged for bank holding company stock.

In order to discharge the statutory responsibilities of the above, the Bank Commissioner and bank examiners periodically conduct investigations, hold hearings and perform all actions necessary to discharge their statutory responsibilities. Act 60 of 1933 created the Arkansas State Banking Board. The Board consists of six (6) members whose powers and duties include: Pass upon bank charter applications and charter amendments; pass upon proposed reorganizations, mergers and consolidations, conversions from National Charter to State Charter; hold hearings; propose regulations; and otherwise perform all actions necessary to discharge their statutory responsibility. The Commissioner and the State Banking Board have full authority to issue rules and regulations.

The Bank Commissioner, aided by the team of examiners, is required periodically to issue Cease and Desist Orders, Memorandums of Understanding, or obtain official Resolutions of Affirmative Action from banks when safety and soundness issues arise that warrant such action.

The Mission of the State Bank Department is to allocate available human and other resources existing in our Examination, Information Technology, and Administrative Services Divisions to ensure the continuance of safe and sound financial practices in state chartered financial institutions. We will maintain a legal and regulatory structure for Arkansas that provides the public with convenient, safe, and competitive banking, which allows for economic development within this State.



## Agency Commentary

The Arkansas State Bank Department has statutory responsibility for the examination and regulation of state chartered banks, bank holding companies, trust companies and other entities to determine safety and soundness, and compliance with laws and regulations. At fiscal year-end June 30, 2014, this included 88 state-chartered banks, 83 bank holding companies, one regional industrial development corporation, one trust company, and the Arkansas Capital Corporation. The mission of the State Bank Department is to allocate available human and other resources existing in our Examination, Information Technology and Administrative Services Divisions to ensure the continuance of safe and sound financial practices in state chartered financial institutions and to promote public confidence in our banking system. The Department will continue its policy of being an advocate of banking and seeking every means available to improve those financial institutions found to be in need of assistance. In order to execute these responsibilities and fulfill the mission and goals of the Department, certain budget requests are imperative.

Through reallocation of funds, the Bank Department has not found it necessary to request an increase in operating costs since 2004. For general operations this biennium, we are requesting an increase of \$91,070 in FY16 and \$143,085 in FY17. This increase is to cover the increasing costs of travel expenses associated with examining our state-wide chartered banks. In addition, our Arkansas banks are continually acquiring banks located out-of-state and due diligence must be done on these acquisitions which has significantly increased our travel costs from general operations. The increase also includes the continually rising prices of rents, utilities, fuel, vehicle upkeep, low value equipment, office supplies, etc. The increase in operations will also allow us to maintain our routine hardware replacement schedule (3 - 5 year life cycle) and upgrades and or maintenance of our software systems. The IT Plan includes upgrades to our existing telephone system and our existing off-sight disaster recovery location. The telephone system upgrade will move us from the more costly Centrex system to a Voice-over-Internet-Protocol (VoIP) system resulting in operating savings that, over time, will pay for the outlay for the new system. Our offsite disaster recovery location, housed at our Springdale office, will be upgraded to match the configuration of our Little Rock main office allowing for a more efficient and timely continuity of operation in the event of a disaster affecting our main office. The Department's IT plan has been filed with the DFA - Office of State Technology Planning per its instructions for the 2015-2017 Biennium.

An increase of \$20,880 in Conference & Travel expenses for FY16 and an additional \$32,225 in FY17 is also being requested. With the ever changing environment of the banking industry and regulatory compliance put on our banks through Dodd Frank, training of our examination staff is crucial to the State of Arkansas and our Department. Airline tickets and costs associated with travel for training purposes have increased significantly and will continue to do so. There are several schools required during the first three years of an examiner's career. In addition, our career path allows for each examiner to reach the level of Certified Bank Senior Examiner through the national organization of Conference of State Bank Supervisors. In order to maintain certification, each examiner must successfully complete a minimum of 63 continuing education hours (CEH) over a three year period.

The Department is requesting Capital Outlay appropriation of \$100,000 each year to replace state vehicles according to the State's mileage and time of service policy. An additional \$20,000 each year for technology equipment and \$10,000 to replace fully depreciated equipment over \$5,000 per item is also being requested.

Since the 2009-2011 biennial budget process, the Bank Department has voluntarily surrendered five (5) positions reducing our staff from 77 to the current 72. As these positions were surrendered, other employees have absorbed additional duties. In addition, we have not replaced the last two administrative staff that have resigned but split the work among our current staff. This has resulted in misclassification for three (3) current employees who we are requesting be reclassified.

We are also requesting reclassification of our Attorney Specialist position to that of Bank Chief Counsel. The Department has only one attorney position who handles all legal areas of bank litigation, personnel, accounting and any other issues that develop. The attorney is also required to attend Graduate Banking School and know all areas of the examination process. The job duties as our sole attorney are more in line with those of Chief Counsel.

Reclassification request is also made on two (2) Bank Examiner positions to be reclassified as Certified Bank Senior Examiner positions. This will allow the Bank Department to utilize these two positions all the way through our Career Path.

Labor Market Rates show that Arkansas State Bank Department salaries are not comparable with those paid by adjacent state and federal regulators. Upgrades of our current 49 examiner positions are being requested in order to provide a framework within the pay plan for the retention of examiners to ensure that the Department has the personnel resources to continue providing the best services possible to the banking industry and safeguard the general public and to return Arkansas examiners' salaries to at least the mid-salary range of our surrounding states. While the initial cost is minimal, it is our belief that the approval and implementation of these upgrades will assist us in retaining our examiners through the pay grid.

Approval of all requests will allow the Bank Department to continue to meet demands placed upon it by the financial industry and to continue to monitor the safety and soundness of all Arkansas state banking institutions under its jurisdiction. This will be accomplished by priorities set by the Department to regulate and supervise the constantly changing banking environment. Funding for the State Bank Department is provided by semi-annual assessments of all institutions under the supervisory authority of the Department.

## **Audit Findings**

DIVISION OF LEGISLATIVE AUDIT  
AUDIT OF :  
STATE BANK DEPARTMENT  
FOR THE YEAR ENDED JUNE 30, 2012

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Findings

Recommendations

None

None

## **State Contracts Over \$50,000 Awarded To Minority Owned Businesses Fiscal Year 2014**

None

## Employment Summary

	Male	Female	Total	%
White Employees	45	14	59	92 %
Black Employees	3	1	4	6 %
Other Racial Minorities	1	0	1	2 %
Total Minorities			5	8 %
Total Employees			64	100 %

## Publications

### A.C.A. 25-1-201 et seq.

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution	Unbound Black & White Copies Produced During the Last Two Years	Cost of Unbound Copies Produced During the Last Two Years
		Governor	General Assembly				
Report of the Bank Commissioner	A.C.A. 23-46-210	Y	N	100	Required for the Governor by Statute. Copies provided to the State Library and requesting banks. Report is also available on the Agency's website.	200	812.97

## Agency Position Usage Report

FY2012 - 2013						FY2013 - 2014						FY2014 - 2015					
Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused
	Filled	Unfilled	Total				Filled	Unfilled	Total				Filled	Unfilled	Total		
74	66	8	74	0	10.81 %	72	64	8	72	0	11.11 %	72	64	8	72	0	11.11 %

## **Analysis of Budget Request**

**Appropriation:** 051 - State Bank Department-Operations

**Funding Sources:** SIB - Bank Department Fund

The State Bank Department is funded entirely by special revenue fees assessed and collected on a semi-annual basis, as authorized in Arkansas Code §19-6-412.

Base Level Regular Salaries and Personal Services Matching include continuation of the previously authorized 2015 1% Cost of Living Adjustment and Career Service Payments for eligible employees. Personal Services Matching also includes a \$10 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$420 per month. Base Level salaries and matching do not include appropriation for Merit Pay Increases. The Base Level salary of unclassified positions reflects the FY2015 line item maximum plus the previously authorized 2015 1% Cost of Living Adjustment.

Base Level request is \$9,019,965 in FY2016 and \$9,020,859 in FY2017.

The Agency Request provides for \$292,917 in FY2016 and \$356,389 in FY2017 and is summarized as follows:

- Regular Salaries and Personal Service Matching of \$50,967 in FY2016 and \$51,079 in FY2017 to support an Upgrade Request of forty nine (49) positions and a Reclassification Request of six (6) positions.

The forty nine (49) Upgrade Requests include: Nine (9) Certified Examiner Managers from C128 to C129, thirty nine (39) Certified Bank Senior Examiners from C126 to C127, and one (1) Bank Examiner from C119 to C121.

The six (6) Reclassification Requests include: an Attorney Specialist grade C126 to Bank Chief Counsel C129, a Human Resource Analyst C117 to Payroll Services Coordinator C119, a Human Resource Analyst C117 to Procurement Coordinator C119, an Accountant I C116 to Research Project Analyst C117, and two (2) Bank Examiners C119 to two (2) Certified Bank Senior Examiners C127.

- Operating Expenses totaling \$91,070 in FY2016 and \$143,085 in FY2017 for rent, vehicle maintenance, utilities, travel cost associated with examining state charter banks, software upgrades as enumerated in the Department's Information Technology Plan submitted to the DFA and upgrading the department's phone system from Centrex System to a Voice-over-Internet-Protocol (VoIP) system.
- Conference & Travel Expenses totaling \$20,880 in FY2016 and \$32,225 in FY2017 for increases in mileages, meals, lodging, carrier, ground transportation, parking fees, conference & seminar fees and other travel expenses.
- Capital Outlay of \$130,000 is requested in each year of the biennium to replace vehicles, fully depreciated non-technology equipment, and fully depreciated technology equipment as outlined in the Department's Information Technology Plan.

The Executive Recommendation provides for the Agency Request.

## Appropriation Summary

**Appropriation:** 051 - State Bank Department-Operations

**Funding Sources:** SIB - Bank Department Fund

### Historical Data

### Agency Request and Executive Recommendation

Commitment Item		Historical Data			2015-2016			2016-2017		
		2013-2014 Actual	2014-2015 Budget	2014-2015 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	5,015,046	5,500,532	5,500,532	5,581,690	5,619,287	5,619,287	5,582,190	5,619,787	5,619,787
<b>#Positions</b>		<b>68</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>72</b>
Extra Help	5010001	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
<b>#Extra Help</b>		<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Personal Services Matching	5010003	1,480,394	1,585,664	1,560,570	1,616,167	1,629,537	1,629,537	1,616,561	1,630,043	1,630,043
Operating Expenses	5020002	1,253,936	1,347,108	1,347,108	1,347,108	1,438,178	1,438,178	1,347,108	1,490,193	1,490,193
Conference & Travel Expenses	5050009	299,136	300,000	300,000	300,000	320,880	320,880	300,000	332,225	332,225
Professional Fees	5060010	75,947	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Capital Outlay	5120011	91,354	130,000	130,000	0	130,000	130,000	0	130,000	130,000
<b>Total</b>		<b>8,215,813</b>	<b>9,038,304</b>	<b>9,013,210</b>	<b>9,019,965</b>	<b>9,312,882</b>	<b>9,312,882</b>	<b>9,020,859</b>	<b>9,377,248</b>	<b>9,377,248</b>

Funding Sources										
Fund Balance	4000005	6,066,898	6,403,503		5,548,276	5,548,276	5,548,276	5,278,311	4,985,394	4,985,394
Special Revenue	4000030	8,552,418	8,183,077		8,750,000	8,750,000	8,750,000	8,850,000	8,850,000	8,850,000
<b>Total Funding</b>		<b>14,619,316</b>	<b>14,586,580</b>		<b>14,298,276</b>	<b>14,298,276</b>	<b>14,298,276</b>	<b>14,128,311</b>	<b>13,835,394</b>	<b>13,835,394</b>
Excess Appropriation/(Funding)		(6,403,503)	(5,548,276)		(5,278,311)	(4,985,394)	(4,985,394)	(5,107,452)	(4,458,146)	(4,458,146)
<b>Grand Total</b>		<b>8,215,813</b>	<b>9,038,304</b>		<b>9,019,965</b>	<b>9,312,882</b>	<b>9,312,882</b>	<b>9,020,859</b>	<b>9,377,248</b>	<b>9,377,248</b>

FY15 Budget amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2013-2015 Biennium.

## Change Level by Appropriation

**Appropriation:** 051 - State Bank Department-Operations  
**Funding Sources:** SIB - Bank Department Fund

### Agency Request

Change Level		2015-2016	Pos	Cumulative	% of BL	2016-2017	Pos	Cumulative	% of BL
BL	Base Level	9,019,965	72	9,019,965	100.0	9,020,859	72	9,020,859	100.0
C01	Existing Program	201,400	0	9,221,365	102.2	246,900	0	9,267,759	102.7
C04	Reallocation	0	0	9,221,365	102.2	0	0	9,267,759	102.7
C08	Technology	40,550	0	9,261,915	102.7	58,410	0	9,326,169	103.4
C10	Reclass	35,456	0	9,297,371	103.1	35,456	0	9,361,625	103.8
C11	Upgrade/Downgrade	15,511	0	9,312,882	103.2	15,623	0	9,377,248	104.0

### Executive Recommendation

Change Level		2015-2016	Pos	Cumulative	% of BL	2016-2017	Pos	Cumulative	% of BL
BL	Base Level	9,019,965	72	9,019,965	100.0	9,020,859	72	9,020,859	100.0
C01	Existing Program	201,400	0	9,221,365	102.2	246,900	0	9,267,759	102.7
C04	Reallocation	0	0	9,221,365	102.2	0	0	9,267,759	102.7
C08	Technology	40,550	0	9,261,915	102.7	58,410	0	9,326,169	103.4
C10	Reclass	35,456	0	9,297,371	103.1	35,456	0	9,361,625	103.8
C11	Upgrade/Downgrade	15,511	0	9,312,882	103.2	15,623	0	9,377,248	104.0

### Justification

C01	Increase is being requested for General Operations expense in the amount of \$70,520 for FY16 and \$104,675 for FY17 to cover the rising travel costs associated with examining our state chartered banks; general increases in rents, utilities, fuel, vehicle upkeep and to purchase low value equipment. Conference and Travel expense increase of \$20,880 in FY16 and \$32,225 in FY17 is requested to cover training and travel expenses for examination staff to maintain certifications and attend regulatory compliance schools. Capital Outlay appropriation of \$100,000 each fiscal year is requested to replace state vehicles according to the State's mileage and time of service policy, to purchase additional vehicles if needed, and an additional \$10,000 to replace fully depreciated equipment at costs above \$5,000.
C04	Reallocating funds from Board Member Travel Meals/Lodging to Board Member Travel Other.
C08	Operation expenses above Base Level totaling \$20,550 the first year and \$38,410 the second year are being requested to maintain routine hardware replacement schedule (3 - 5 year life cycle), upgrades and or maintenance of our software systems. The IT Plan includes upgrades to our existing telephone system and our existing off-site disaster recovery location. The telephone system upgrade will move us from the more costly Centrex system to a Voice-over-Internet-Protocol (VoIP) system resulting in operating savings that, over time, will pay for the new system. Our offsite disaster recovery location, housed at our Springdale office, will be upgraded to match the configuration of our Little Rock main office allowing for a more efficient and timely continuity of operation in the event of a disaster affecting our main office. Our plan includes the request of \$20,000 in Capital Outlay each year for technology equipment over \$5,000 per item. This request is compliant with the Agency's IT Plan on file with the Office of State Technology Planning.
C10	Workload restructuring has resulted in misclassification for four (4) positions that we are requesting be reclassified. Reclassification request is also made on two (2) Bank Examiner positions to be reclassified as Certified Bank Senior Examiner positions. The department requests an additional \$35,456 each year in salary and matching to cover the reclassification on the two examiner positions. No increase in salary appropriation will be incurred for the other reclassifications.



## Change Level by Appropriation

<b>Justification</b>	
C11	Labor Market Rates show that Arkansas State Bank Department salaries are not comparable with those paid by adjacent state and federal regulators. Upgrades of our current 49 examiner positions are being requested in order to provide a framework within the pay plan for the retention of examiners to ensure that the Department has the personnel resources to continue providing the best services possible to the banking industry and safeguard the general public and to return Arkansas examiners' salaries to at least the mid-salary range of our surrounding states. An increase of \$15,511 for FY16 and \$15,623 for FY17 is requested for salary and personnel matching for these upgrades. While the initial cost is minimal, it is our belief that the approval and implementation of these upgrades will assist us in retaining our examiners through the pay grid.