

State of Wisconsin
2009-2011 Biennial Report

Department
Of
Financial
Institutions



October 2011

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State of Wisconsin
Department of Financial Institutions

Scott Walker, Governor

Peter Bildsten, Secretary

October 15, 2011

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 members of the Legislature:

On behalf of the Wisconsin Department of Financial Institutions, I am honored to present you the Department's report for the biennium ending June 30, 2011. 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:

- 211 state-chartered banks and savings banks.
- 223 state-chartered credit unions.
- 117,385 registered securities representatives.
- 358,725 business entities registered with the Division of Corporations 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 can play an important role in helping the state's economy grow and enabling the private sector to create the 250,000 jobs that was set as a goal by this Administration.

When I was sworn in as Secretary on January 3, 2011, I quickly recognized that there was a strong, qualified and experienced team in place at DFI. I solidified the management team with the appointment of Deputy Secretary Ray Allen, who for more than two decades has served the State of Wisconsin and DFI in a variety of leadership roles. In addition to an experienced management team, DFI employees have on average 18 years of experience with the Department, which has enabled DFI to continue to provide timely, efficient service to its customers.

The Department of Financial Institutions is unlike most state agencies in that it is self-supporting. All DFI operational expenses are 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. Their commitment and passion are consistent with what I witnessed in the private sector during my 30-plus years in the banking and financial services industries.

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While this report spans two years of DFI efforts, I would like to highlight some of the Department's accomplishments in the first nine months of this Administration:

- **Consolidation of duties** – DFI staff laid the groundwork for the transfer to DFI of notary public and trademark responsibilities from the Office of the Secretary of State. The intent of this legislative change was to provide more efficient service to Wisconsin businesses. The transfer of those duties occurred early in the new biennium.
- **Improved website** – Numerous improvements were made to the DFI website to make it easier for customers to do their business online. More than 90 percent of all corporate filings and 88 percent of all Uniform Commercial Code filings are now done through the DFI website.
- **Promoting financial literacy** – DFI is playing a key role in the Governor's Council on Financial Literacy, which was created on April 6, 2011. I serve as co-vice chair of the council and David Mancl, director of DFI's Office of Financial Literacy, is its executive director. The mission of the council is to measurably improve financial literacy among Wisconsin citizens.
- **Outreach efforts** – DFI has been proactive in engaging in dialogue with industry and advocacy groups through the use of roundtable sessions, guest columns in trade publications, public service announcements, and face-to-face meetings with consumer organizations and trade associations. For example, 220 bank and credit union executives participated in a series of eight statewide roundtables held earlier this year. Planning is under way for a second series of roundtables to be held early in 2012.

All Wisconsinites are aware of the economic challenges of the past few years. The DFI team recognizes that by doing our part to maintain a system of strong financial institutions, the Department can play a role in helping to re-invigorate the economy and create more jobs for state residents. DFI is firmly committed to its regulatory responsibilities and will continue to partner with federal regulators to ensure the safety and soundness of Wisconsin's financial institutions. We will continue to work hard to ensure that Wisconsin businesses and consumers have access to high quality, reasonably priced financial services. DFI remains confident that Wisconsin's state-chartered financial institutions will continue to perform well despite the current economic challenges.

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

Sincerely,

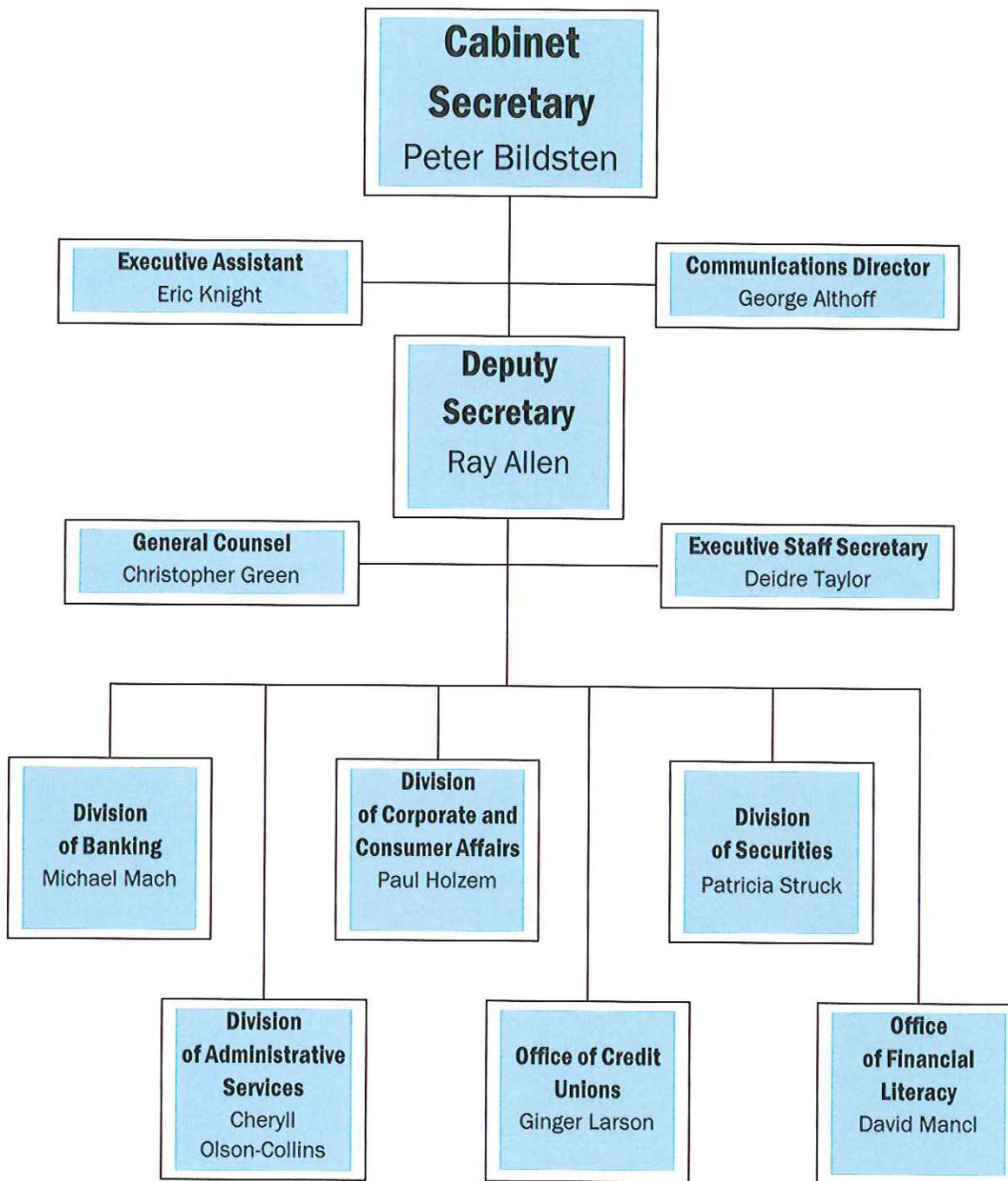


Peter Bildsten
Secretary

Office of the Secretary

Organizational Chart

(As of October 15, 2011)



2011-13 Budget Programs, Goals, Objectives and Activities

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
2009	226	88	73	83%
2010	223	88	85	97%
2011	219	87	77*	88%*

*As of October 1, 2011

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.

Performance measures

Calendar year	Goal	Actual
2009	97%	98%
2010	97%	98%
2011	97%	98%*

*As of October 1, 2011

Goal: Facilitate economic growth

Objective/Activity: Process new business filings timely to support new business activity.

Performance measures

Calendar year	Goal	Actual
2009	99%	100%
2010	100%	100%
2011	100%	100%*

*As of October 1, 2011

2011-13 Budget Programs, Goals, Objectives and Activities

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
2009	236	157	138	88%
2010	223	148	159	107%
2011	208	138	95*	69%*

*As of October 1, 2011

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 three budgeted permanent part-time positions.

- **SS. 409.527 – Uniform Commercial Code**
 - DFI is in compliance with section 409.527, with the exception of:
 - Minor differences due to the result of technical incompatibilities with DFI systems.
 - Mutually discussed and agreed upon deviations as advised by the Uniform Law Judges of Wisconsin and the Wisconsin Bar.

Key Accomplishments: Division of Banking

Michael Mach, 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.

2009-2011 Key Accomplishments/Activities

- The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the S.A.F.E. Act) was passed by Congress and became law in 2008. The purpose of the S.A.F.E. Act is to increase uniformity, reduce regulatory burden, enhance consumer protection and reduce fraud. In February 2009, Wisconsin became the first state in the nation to pass state-enabling legislation with the enactment of 2009 Act 2. This act, which became effective on January 1, 2010, requires all state-licensed mortgage professionals to transition onto the Nationwide Mortgage Licensing System. That system provides a comprehensive licensing and supervisory database which aggregates and improves the flow of information to and among regulators for increased accountability and tracking of loan originators. The effect of these changes in federal and state laws relating to the mortgage industry has been to significantly reduce the number of licensees.
- The assets of the state-chartered banks in Wisconsin totaled \$95.6 billion as of December 31, 2010, a decrease of \$2.6 billion or 2.6% from the previous year.
- During 2010, the number of state-chartered banks declined by three to 211, which includes four non-depository trust companies.
- Assets administered by trust departments of state-chartered banks totaled nearly \$10.8 billion as of December 31, 2010. Fiduciary assets increased by \$1.6 billion, or 17.4% in 2010.
- The Division of Banking regulated 16 state-chartered savings institutions with \$4.5 billion in assets as of December 31, 2010. Assets at Wisconsin's state-chartered savings institutions have changed little since 2005 and the number of supervised institutions has remained constant since 2007.
- Effective January 1, 2011, the Division's Bureau of Licensed Financial Services assumed oversight of Wisconsin's payday lending industry, with the approval of 2009 Wisconsin Act 405. On March 1, 2011, the statewide payday lending database mandated by Act 405 went live. Veritec Solutions, LLC is the vendor with whom DFI contracted to provide the database system. The Division also conducted in-house training to get staff members prepared to conduct examinations of payday lending companies.

Key Accomplishments: Division of Corp/Consumer Services

Paul Holzem, 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 also examines and files documents under the Uniform Commercial Code, including statements of business indebtedness, consignments, terminations, and financing statements and maintains the statewide Uniform Commercial Code lien system.

The Bureau of Consumer Affairs, also in the division of Corporate and Consumer Services, administers the Wisconsin Consumer Act, which resolves consumer complaints and advises consumers and lenders regarding their rights and responsibilities under consumer law.

The Division also handles notary public applications and renewals, trademark registrations, and cable/video service franchise registrations.

2009-2011 Key Accomplishments/Activities

- The Corporations Bureau saw a 4.3% increase in new business creation in the 12 months ending June 30, 2011, compared to the previous year. The number of new domestic entities created was 30,260, an increase of 3.9% over the previous year. Foreign (out-of-state) business registration was 2,850, up 8% from the previous year.
- As of June 30, 2011, there were 358,725 business entities registered with the Corporations Bureau.
- In the year ending June 30, 2011, the division received 25,801 electronic inquiries and handled more than 39,000 phone calls.
- About 90% of all filings with the Corporations Bureau are now done electronically. The department is continually updating and revising applications to allow better customer access and ease of filing.
- In calendar year 2010, the Division's Bureau of Consumer Affairs handled 6,922 consumer inquiries and/or complaints:
 - 2,529 written complaints/inquiries.
 - 4,176 telephone complaints/inquiries.
 - 217 reviews of contracts to determine compliance with the Act.
 - As a result of BCA investigations, Wisconsin consumers received \$131,000 in restitution.
- In the 12 months ending June 30, 2011, the Division handled 107,805 UCC filings, an increase of 1.3% over the previous year.

Key Accomplishments: Office of Credit Unions

Ginger Larson, Director

The Office of Credit Unions regulates state-chartered credit unions. It charters new credit unions; examines credit union records and assets; acts on applications/requests from credit unions that require approval per Chapter 186, 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 may remove its officers, suspend operations or take possession of the credit union's business.

2009-2011 Key Accomplishments/Activities

- As of December 31, 2010, the Office of Credit Unions regulated 223 state-chartered credit unions with assets totaling nearly \$20.7 billion. In comparison, there were 236 credit unions with total assets of \$19.7 billion at the end of 2009.
- During 2010, the Office of Credit Unions assisted in the consolidation of 13 credit unions with other credit unions.
- Total net worth for Wisconsin credit unions as of December 31, 2010, was \$2 billion, an increase of \$89 million over 2009. The net worth-to-assets ratio of all credit unions stood at 9.99% as of December 31, 2010.
- The return-on-average-assets ratio rose slightly from 0.46% in 2009 to 0.47% in 2010.
- Total savings deposits increased to \$17.9 billion as of December 31, 2010, up \$1 billion to the previous year.
- Loans increased \$373 million in 2010 to a total of \$15.8 billion, representing 76.2% of all credit union assets:
 - Real estate-secured loans comprised 64% of total loans.
 - Auto-secured loans accounted for 20% of total loans.
- Delinquent loans as a percentage of loans decreased from 2.01% in 2009 to 1.87% in 2010. The net charge-off ratio decreased from 0.66% in 2009 to 0.60% in 2010. Effective lending and collection practices assisted in maintaining the delinquency and net loan loss ratios.
- Cash and investments totaled \$3.8 billion in 2010, representing 18.5% of total assets. The breakdown by major investment categories was:
 - 35% of the investments in commercial banks, savings banks and mutual savings banks.
 - 33% in available-for-sale securities.
 - 22% in corporate and other credit unions.
 - 10% in held-to-maturity securities and other investments.
- Additional information about credit union performance may be found in the year-end 2010 Credit Union Bulletin, available from the Office of Credit Unions and on the Department of Financial Institutions' website: www.wdfi.org.

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. It manages registrations and notice filings for offerings. The division registers broker-dealers, securities agents, investment advisers and investment adviser representatives and monitors their activities through examinations. It also investigates complaints and, if violations are found, initiates the appropriate administrative, injunctive or criminal action.

2009-2011 Key Accomplishments/Activities

- In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act transferred authority to regulate “mid-sized advisers” to the states from the U.S. Securities and Exchange Commission. This change takes effect March 2012, but the Division has already begun building the framework to incorporate these advisers into its regulatory program. The impact of this transfer will be the addition of 122 investment advisers to the Division’s regulatory program.
- The Bureau of Professional Registration and Compliance oversees the registration of securities broker-dealers, investment advisers and their staff members. Registration totals as of December 31, 2010 were:
 - 1,820 broker-dealers, a decrease of just under 1% from 2009.
 - 117,385 securities agents, an increase of 4.8% from 2009.
 - 111,263 securities agents renewed for 2011, a 6.9% increase over 2010.
- In 2010, the Division staff conducted reviews at 60 investment advisers and 40 broker-dealers, noting 98 significant deficiencies.
- As of December 31, 2010, the number of mutual funds filed in Wisconsin increased to 21,227, an all-time high.
- In 2010, the Division – through its affiliation with the North American Securities Administrators Association (NASAA) – reached a settlement in the Auction Rate Securities (ARS) case with the 10 of the largest broker-dealer firms in the U.S. In these settlements, the broker-dealers who sold ARS products to Wisconsin investors – allegedly without adequate disclosures – agreed to repurchase millions of dollars of ARS securities from retail as well as small business investors. The broker-dealer firms also agreed to pay penalties to Wisconsin totaling \$3.96 million. An additional NASAA enforcement case against a licensed broker-dealer firm for securities activities nationally by its unregistered “client associates” resulted in a penalty of \$327,000 to Wisconsin.
- In 2010, the Division’s administrative actions against unregistered persons resulted in approximately \$806,000 in rescission offers.
- Restitution orders from criminal cases in 2010 exceeded \$1.9 million for residents of Wisconsin.

Key Accomplishments: Office of Financial Literacy

David Mancl, Director

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

2009-2011 Key Accomplishments/Activities

- Governor Scott Walker created the Governor's Council on Financial Literacy on April 6, 2011, with the charge to measurably improve financial literacy in Wisconsin. Executive Order #24 specifies that the Department of Financial Institutions will act as executive director of the council and the council will:
 - Collaborate with the Office of the Commissioner of Insurance, and other government agencies, private entities and non-profit organizations.
 - Focus on the promotion of financial literacy.
 - Encourage Wisconsin's K-16 education system, businesses, community organizations and government agencies to implement financial literacy.
 - Consider and implement research and policy initiatives that provide effective and meaningful results.
- Money Smart Week, a financial literacy awareness and education campaign done in partnership with the Federal Reserve Bank of Chicago, was held in 2009 and 2010. The 2010 campaign grew in popularity compared to the 2009 event:
 - The number of regional teams grew by 29% to 27.
 - The number of partners increased by 170% to 2,811.
 - Attendance jumped by 21% to 12,543.
- In 2010 and the first six months of 2011, the Office of Financial Literacy participated in 19 events involving Wisconsin's Native American communities.
- More than 270 educators attended one or more of the five courses offered through the National Institute of Financial and Economic Literacy training during the biennium. Since the inception of the NIFEL training in 2001, nearly 700 educators have participated and more than 400,000 students have been taught by NIFEL-trained teachers.
- DFI worked with a team of public and private partners to promote financial literacy in the workplace with the Investor Education in the Workplace™ initiative. Nearly 100 public and private organizations and 3,520 of their employees state participated in the program.
- The Office of Financial Literacy continued its commitment in 2009-10 to *The Money Conference*. The one-day program, created by OFL in 2001, provides impartial financial education for low- to moderate-income families and attracted 2,200 people combined to the two annual events. Overall the event has helped over 9,500 youth and adults gain financial education in seven communities (Fox Cities, Madison, Milwaukee, Racine/Kenosha, Shawano/Menominee Counties, Wausau and in 2009 Red Cliff/Bayfield).