Office of Financial and Insurance Regulation

Ottawa Building, 611 W. Ottawa St., Lansing, Michigan

WHO WE ARE

OFIR is an exclusively fee-funded financial service regulator, requiring no General Fund dollars for its regulatory and consumer assistance activities.

OFIR currently has 337 employees, who are responsible for regulating:

- Blue Cross Blue Shield
- Health maintenance organizations
- Domestic (Michigan based) insurance companies
- Foreign insurance companies
- State-chartered banks and savings banks
- State-chartered credit unions
- Mortgage and consumer finance companies
- Individual mortgage loan originators
- Insurance agents

OFIR MISSION & GOALS

MISSION STATEMENT

- The Michigan Office of Financial and Insurance Regulation (OFIR) grows Michigan by creating a regulatory climate that promotes consumer protection and education and ensures the financial services industries are safe and sound, and entitled to the public trust.

GOALS

- Educate, empower, and protect consumers.
- Ensure institutional safety and soundness, and solvency while maintaining a regulatory environment that fosters a competitive financial services industry.
- Foster public confidence in the industries, institutions, and individuals coming under our purview.
- Ensure that industries, institutions, and individuals comply with applicable laws and rules.
- Work to make health care coverage more accessible and affordable.
- Develop, empower, and retain a 21st century workforce.
- Make home and auto insurance coverage more accessible and affordable

OFIR'S CUSTOMERS

OFIR has a variety of customers, including:

- Michigan citizens
- Michigan legislators and the Governor
- Other state departments and agencies
- Insurance carriers (including Blue Cross Blue Shield of Michigan, HMOs, MEWAs, surplus lines insurers, third party administrators, and alternative finance delivery systems)
- Insurance agents
- Financial institutions (banks and credit unions)
- Federal financial institution regulators and insurers
- Consumer lenders
- National regulatory associations with which OFIR participates

OFIR ORGANIZATION

OFIR is organized into nine divisions:

- Consumer Services
- Bank and Trust
- Consumer Finance
- Credit Union
- Insurance Evaluation
- Insurance Rates and Forms
- Insurance Licensing and Market Conduct
- Policy
- Office of General Counsel

Consumer Services Division

Assists consumers and raises awareness about OFIR and the financial industries we regulate

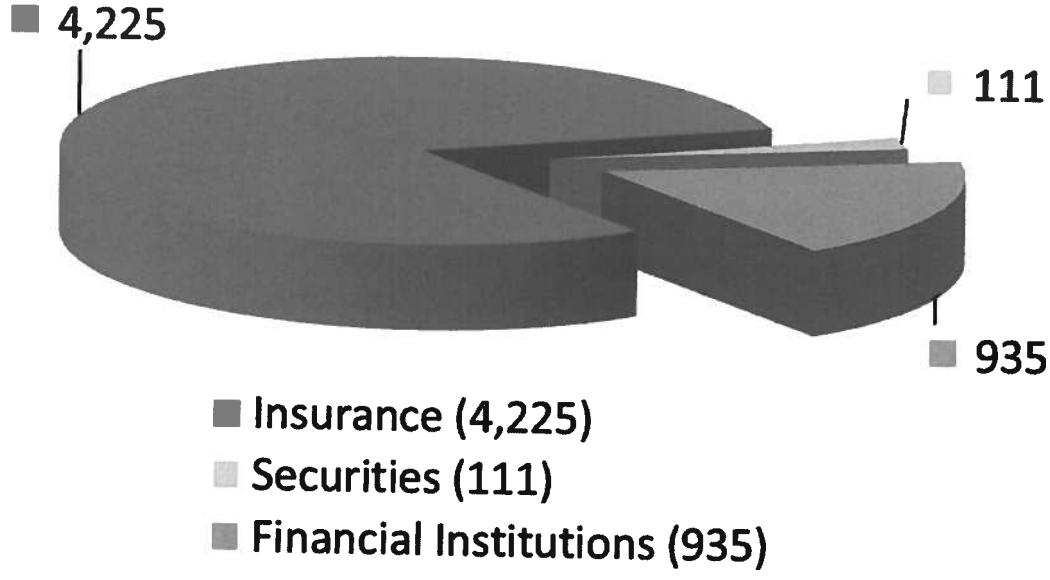
Consumer Services Division Overview

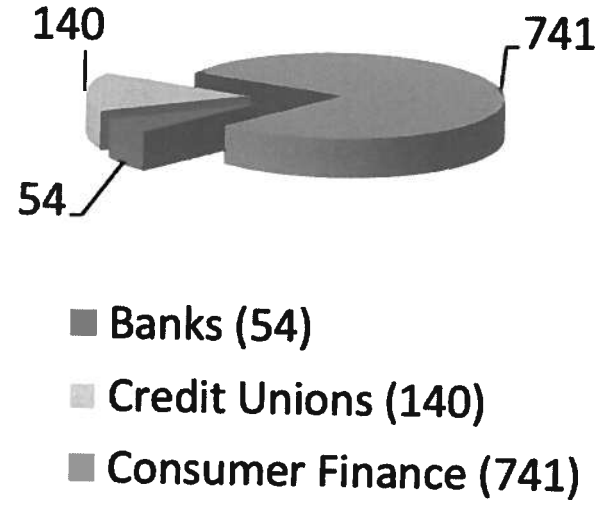
- The Consumer Services Division assists consumers who have questions or complaints involving the entities OFIR regulates
- Consumer support includes:
  - 6 customer service representatives and
  - 12 consumer complaint analysts
- Consumer Services leads OFIR's continuing effort to increase public awareness and understanding of the agency's services
- The division's Consumer Outreach Program provides statewide financial education and informational seminars for Michigan consumers at various community locations
- Public financial literacy campaigns are achieved through the collaborative and coordinated effort of organizations across the state including other state and federal agencies, schools, libraries, non-profits, and community groups

Consumer Services Division Working for Consumers

During 2012, OFIR:

- Answered nearly 86,000 consumer calls
- Responded to more than 5,200 consumer complaints
- Recovered more than $9 million on behalf of consumers





Note: The Securities Division moved to LARA's Corporations, Securities, and Commercial Licensing Bureau effective November 5, 2012.

Consumer Services Division
Consumer Outreach

Consumer Outreach Program goals include:

- To provide outreach in every county in the state
- To engage Michigan communities in the financial education process while raising awareness about OFIR and the financial industries we regulate
- To create a state where consumers are informed on making smart financial decisions, able to identify and protect themselves against fraud, and improve their lives financially

Consumer Outreach Program campaigns include:

- OFIR Public Library Tour – Statewide financial literacy events held at Michigan libraries
- Money Smart Week – OFIR co-hosts a week-long series of financial literacy events at various locations in southeast Michigan.
- Health Fairs – OFIR sponsors exhibit space at various health fairs held throughout the state, which is an opportunity to provide a mass level of outreach to Michigan consumers

Bank and Trust Division

Regulates, examines and supervises Michigan's state-chartered banks, savings banks, and Business and Industrial Development Companies (BIDCOs)

Bank and Trust Division
Regulatory Overview

- Banks and savings banks have a choice of state or federal charter
- 80% of banks headquartered in Michigan are state-chartered and regulated by OFIR
- Those that hold deposits from the public must, by law, insure them with the Federal Deposit Insurance Corporation (FDIC)
- As of December 31, 2012, the division regulates:
  - 104 FDIC-insured banks and savings banks,
  - 5 uninsured (trust-only) state-chartered banks,
  - 2 BIDCOs
- The Bank and Trust Division derives its authority from:
  - Michigan Banking Code, 1999 PA 276
  - Savings Bank Act, 1996 PA 354
  - Michigan BIDCO Act, 1986 PA 89
- Funding for the division is provided exclusively through supervisory and activity fees paid by state-chartered banks, savings banks, and BIDCOs
- OFIR's Bank and Trust Division has been accredited by the Conference of State Bank Supervisors (CSBS) since 1986

Bank and Trust Division Examination Program

- Bank examiners regularly conduct statutorily-mandated safety and soundness examinations and off-site monitoring of state-chartered banks and savings banks

- On-site examinations are conducted at 12- or 18-month intervals, depending on the asset size of an institution, its longevity, and the rating from its previous examination

- Examinations enable bank regulators to assign formal ratings to banks based on their capital adequacy, asset quality, management, earnings, liquidity, and sensitivity (CAMELS), with a rating of "1" indicating a sound operation and "5" denoting serious problems that endanger the viability of an organization

- OFIR's regulation of insured state banks is accomplished in cooperation with the FDIC and the Federal Reserve through formal alternate and joint examination programs

Bank Ratings Trends

CAMELS composite rating of 3, 4 or 5

- 35 at year-end 2012 (9)
- 47 at year-end 2011 (16)
- 46 at year-end 2010 (17)
- 48 at year-end 2009 (18)
- 41 at year-end 2008 (13)
- 18 at year-end 2007 (2)
- 8 at year-end 2006 (1)

Bank and Trust Division
Financial Regulatory Reform and Community Banking

Dodd-Frank Wall Street Reform and Consumer Protection Act

Designed to (among other things):

- Promote financial stability
- End "too big to fail" and bailouts
  - Resolution plans for systemically important financial institutions (SIFIs) and insured depository institutions (IDIs) with >$50 billion in total assets
- Protect consumers from abusive financial services practices
  - Consumer Financial Protection Bureau (CFPB)
- Impacts all financial services sectors to some degree
- 398 required rulemakings
  - 148 finalized
  - 121 proposed
  - 129 not yet proposed

Local, Community Banking

- Tradition, characteristics
- Critical to rural and smaller communities
- Relationship bankers
- Economic driver - banks with less than $10 billion in total assets hold under 20% of total industry assets but more than half of all small business loans
  - Small businesses employ half of all private sector employees
- Important lenders in mortgage market
- Disparate impact of compliance burden - quantifiable

Bank and Trust Division
Industry Concerns
Uncertainty

Federal Regulatory Environment

- Rules, rules and more rules
- Trickle-down of expectations designed for the largest, most complex banks in the country
  - Basel III capital and liquidity standards
  - Stress testing
- Emphasis placed on various federal regulations
  - Bank Secrecy Act
  - Community Reinvestment Act
  - Compliance
- The significant resources – in time and expense - necessary to comply with the ever-evolving web of federal rules, regulations and expectations

Economic Conditions

- Overall loan demand is soft with aggressive competition for borrowers
- Businesses generally hesitant to invest in equipment or expand operations
- Prolonged low interest rate environment

Bank and Trust Division Staffing

- 10-year turnover trend
- $250,000
- Restricted ability to contract with former bank examiners

Michigan-Chartered Banks
Industry Financial Trends

	9/30/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Number of Insured State-Chartered Banks and Savings Banks in Michigan	105	106	109	117	129	133	137
Consolidation within Michigan Charters: 18		*1*	*4*	*8*	*2*	*3*	
Moved Headquarters/Merged Out of State: 2				*1*		*1*	
Charter Conversion: 1					*1*		
Closed (Total Assets $4.8 Billion): 11	*1*	*2*	*4*	*3*	*1*		
Total Assets (Billions)	$47.0	$46.4	$47.5	$50.4	$108.0	$106.7	$159.5
Net Loans (Billions)	$29.7	$30.2	$31.9	$35.8	$76.9	$82.0	$123.1
Total Deposits (Billions)	$39.0	$38.7	$39.5	$40.6	$80.9	$80.0	$125.0
Profitable	95.24%	83.02%	63.30%	56.41%	57.36%	77.44%	93.43%
Return on Assets (Average)	1.70%	0.46%	-0.72%	-1.51%	-2.03%	0.83%	1.23%
Pretax Return on Assets (Average)	1.20%	0.51%	-0.56%	-1.56%	-2.69%	1.23%	1.74%
Return on Equity (Average)	16.74%	4.92%	-8.17%	-16.92%	-18.94%	7.38%	11.70%
Net Interest Margin (Average)	4.05%	4.13%	3.84%	3.55%	3.69%	4.01%	3.89%
Net Loan Charge-Offs to Loans (Average)	0.95%	1.83%	2.67%	2.23%	3.18%	0.62%	0.26%
Noncurrent (90+/NA) Loans to Loans (Average)	2.80%	3.45%	4.31%	5.01%	4.48%	2.19%	0.79%
Equity Capital to Assets (Average)	10.57%	9.63%	8.82%	8.37%	10.49%	10.86%	10.61%
Core Capital (Leverage) Ratio (Average)	9.50%	8.85%	8.08%	7.87%	9.40%	9.76%	10.02%
Total Risk-Based Capital Ratio (Average)	15.31%	14.37%	12.93%	11.72%	12.39%	11.07%	11.59%

Credit Union Division

Regulates, examines, and supervises Michigan state-chartered credit unions

Credit Union Division Regulatory Overview

- The Michigan CU Act was rewritten and extensively updated in 2003 – notable improvements included streamlining CU membership provisions, expanding CU powers, and strengthening OFIR regulatory authority.

- Several Federal CUs have moved to the state charter since passage of the new Act.

- OFIR Administers:
  - The Michigan CU Act (Act 215, Public Acts of 2003)
  - The CU Multiple Party Accounts Act (Act 41, Public Acts of 1968)
  - The Beneficiary Accounts in CUs Act (Act 31, Public Acts of 1992)
  - The Electronic Funds Transfers Act (Act 322, Public Acts of 1978)
  - Credit Union Rules R490.11 et seq.

Credit Union Division Regulatory Overview

- OFIR's Credit Union Division has been accredited by the National Association of State CU Supervisors since 1989, and was the first state CU regulatory agency to be accredited.
- OFIR examines each state-chartered CU every 12 to 18 months, depending on size and risk profile.
- Problem CUs are generally subject to quarterly onsite visitations, depending on risk profile.
- OFIR has involuntarily closed three institutions and assisted the voluntary liquidation of one institution since 2007.
- NCUA places substantial reliance on OFIR's examination and supervision programs in managing National CU Share Insurance Fund risk.
- NCUA and OFIR perform joint examinations on larger or problem institutions.
- Annual operating fees paid by Michigan state-chartered CUs fund OFIR CU regulatory activities - no General Fund resources are used.

Credit Union Division Industry Overview

- Michigan CUs can choose a state or Federal charter. OFIR only regulates state-chartered CUs – Federal CUs are regulated by the National Credit Union Administration (NCUA).

- All Michigan CUs must be Federally insured by the National Credit Union Administration (NCUA). (As noted above, NCUA also charters and regulates Federal CUs nationwide.)

- Michigan is 2rd nationally in total state-chartered CU assets with $31.2 billion.

- 62% or 190 of all 306 Michigan CUs are state-chartered, with 71% or $31.2 billion of total Michigan CU assets at Sept. 30, 3012. An additional $.9 billion in federal credit union assets converted or merged into the state charter after September 2012.

- Applications for conversion are currently under review for another 3 federal credit unions with $1 billion in assets and informal discussions are underway with another two institutions.

Credit Union Division Industry Overview

- Consolidation continues driving down the number of total charters across the country and in Michigan but assets under supervision continue to grow.
- The average size of a Michigan state-chartered CU is about $165 million.
- OFIR regulates CUs ranging in size from $200 thousand to over $3.2 billion in total assets .
- Michigan compares favorably to other states relative to the number of state charters vs. federal charters.
- Financial performance continues to improve with September 2012 ROAA of 1.03%, net worth of 10.92% and loan delinquency declining to 1.01%.
- The number and aggregate assets classified as problematic has declined substantially. Currently 38 institutions with aggregate assets of $2.4 billion, or less than 8% of aggregate assets, are rated a composite CAMEL 3, 4 or 5.
- CAMEL 4 and 5 rated institutions total $173 million. All institutions meet the definition of a "small" credit union of less than $30 million.

Michigan Credit Unions Economic Impact

- About 3.2 million Michigan citizens are state-chartered CU members.
- Michigan's chartered CUs have generally weathered the tough economy well with September 30, 2012 aggregate net worth over 10.9%.
- Michigan chartered CUs employ 7493 full-time and 1560 part-time employees.
- Michigan state-chartered CU loans exceed $16 billion at September 2012.
- Of that $16 billion, CUs hold:
  - $9.3 billion in real estate loans to support home ownership.
  - $4.2 billion in auto loans to support Michigan manufacturing.
  - $850 million in loan commitments to small businesses.

Credit Union Division
Industry Overview

Region	*Number of State Charters/Total CU Charters*	*Total Assets of State Charters/Total CU Charters*
Michigan	62%	71%
NCUA Region I	30%	43%
Nationally	38%	45%

Credit Union Division
Industry Overview

DATE	NO. OF CUs	ASSETS (000 OMITTED)	% QTRLY INCREASE ANNUALIZED	TOTAL DEPOSITS (000 OMITTED)	% LOAN DELINQUENCY TO TOTAL LOANS	NET INCOME AFTER COST OF FUNDS & PROV (000 OMITTED)	NET RETURN ON AVERAGE ASSETS	EQUITY TO ASSETS	NO. OF MEMBERS	INCREASE ANNUALIZED	TOTAL LOANS (000 OMITTED)	INCREASE ANNUALIZED
12/31/00	293	13,365,366	5.20%	11,564,325	0.80%	125,676	0.96%	11.96%	2,608	1.60%	8,974,652	10.10%
12/31/01	285	15,068,595	12.70%	13,217,524	0.92%	124,194	0.88%	11.49%	2,635	1.00%	9,442,680	5.20%
12/31/02	277	16,440,027	9.10%	14,374,412	0.94%	125,989	0.80%	11.28%	2,659	0.90%	9,881,631	4.60%
12/31/03	270	17,800,397	2.08%	15,470,960	0.99%	144,493	0.81%	11.25%	2,658	-2.39%	10,550,925	8.03%
12/31/04	258	18,992,098	15.40%	16,422,462	1.03%	141,644	0.75%	11.37%	2,722	7.94%	11,535,507	13.71%
12/31/05	245	19,170,921	0.09%	16,267,131	1.17%	126,101	0.66%	11.71%	2,723	-0.29%	12,376,302	5.69%
12/31/06	233	19,631,656	2.40%	16,538,354	1.14%	117,497	0.60%	12.17%	2,739	0.59%	12,824,592	3.62%
12/31/07	223	20,589,102	4.88%	17,485,268	1.39%	93,369	0.45%	12.13%	2,787	1.44%	13,244,635	0.40%
12/31/08	217	22,603,405	39.13%	19,205,176	1.71%	28,062	0.13%	11.51%	2,899	16.07%	14,520,884	38.54%
12/31/09	210	27,238,747	9.43%	23,236,467	1.92%	43,194	0.16%	10.78%	3,077	-1.81%	16,060,187	-0.19%
12/31/10	201	28,250,923	5.19%	24,343,305	1.63%	97,135	0.35%	10.41%	3,072	-1.94%	15,873,334	-2.19%
12/31/11	194	29,692,686	7.03%	25,617,018	1.39%	183,649	0.62%	10.62%	3,105	9.23%	15,906,263	6.90%
09/30/12	190	31,263,013	-1.26%	26,886,826	1.01%	241,694	1.03%	10.92%	3,162	2.42%	16,332,446	5.68%

Consumer Finance Division

Licenses, registers, examines, and investigates mortgage and consumer finance companies and individuals

Consumer Finance Division Regulatory Overview

- The Consumer Finance Division is responsible for licensing, registering, examining, and investigating mortgage companies, individual mortgage loan originators, and consumer finance companies

- The division includes the Mortgage Examination and Investigation Section and the Consumer Finance Section (consisting of the licensing unit and the consumer finance examination unit)

- Funding for the division is provided by the industries it regulates through license and registration application fees, renewal/activity assessments, examinations fees, and enforcement fines

- The Consumer Finance Division derives its authority from:
  - Mortgage Brokers, Lenders, and Servicers Licensing Act, 1987 PA 173
  - Mortgage Loan Originator Licensing Act, 2009 PA 75
  - Secondary Mortgage Loan Act, 1981 PA 125
  - Deferred Presentment Service Transactions Act, 2005 PA 244
  - Money Transmission Services Act, 2006 PA 250
  - Motor Vehicle Sales Finance Act, 1950 PA 27
  - Debt Management Act, 1975 PA 148
  - Regulatory Loan Act, 1939 PA 21
  - Consumer Financial Services Act, 1988 PA 161
  - Credit Card Arrangements Act, 1984 PA 379
  - Chapter 15 of Insurance Code of 1956, 1956 PA 218

Consumer Finance Division
Mortgage Examination and Investigation Section

Regulates the mortgage industry by:

- Conducting examinations and investigations of mortgage brokers, mortgage lenders, mortgage servicers, and mortgage loan originators to ensure compliance with law and to protect consumers
- Conducting investigations of unlicensed mortgage entities and loan originators
- Conducting investigations of complaints
- Participating on mortgage fraud task forces with law enforcement agencies
- Initiating enforcement actions (revocation, suspension, fine, settlement agreement, memorandum of understanding, prohibition, etc.) against companies and individuals that violate laws and abuse borrowers

Consumer Finance Division
Consumer Finance Section

Regulates the consumer finance industry by:

- Investigating mortgage and consumer finance applications for licensure, registration, renewal, ownership transfer, and amendments
- Conducting examinations and investigations of regulated consumer finance entities to ensure compliance with law and protect consumers
- Analyzing information gathered through mandated filings of annual reports and financial statements by licensees and registrants
- Conducting investigations of unlicensed consumer finance business activity
- Conducting investigations of complaints
- Initiating enforcement actions against licensees and registrants based on the results of examinations and investigations

Consumer Finance Division Industry Overview/Concerns

- As of December 31, 2012, the Consumer Finance Division regulates:
  - 18 consumer financial services,
  - 2 credit card,
  - 37 debt management,
  - 645 deferred presentment,
  - 57 insurance premium finance,
  - 58 money transmitter,
  - 1,730 motor vehicle installment seller,
  - 656 sales finance,
  - 38 regulatory loan,
  - 589 first mortgage,
  - 208 second mortgage companies, and
  - 5,751 individual mortgage loan originators

Industry Concerns:

- Interpreting and complying with over 4,000 pages of new rules issued by the federal Consumer Financial Protection Bureau (CFPB) pursuant to the Dodd-Frank Act
- Adjusting to the increasing costs and regulation associated with these new rules
- Unlicensed internet lending

Consumer Finance Division Legislative & Division Goals

Legislative goals:

- Simplify the statutory framework in the mortgage program by combining the first mortgage and second mortgage statutes and removing registration provisions
- Modernize various consumer finance statutes including the Deferred Presentment Service Transactions Act, Money Transmission Services Act, and Motor Vehicle Sales Finance Act

Division goals:

- Successfully complete the American Association of Residential Mortgage Regulators (AARMR) and Conference of State Bank Supervisors (CSBS) Mortgage Accreditation Program
- Expand utilization of the electronic CSBS Nationwide Mortgage Licensing System & Registry to other division programs

Office of Financial and Insurance Regulation

CONTACT INFORMATION:

Toll Free: 1-877-999-6442

Local: 1-517-373-0220

Internet: www.michigan.gov/ofir

Mail: OFIR
P.O. Box 30220
Lansing, MI 48909-7720