# 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**

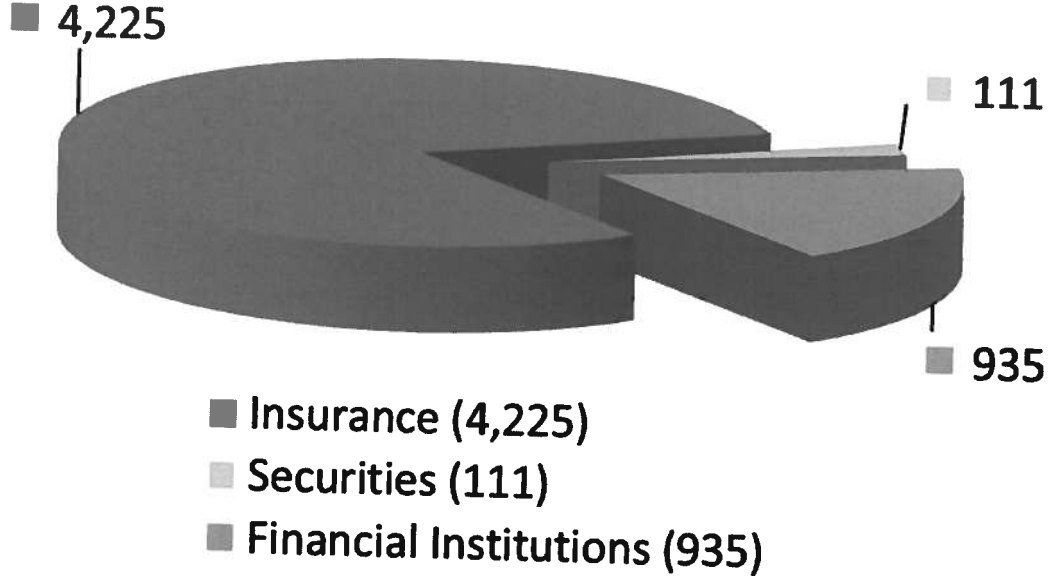
# Consumer Services Division Overview

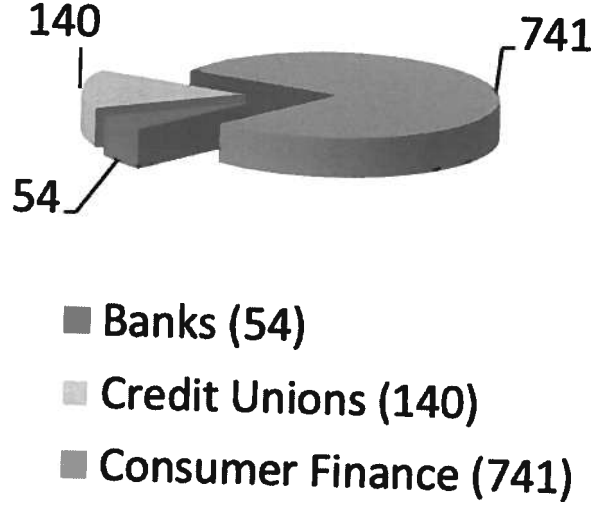
- The Consumer Services Division assists consumers who have questions or complaints involving the entities OFIR regulates
- Consumer support includes:
  - 6 customer service representatives and
  - 12 consumer complaint analysts
- Consumer Services leads OFIR's continuing effort to increase public awareness 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

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