John Snider

Sunset Commission Written Testimony – Thursday, May 24th

Chairman Birdwell, Vice Chairman Paddie and Commission Members, my name is John Snider. I am the Vice Chairman and retired CEO of Shelby Savings Bank in Center, Texas. I was also a Finance Commission Member from 1998 through 2009 and served as Chairman of the Commission from 2006 through 2009.

Thank you for the opportunity to speak concerning the Sunset Advisory Commission Staff Report. I can tell from reading the report that a lot of research and effort was involved in preparing it. I commend the staff on their insight and beneficial recommendations. Many of the recommendations for best practices, updating performance measures, license terms, appeal processes and other items will be beneficial for both the Agencies and their regulated parties.

There are also a few recommendations that cause me concern. Today, I would like to address my primary concern, which is the recommendation to merge the duties and responsibilities of the Department of Savings & Mortgage Lending into the Texas Department of Banking.

I want to begin by discussing several of the Sunset Staff's comments. I quote, "Since their last Sunset review 17 years ago, the three finance agencies have weathered the storms of the financial crisis well and maintained transparent accountable practices even with recent decreased legislative oversight." Again, I quote, "Sunset staff found the agencies have adapted well to the increased flexibility the Legislature granted in 2009 by removing them from the appropriations process through self-directed semi-independent status." I would also make note of the fact that it has been 17 years since the Finance Commission and its agencies had a Sunset review. This does not sound like a Commission or agencies that have caused the Legislature worry or concern. Evidently, they have just been quietly doing their jobs.

The staff report prefaces their consolidation recommendation by referring to finding opportunities for smaller, smarter government. Smaller government, maybe, one agency goes away, but another gets larger. There are no fiscal savings to the state since the regulated entities pay all of their regulatory costs. Smarter government? If you have a regulatory structure that even the

Sunset staff noted, functioned as intended through one of the worst financial crisis in recent history, why is it smarter to disrupt it? As a shareholder and director of an institution that has thrived and served its rural communities under this regulatory structure, I really question this recommendation.

The staff report indicates consolidation will save the Finance Commission agencies at least $6.9 million over the next five years. This sounds great, but I have seen many mergers over the years that forecast cost savings that never happened or at least not to the degree forecast. If the regulated entities are willing to pay the cost of their regulation and already have some of the lowest regulatory costs in the nation, is this really an issue?

The staff report notes that the Dodd-Frank bill merged the Federal Thrift Regulator (OTS) into the National Bank Regulator (OCC). Yes, Dodd-Frank did merge the OTS into the OCC. At the time this occurred, Texas had 19 federal thrift charters. Five converted to a State Savings Bank to maintain a thrift regulator. Of the remaining 14 charters, only 5 exist today. The other 9 are gone. This appears to be a pretty successful pattern on how to eliminate thrift charters.

The staff report states the recommendations, including consolidation, are expected to reduce costs to the industries regulated by SML but would have no fiscal impact to the state. Yet the report says State Savings Banks costs will be approximately $5,000 more on average. In addition, both the state savings banks and the mortgage industry enjoy some of the lowest regulatory costs in the nation. Again, I must ask the question, if the regulated entities are willing to pay their regulatory cost for a separate agency, what does it matter?

The staff report notes that no other state regulates banks (makes no distinction between banks and thrifts) with two separate state agencies. If our Texas system works, why do we want to be like California, New York or other states. Is it not more important that the system works? If this is a key factor that must be considered, can we at least be consistent? Only two other states (Alabama and Kansas) have a separate credit union regulator. Yet, staff recommends continuing ours. Only three other states (Maine, Oklahoma and South Carolina) have a separate consumer credit regulator. Yet, staff recommends continuing ours.

Our shareholders and board determined that the Texas Savings Bank charter was the best fit for the needs of our rural East Texas market. Because of this decision we converted to this charter in 1994. It has met our needs and our market's needs ever since. With the guidance of the DS&ML we have weathered the down turns and various crisis over the years. We are very confident the agency is capable of guiding us into the future.

My question for you is, who benefits from consolidation? The agencies are self-funding self-leveling, therefore there is no fiscal benefit for the state. The state savings bank charters lose a regulator dedicated to supporting real estate based lending, we lose joint examination cycles where the SML and FDIC perform joint safety and soundness examinations, we lose a SML certified compliance examiner in with FDIC compliance examination teams, we lose a regulator who is small enough to know who we are and what we do and the SSB charters will face an increase in costs.

One final point. All three of the trade associations representing a majority of the SML regulated industries, TBA, IBAT and TMBA have submitted comment letters that state they do not support the consolidation of these agencies.

The recommendation to merge the agencies was included in the Sunset staff report during the Finance Commission and agencies last Sunset review 17 years ago. The Sunset Commission and Legislature were wise enough to keep a successful regulatory structure then, and I urge you to continue this structure now.

Thank you.