supervisory agencies, the S&L supervisor would need only make limited additions to the existing examiner force to assume full examination responsibility.

Audit Reports

An additional tool available to the S&L supervisor, but largely untapped, is the S&L's own independent audit. Each state chartered S&L is required by statute to have a CPA conduct an annual independent audit. To the extent that the auditor could be required and assisted in checking for compliance with lending plans and other requirements of the law, the audit could be reviewed by the S&L Division to assess the operations of the S&L. At present, there is no regularity in the attention paid by auditors to these state regulations and statutes. Some S&L's report that the independent auditor does examine the lending plan and other aspects of operation which would be of interest to the division while others report that the audit is strictly geared to the financial condition of the association.

One difficulty in expanding the audit as suggested above is the absence of uniform published state regulations and guidelines to assist the auditor.

It is recommended that the S&L supervisor develop standards, guidelines and forms for S&L auditors in order that the audit might provide certain additional information to further reduce the need for frequent state examinations.

Condition Reports

At the end of the fiscal year, each state chartered S&L is required to complete a full detailed report of its business during the year and of its condition at that date. Condensed statements of assets and liabilities as of June 30 and December 31 must also be filed and published by the association in a local newspaper.

As in the case of bank call reports, the LSBD is required to publish the condensed S&L statements of condition twice a year. Although limited use is made of these publications, their preparation contributes heavily to the workload of the division. Each of these reports is about 75 pages in length.

It is recommended that publication of these semiannual reports of condition by the banking department be discontinued but that a copy of the condensed statement be retained in the division and made available for public inspection.

Credit Union Division

The department supervises 102 state chartered credit unions under the Louisiana Credit Union Law. The division operates from the New Orleans office of the department and requires one full-time bank examiner position. The duties of this position include investigating charter applications, assisting in incorporations, and performing annual examinations of each credit union.

The powers of the commissioner to regulate credit unions are extensive. He may assume management when reports or fees have not been remitted or for insolvency or failure to follow an order to desist from a violation of the law. The commissioner may later return control of the union or revoke its certificate and liquidate it. In practice, the commissioner's authority regarding credit unions has been delegated to the deputy supervisor. The Credit Union Division operates as a unit under the general supervision of the deputy supervisor, although the credit union examiner is considered the administrator of the division.

Condition Reports

At the end of the fiscal year, each state chartered S&L is required to complete a full detailed report of its business during the year and of its condition at that date. Condensed statements of assets and liabilities as of June 30 and December 31 must also be filed and published by the association in a local newspaper.

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It is recommended that publication of these semiannual reports of condition by the banking department be discontinued but that a copy of the condensed statement be retained in the division and made available for public inspection.

Credit Union Dissolution Rates

When a credit union voluntarily terminates its operations or is involuntarily terminated by action of the banking department, the commissioner assigns a liquidating agent to supervise the liquidation. In the past 10 years an average of 1 state credit union a year has been liquidated with only 1 failing to pay back 100 percent of its shares.

In contrast, 102 federal credit unions were liquidated between 1960 and 1970 for an average of 10 a year.

Credit Union Examination

The required annual examination is designed to ascertain the financial condition of the credit union and its compliance with the statutes and regulations, and its bylaws and articles of incorporation.

The examination form provides for a balance sheet audit, an assessment of size of the group usually requires that management be on a part-time basis.

Credit Union Growth

The expansion of credit unions in Louisiana has shown a greater tendency towards federal rather than state charters. In 1960 state credit unions numbered 100 with assets totaling $18.8 million. In 1970, liquidations had balanced new charters to maintain the number of unions at 100; however, assets had risen by 150 percent to $47.3 million. In 1960, active federal credit unions numbered 269 with assets of $49.2 million. By 1970, there were 369 federal credit unions with total assets of $164.5 million—an increase of 235 percent over the 1960 figure.

Credit Union Dissolution Rates

When a credit union voluntarily terminates its operations or is involuntarily terminated by action of the banking department, the commissioner assigns a liquidating agent to supervise the liquidation. In the past 10 years an average of 1 state credit union a year has been liquidated with only 1 failing to pay back 100 percent of its shares.

In contrast, 102 federal credit unions were liquidated between 1960 and 1970 for an average of 10 a year.

Credit Union Examination

The required annual examination is designed to ascertain the financial condition of the credit union and its compliance with the statutes and regulations, and its bylaws and articles of incorporation.

The examination form provides for a balance sheet audit, an assessment of
compliance with reserve requirements and a listing of loss risk loans. The form does not specifically require full analysis of internal controls, lending policies or collection procedures. However, it is expected that the examiner will assess these aspects of operation during the examination.

Where criticisms are made, re-examinations are conducted to verify that critical problems are remedied.

The nature of the examination is not as technically complicated as a bank examination. However, a major function of the examiner is assisting the part-time and largely amateur loan officers in improving the management of the unions. The amateur, part-time nature of the management also renders it impossible to make surprise audits as times must be prearranged to meet the work schedules of the officers. The time involved in examination is often in inverse relation to credit union size—the smaller unions require more assistance and supervisory effort.

In addition to the examination, each credit union must prepare a year-end report of its business during the year and a statement of its financial condition as of that date. These reports are condensed by the department but are not published.

The single state examiner is responsible for 102 credit unions with total assets of $53.3 million while his federal counterparts in the state are each responsible for only about 50 credit unions with $20 million in assets.

NCUA Acceptance of State Reports

In 1970 insurance of credit union shares was made available under the administration of the NCUA. This development is expected to provide impetus for the growth of state and federal credit unions.

Under the new federal legislation all federal credit unions were required to become eligible for insurance and were given 2 years to meet the qualifications or face dissolution. Less than 20 of the federal credit unions have not as yet qualified and are operating under provisional insurance. Federal insurance was also made available to state chartered credit unions, but only about 16 of the 102 have thus far accepted the option and qualified with the NCUA.

The investments of those members of state chartered credit unions should be as secure as those of federal credit union members.

It is recommended that the statutes be amended to require all state chartered credit unions to obtain federal insurance of shares, to provide a 2-year grace period in which existing credit unions might qualify for insurance, and to require that all new charter applicants qualify for insurance prior to certification by the department.

The NCUA has been accepting state examinations of insured state credit unions for insurance purposes and also will accept state surveys of chartering groups. This policy is expected to be continued in the future. The absence of direct dual supervision, which exists in the case of other types of nationally insured state institutions, requires that a strong and effective examination and supervisory effort be maintained at the state level.

Division Status and Staffing

The Credit Union Division currently operates as a subunit under the deputy supervisor whose major responsibility is the supervision of S&L’s which, in a

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Licenses</th>
<th>Amount of Loans (In Millions)</th>
<th>No. of Loans</th>
<th>Average Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>456</td>
<td>$57.1</td>
<td>290,121</td>
<td>$196.68</td>
</tr>
<tr>
<td>1961</td>
<td>486</td>
<td>57.6</td>
<td>291,278</td>
<td>197.87</td>
</tr>
<tr>
<td>1962</td>
<td>527</td>
<td>57.4</td>
<td>292,933</td>
<td>195.84</td>
</tr>
<tr>
<td>1963</td>
<td>566</td>
<td>55.8</td>
<td>285,390</td>
<td>195.14</td>
</tr>
<tr>
<td>1964</td>
<td>632</td>
<td>55.1</td>
<td>278,839</td>
<td>197.92</td>
</tr>
<tr>
<td>1965</td>
<td>792</td>
<td>55.1</td>
<td>278,495</td>
<td>197.21</td>
</tr>
<tr>
<td>1966</td>
<td>915</td>
<td>54.9</td>
<td>262,629</td>
<td>197.93</td>
</tr>
<tr>
<td>1967</td>
<td>941</td>
<td>51.9</td>
<td>249,656</td>
<td>231.84</td>
</tr>
<tr>
<td>1968</td>
<td>942</td>
<td>57.9</td>
<td>230,554</td>
<td>201.94</td>
</tr>
<tr>
<td>1969</td>
<td>928</td>
<td>46.6</td>
<td>195,760</td>
<td>205.05</td>
</tr>
<tr>
<td>1970</td>
<td>894</td>
<td>40.1</td>
<td>167,761</td>
<td>200.69</td>
</tr>
<tr>
<td>1971</td>
<td>857</td>
<td>33.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is further recommended that the division should become a member of the National Association of Credit Union Supervisors, and the deputy supervisor should be considered the delegated credit union supervisor for Louisiana.

Considering the workload, the need to train a future replacement for the present examiner, and the need to allocate more time to assisting credit union management and to following up criticisms resulting from examinations:

It is recommended that the credit union field staff be increased to 2 examiners.

SMALL LOAN DIVISION

The Small Loan Division supervises the 857 businesses currently licensed to make loans of $300 or less. The demand for small loan licenses was very strong through the 1960's until 1967 when the number of licenses began to decline. In the period between 1960 and 1967 the number of licenses doubled while the annual dollar amount of small loan activity remained about constant. Since 1968, the amount of small loans has dropped sharply. (See Table 6.)

As the small loan business has decreased there has been a considerable reduction in the number of licenses and relatively few applications for new licenses. Three factors contributing to the lower level of activity have been increased costs of money together with
the small loan interest ceilings and the increasingly aggressive position taken by banks in the installment loan field. Licensing, at present, is a rather routine procedure. The applicant files the proper papers, including 3 letters of reference for each principal of the firm involved, and a 20-day notice is given by the department. If there is no complaint filed during that time, the license is granted by the commissioner. Only a few applications have been denied in the past 4 years.

The decline of the small loan business has, in recent years, eliminated the potential of irregularities in the granting of licenses which were alleged to have occurred in earlier years. Should future legislation expand supervision beyond the present $300 loan limit, the licensing procedure might again become susceptible to irregularities. The only safeguards suggested in this report are the general recommendations relative to increasing the stature of the commissioner's position.

The division is under the direction of the executive assistant who is also responsible for general administrative services. The division consists of 5 examiners—one Bank Examiner IV position and 4 Bank Examiner III positions. The size of the examiner force has been static and is projected to remain so. The incumbent examiners are career men, and there has been essentially no turnover in these positions. These examiners have been with the department an average of 12 years each.

The small loan examination is basically a routine procedure. Finance companies are required to maintain separate sets of books for loans under $300 and must keep 8 different records on each loan. The examiner checks the loan ledger cards for errors or interest charges exceeding the legal limits. He also checks for other provisions of the law, particularly that prohibiting 2 loans of $150 to the same party to avoid the lower interest limit which is set for the portion of a loan which exceeds $150.

The small loan examination does not appear to require the level of judgment demanded by the supervision of banks, savings and loans or credit unions. A civil service job audit preceding the recommended upgrading of the examiner position may provide grounds for creating a differential in the examiner position by division, for example, by limiting small loan examiners to certain steps within the job classification.

Multiple Supervision

Under existing state laws a given finance company may be licensed by 3 different state agencies. The Small Loan Act requires the company to obtain a license from the banking department if it is making loans of up to $300. If the company also makes loans above $300, it must be licensed by the revenue department under the Occupational Licensing Law. There are currently no regulations concerning discount loan activities; therefore, the revenue department has no supervisory responsibility. Consumer complaints related to discount loans are often brought to the banking department; however, the department has been prohibited by an attorney general's opinion from investigating these complaints.

If a company also makes automobile loans of more than $300, it must be licensed under either the Motor Vehicle Sales Finance Act or the Direct Motor Vehicle Loan Act or under both of these acts. These acts are administered by the Motor Vehicle Commission. The Motor Vehicle Commission is an independent agency responsible for licensing motor vehicle dealers and salesmen and supervising motor vehicle finance activities of more than 700 licensees as regulated by law. The Sales Finance Division within the commission contains essentially all of the commission staff which consists of a chief examiner, 3 field examiners and 3 office personnel. The office personnel make sample examinations of microfilm copies of motor vehicle transactions obtained from the revenue department. The field examiners make sample checks in the field, particularly with respect to rebates on prepaid contracts. Each licensee is currently visited once a year.

The commissioner's administrator, whose staff approximates the Small Loan Division in size, receives a salary over $3,000 in excess of the bank commissioner's. As a nonbudgeted agency which is authorized to operate on income from license fees fixed by statute, the agency has developed a surplus which totaled more than a quarter of a million dollars in 1969.

The Motor Vehicle Commission licenses a number of companies which are not concurrently supervised by the Small Loan Division. To the extent that the licensing does overlap and to the extent that the licensees are located in the same general areas, the two agencies are duplicating a great deal of effort and travel expense.

The loan supervision functions of the two agencies are essentially similar consumer protection activities and should be administered by the same agency. The Motor Vehicle Commission should retain functions solely as an occupational licensing board and be placed within a major department responsible generally for similar functions.

It is recommended that the Sales Finance Division of the Motor Vehicle Commission be transferred to the LSBD and merged with the Small Loan Division to form a Consumer Finance Division under the direction of a deputy supervisor for credit unions and consumer finance.

The present administrative arrangement would have to be altered to separate into 2 jobs the functions of the executive assistant who is both the immediate Savings and Loan Division supervisor and the supervisor of administrative services in the Baton Rouge office. Under the recommended departmental reorganization the present position of executive assistant would be eliminated, and the functions of the position would be assumed by the commissioner, the deputy supervisor for consumer finance and the director of administrative services.

There have been a large number of bills related to consumer finance introduced in recent legislative sessions, many of which would require greater supervisory effort. The consumer finance industry has itself been pressing for extension of regulation to cover loans of up to $5,000. The merger of existing consumer protection functions would contribute to the future development of a major consumer oriented agency to accommodate additional responsibilities as they are provided.

It is recommended that the Consumer Finance Division resulting from the earlier recommendation be transferred from the LSBD at such time as a major consumer affairs agency is created.
SALE OF CHECKS DIVISION

The LSBD supervises the operations of all licensees under the Sale of Checks Act. The licensee is authorized to sell checks, money orders or other instruments for the transmission of the payment of money. As of December 1971, there were 50 licensees each paying an annual fee of $100 to the department for their license. Under the law, the licensees may have any number of branches or suboutlets without the payment of additional fees. These branches are usually located in places of business such as grocery and drug stores.

The department's total income from licenses in 1971 was $5,000; however, the administration of the act requires an estimated expenditure of more than $25,000 a year. This supervision requires one bank examiner to be in the field full-time examining, on a sample basis, the more than 1,800 places of business which are presently authorized to sell checks or money orders. The office staff must prepare and mail licenses and branch certificates, maintain records, and bill and collect fees annually.

The Sale of Checks Act does not belong under the supervision of the LSBD. It is essentially a licensing function which is not compatible with the other functions of the department. Furthermore, the type of examination involved does not require an examiner with the qualifications requisite for the position classification of bank examiner as envisioned in this report. Also, the Department of Revenue presently has investigators throughout the state and could assume the examination chores with a minimum of additional effort or expense.

Legislation was submitted in the 1969 and 1970 sessions to effect the transfer of the Sale of Checks Act to the Department of Revenue. The measure was strongly supported by the banking commissioner, and assurances were obtained from the Department of Revenue concerning its willingness to accept the responsibility. The legislation was killed in both sessions.

In addition to the present $100 per license, the proposed legislation would also have provided a $25 fee for each branch operated under that license. This would have corrected a present disparity between the income from licenses and the cost of supervision. In 1970, income from a single license ranged from $94 to $662,796, with the average income per license being $34,162. Obviously, additional branches require greater expenditure for supervision, and considering the income from the sale of checks, the additional fee is easily justified. Total earnings in 1970 by the licensees, which are for the most part corporations doing business nationwide, was over $1,600,000 with expenses running about 10 percent of their gross income. In neighboring Mississippi, 8 such companies are currently paying the maximum fee in that state of $500 for the privilege of having an unlimited number of branches.

It is recommended that the administration of the Sale of Checks Act be transferred to the Department of Revenue and that an additional fee per branch be assessed licensees.

FINANCING THE LSBD

The budget for the LSBD is provided by legislative appropriation from the state's general fund. Income generated from the acts administered by the department has, in the past 10-year period, exceeded total appropriations by $917,501. This surplus of nearly 20 percent has been retained in the general fund and expended for purposes unrelated to the supervision of those institutions against which the fees were assessed.

Due to the fee structure, which is fixed by statute, the department's income has exceeded its appropriation each year for more than 30 years. In fiscal year 1969-70 a departmental budget reduction of nearly $47,000 from the prior year provided the general fund with a surplus of nearly $113,000 for an increase of more than $60,000 above the prior year's surplus. (See Table 7.)

The major sources of department revenues, as shown in Table 8, include semiannual assessments of banks and S&L's determined from a sliding scale based on assets; fixed license and investigation fees for small loan companies with an examination fee based on the loan balance; examination fees for credit unions based on assets; and sale of checks license fees. Other income would include sale of publications and any penalties assessed for failure to comply with certain provisions of the law.

Support of LSBD by Type of Institution

With the adoption of new budget office forms for the fiscal year 1972-73 budget, the department has for the first time provided an allocation of expenses by division. The recent document allows a comparison to be made between divisional budget allocations and the revenues provided by the institutions supervised by those divisions. The comparison, shown in Table 9, indicates the extent to which these supervisory activities have been self-supporting.

Table 7.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fees Collected</th>
<th>Department Appropriations</th>
<th>Fees Over Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>$363,330</td>
<td>$266,498</td>
<td>$96,832</td>
</tr>
<tr>
<td>1962-63</td>
<td>396,509</td>
<td>275,366</td>
<td>121,143</td>
</tr>
<tr>
<td>1963-64</td>
<td>453,112</td>
<td>339,935</td>
<td>113,177</td>
</tr>
<tr>
<td>1964-65</td>
<td>494,578</td>
<td>364,978</td>
<td>129,600</td>
</tr>
<tr>
<td>1965-66</td>
<td>582,098</td>
<td>465,983</td>
<td>116,115</td>
</tr>
<tr>
<td>1966-67</td>
<td>631,242</td>
<td>591,177</td>
<td>40,065</td>
</tr>
<tr>
<td>1967-68</td>
<td>676,482</td>
<td>619,830</td>
<td>56,652</td>
</tr>
<tr>
<td>1968-69</td>
<td>717,118</td>
<td>684,807</td>
<td>33,311</td>
</tr>
<tr>
<td>1969-70</td>
<td>730,543</td>
<td>617,874</td>
<td>112,699</td>
</tr>
<tr>
<td>1970-71</td>
<td>757,995</td>
<td>679,057</td>
<td>78,938</td>
</tr>
<tr>
<td>10-Year Totals</td>
<td>$5,803,006</td>
<td>$4,885,505</td>
<td>$917,501</td>
</tr>
</tbody>
</table>
Three divisions have not been self-supporting for the 2 years shown. Revenues from banks averaged 85.5 percent of costs; credit unions, 60.2 percent; and sale of check companies, 19.6 percent. On the other hand, S&L fees averaged 148.5 percent of costs and small loan fees averaged 226.8 percent of costs. In effect, the S&L and small loan fees have been subsidizing fees on the other hand, S&L fees averaged 148.5 percent of costs and small loan fees averaged 226.8 percent of costs. In effect, the S&L and small loan fees have been subsidizing.

### Table 8. Sources of LSBD Income

<table>
<thead>
<tr>
<th>Income Source</th>
<th>Fiscal Year 1970-71 (Actual)</th>
<th>Fiscal Year 1971-72 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment Fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Chartered Banks</td>
<td>$331,035.00</td>
<td>$369,176.00</td>
</tr>
<tr>
<td>Homestead and Savings and Loan Associations</td>
<td>129,085.00</td>
<td>140,405.00</td>
</tr>
<tr>
<td></td>
<td>$460,120.00</td>
<td>$509,581.00</td>
</tr>
<tr>
<td>Small Loan Fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>License Fees</td>
<td>$235,970.00</td>
<td>$230,000.00</td>
</tr>
<tr>
<td>Investigation Fees</td>
<td>6,900.00</td>
<td>6,500.00</td>
</tr>
<tr>
<td>Examination Fees</td>
<td>30,050.00</td>
<td>30,000.00</td>
</tr>
<tr>
<td></td>
<td>$272,920.00</td>
<td>$266,500.00</td>
</tr>
<tr>
<td>Credit Union Fees:</td>
<td>Examination Fees</td>
<td>$19,675.00</td>
</tr>
<tr>
<td>Sale of Checks Fees (Act 476 of 1966):</td>
<td>License Fees (For Sale of Money Orders)</td>
<td>$5,000.00</td>
</tr>
<tr>
<td>Law Book Sales: (Printing paid from appropriation)</td>
<td>Banking Laws</td>
<td>$280.00</td>
</tr>
<tr>
<td></td>
<td>Homestead Laws</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$280.00</td>
</tr>
<tr>
<td>Fees Collected 1970-71 and Estimated for Fiscal Year 1971-72</td>
<td></td>
<td>$787,995.00</td>
</tr>
<tr>
<td>State Appropriation for Fiscal Years Indicated</td>
<td>679,057.00</td>
<td>700,147.00</td>
</tr>
<tr>
<td>Amount from Fees (Over Appropriations) In State's General Fund</td>
<td></td>
<td>$78,938.00</td>
</tr>
</tbody>
</table>

### Table 9. LSBD Fees By Type of Financial Institution As Related to Cost of Supervision

<table>
<thead>
<tr>
<th>Division</th>
<th>Fiscal Year 1970-71</th>
<th>Fiscal Year 1971-72</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Estimated</td>
<td>Actual</td>
</tr>
<tr>
<td>Fees Collected</td>
<td>Fees Over Expend.</td>
<td>Fees As % of Expend.</td>
</tr>
<tr>
<td>Banking Division</td>
<td>$331,035.00</td>
<td>$400,212</td>
</tr>
<tr>
<td>Savings &amp; Loan Division</td>
<td>129,085.00</td>
<td>83,281</td>
</tr>
<tr>
<td>Small Loan Division</td>
<td>272,920.00</td>
<td>116,063</td>
</tr>
<tr>
<td>Credit Union Division</td>
<td>19,676.00</td>
<td>34,358</td>
</tr>
<tr>
<td>Sale of Checks Division</td>
<td>0</td>
<td>24,660</td>
</tr>
</tbody>
</table>

Three divisions have not been self-supporting for the 2 years shown. Revenues from banks averaged 85.5 percent of costs; credit unions, 60.2 percent; and sale of check companies, 19.6 percent. On the other hand, S&L fees averaged 148.5 percent of costs and small loan fees averaged 226.8 percent of costs. In effect, the S&L and small loan fees have been subsidizing fees.

### Table 10. LSBD Fee Structure

<table>
<thead>
<tr>
<th>Institution</th>
<th>Type of Fee</th>
<th>Fee or Rate Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>General assessment</td>
<td>Semiannual, graduated scale based on gross assets or resources; $35 minimum. Branch doing general banking assessed as separate bank; branch only paying and receiving charged $30 each.</td>
</tr>
<tr>
<td></td>
<td>Charter investigation fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Branch investigation fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Examination fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Other fees</td>
<td>$25 per day for additional examination time due to improperly kept books.</td>
</tr>
<tr>
<td>Savings and Loan Associations</td>
<td>General assessment</td>
<td>Semiannual, graduated scale based on gross assets or resources; $25 minimum.</td>
</tr>
<tr>
<td></td>
<td>Charter investigation fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Branch investigation fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Examination fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Other fees</td>
<td>$25 per day for additional examination time due to improperly kept books.</td>
</tr>
<tr>
<td>Small Loan Companies</td>
<td>License fee</td>
<td>$250 per year</td>
</tr>
<tr>
<td></td>
<td>License investigation fee</td>
<td>$50 nonrefundable</td>
</tr>
<tr>
<td></td>
<td>Examination fee</td>
<td>Annual, graduated scale based on loan balance; $30 minimum—$60 maximum.</td>
</tr>
<tr>
<td></td>
<td>Additional examination</td>
<td>$50 if additional exam is required during year.</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>General assessment</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Charter investigation fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Certificate fee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Examination fee</td>
<td>Annual, graduated scale based on assets; $30 minimum.</td>
</tr>
<tr>
<td>Sale of Checks</td>
<td>License fee</td>
<td>Annual, $100</td>
</tr>
<tr>
<td></td>
<td>License investigation fee</td>
<td>$100 nonreturnable, becomes first year's license fee if approved.</td>
</tr>
</tbody>
</table>
the other 3 divisions and providing the over-all yearly surplus.

Within each division there are activities which could be financed on a user-charge basis but are at present not self supporting. In most instances, there is no fee, and in others the application fee is fixed by statute and bears little or no relationship to the cost of performing the services. (See Table 10.) At present there is no fee assessed applicants for a bank charter, bank branch, savings and loan charter, or savings and loan branch. Investigation of these applications requires the time and travel expenses of a senior examiner for at least several days in addition to office review and clerical work.

A nonrefundable investigation fee of $50 is required for small loan licenses which does not cover the actual expenses involved in processing the application. An application for a credit union requires no investigation fee although a nominal $15 fee is received when the certificate is granted. Sale of checks applicants must pay a $100 nonrefundable investigation fee which, however, is applied to the first year license fee when the license is granted.

The federal counterparts of the LSBD which supervise national banks, S&L's and credit unions in Louisiana do assess application fees and investigation charges.

Discretionary Authority to Set Fees

A number of state and federal agencies which supervise financial institutions have been provided discretionary authority to set the rates of fees and assessments. This authority has been granted on the premises that the supervisory function should be provided on a user-charge basis and that the fee schedule should be flexible to meet changes in supervisory expenses. The federal agencies with supervisory responsibilities corresponding to those of the LSBD have been using this discretionary system to allocate costs of supervision. A number of states also have provided banking supervisors or other state officers with discretionary fee setting authority.

In regard to bank fees, approximately 14 states currently provide discretionary authority as opposed to statutorily fixed assessments. Eight of these states charge the bank the actual cost of examination although in most of these a charge to cover departmental overhead is apportioned on the basis of bank resources. New York is 1 of the states which charges examination costs on a man-day basis and in addition apportions departmental overhead to the banks in an annual fee assessment. The New York banking department operates on legislative appropriations and then assesses banks at the end of the year to reimburse the state treasury for funds advanced.

Six states—Connecticut, Michigan, Mississippi, Missouri, Texas and Vermont—currently have discretionary fee provisions similar to the recommendation of this report. These states provide for an annual or semiannual fee assessed on the basis of resources, thus apportioning the total costs of examination and departmental overhead. In 2 of these states—Mississippi and Vermont—the authority to set assessment rates lies not with the bank commissioner but with the comptroller and treasurer, respectively.

Objectives of a Discretionary Fee System

The following proposal for a system of discretionary fees is designed to achieve these objectives:

1) to make the banking department self supporting from fees and assessments;
2) to make each division within the department self supporting, in respect to both direct services and overhead allocable to each division, from income derived from the institutions supervised;
3) to segregate those fees which are strictly for revenue purposes from those to be considered departmental income;
4) to assess recipients the actual cost of special services including charter, branch and license application investigation and processing;
5) to provide for the collection of all regular assessments by the Department of Revenue; and,
6) to base the assessment of all regular fees upon the total assets of the institution supervised, except for small loan companies where the basis shall remain the loan account balance.

Discretionary Fee System: Method and Procedure

It is recommended that the commissioner be provided discretionary authority to set fees and rates of assessments sufficient to meet the expenditures of the department.

Under the discretionary fee system, the bank commissioner would have statutory authority to establish the rate for assessment of regular semiannual fees for each general class of financial institution supervised by the department and to establish a schedule of fees or assessment rates for special services. The scheduling of fees would be closely interrelated with the budget process.

In preparing the annual budget, each division would estimate its expenditures including an allocation for departmental overhead and supportive services. The division would estimate separately its expenditures for general services and for those special services related to investigation and processing of applications for charters, branches or licenses.

For each type of financial institution, the commissioner would determine the rate of assessment, based on assets, necessary to meet the expenditures for general services of the related division. For small loan companies the basis would be the loan account balance.

The commissioner would establish a separate fee schedule for each division for special services based on the division's records of actual cost for those services in prior years.

The departmental budget, as transmitted to the governor and hence to the Legislature, would include a statement indicating balanced income and expenditure estimates for each division. This statement would also include the schedule of rates for regular semiannual assessments and fees for special services. These rates would be subject to review and approval by the governor and Legislature.

The approved assessment rates would then be applied to each financial institution based on the last preceding statement of condition, and the general assessments would be collected by the Department of Revenue. Special fees and other income would be collected by the department and forwarded to the state treasurer.

Separation of Revenue Income

Under the proposed financing system, income from small loan licenses—currently considered departmental in-
COME—would not be included in the income budgeted for the Small Loan Division. Whether or not it was the intent of the law, the license fee has in effect been a source of general fund revenue far in excess of the related cost of supervision. The suggested semiannual assessment would replace the present examination fee; however, it would amount to a considerable increase over that fee. With the acceptance of this system of financing the department, a determination would have to be made by the Legislature as to the extent the license fee should be retained as a source of general revenue. This determination should be based on an analysis of the total burden of taxes and licenses upon small loan companies in relation to the tax and license burden upon the other regulated financial institutions. The following recommendation would be necessary to allow the implementation of the discretionary fee system without changing the existing total license and supervisory fee burden upon small loan companies.

It is recommended that the small loan license fee be decreased in proportion to the increased obligation under the semiannual assessment for supervision. The license fee should no longer be considered departmental income, and only the semiannual assessment and license investigation fee would be budgeted by the department to meet the expenditures of the related supervisory division.

SECURITIES COMMISSION

The Securities Commission, composed of the state bank commissioner and his appointed deputy commissioner of securities, is responsible for administering the state’s “Blue Sky Law.” It registers all nonexempted stock offerings within the state—approximately 800 a year—and licenses the 450 Louisiana securities dealers. The commission is an independent agency and is a separate budget unit apart from the LSBD. The state bank commissioner as the ex officio securities commissioner appoints the deputy securities commissioner and exercises general supervision over the Securities Commission.

The deputy commissioner is authorized to issue cease-and-desist orders against violators of state “Blue Sky” provisions and to initiate prosecution. The commission’s staff has recently been bolstered by the addition of 2 trained investigators who examine violations and complaints. The current chief investigator is a lawyer. Two securities analysts in the office review applications for offerings, and a recorder of securities maintains the securities register and publishes a monthly bulletin. The office also includes 4 clerical personnel. The specialized civil service classifications used for investigator, analyst and recorder are not related to positions within the banking department.

The commission is self supporting from service related income. For fiscal 1971-72 the commission received an appropriation of $24,500 which together with approximately $90,000 in self generated funds from examination and renewal fees provides a total operating budget of $114,500. Two other types of fees—filing fees and dealer license fees—provide a contribution to the general fund annually of between $275,000 and $300,000 in excess of the commission’s appropriation.

Agency Merger

The present commission mechanism is outdated, and the agency does not operate as a commission. The deputy commissioner is a classified civil service employee, although this is not required, and he is the administrator of the agency.

The following proposal would in no way alter the present functions or responsibilities of the agency in its role as state regulator of securities. The present fictional commission would simply be replaced by a normal administrative agency structure.

It is recommended that the Securities Commission be reconstituted as a separate Securities Division within the Department of Financial Institutions.

The proposed Securities Division should continue to be self supporting from examination and renewal fees; however, these would be set, not by statute, but in the manner proposed for fees related to other divisions of the department. (See finance section.)

The administrator, or deputy supervisor, of the proposed Securities Division would continue to be appointed by and report directly to the commissioner. The present operational autonomy of the agency in regards to its regulatory functions should be preserved; however, budgeting and certain clerical functions should be assumed by the departmental administrative services staff.

ORGANIZATION OF THE LSBD

In examining the organization of the LSBD, the objectives of the analysis and ultimate recommendations were to achieve:

1) strong executive control;
2) proper scope of functional responsibility;
3) adequate functional division;
4) effective delegation of authority; and
5) efficient administration of recommended changes in procedure.

Executive Control

If the commissioner is to assume an active administrative role in the department, he should be personally available to his division administrators on a regular basis.

It is recommended that the department be consolidated in the state capitol.
the various divisions. Each division would be assigned sufficient clerical assistance to handle nonroutine correspondence for the division administrator.

Centralization of accounting, budgeting, personnel and other records would further strengthen the commissioner's administrative role.

Scope of Departmental Responsibility

The LSBD presently supervises 5 types of institutions: banks, S&L's, credit unions, finance companies and sale of checks (money orders) companies. With the exclusion of money order companies, half of the other state banking departments also combine this range of responsibility. The degree of effectiveness cannot be demonstrated; however, there is ample experience among the states to justify the present combination of supervisory responsibilities of the LSBD, with the exception of sale of checks supervision. Prior recommendations would also include the Securities Division and the Auto Finance Division within the department while removing the Sale of Checks Division.

Until such time as a major integrative reorganization of state government is effected, the maintenance of a comprehensive Department of Financial Institutions is essential to provide a proper balance between concern for interests of the individual industries and the public at large. Under this structure, the regulatory division is not likely to become purely a spokesman for the industry it supervises.

The supervisory activities of the LSBD serve 3 major purposes: licensing, consumer protection and maintenance of institutional solvency. The LSBD is the sole licensing authority for state banks, S&L's and credit unions. Although it licenses specific activities of institutions making small loans or selling money orders, the LSBD is seldom the sole licensing authority for these institutions. The LSBD exercises a consumer protection role in the case of each of the institutions; however, this role is quite limited as it relates to money order companies. The LSBD's responsibility for assuring the continued solvency of the institution supervised is an extension of the consumer protection function but differs in its broader conception of protection. It is this function, basic to the supervision of banks, S&L's and credit unions, that differentiates the LSBD's responsibilities for small loans, securities and sale of checks. The maintenance of the solvency of the former institutions is a matter of public policy and is considered essential to the growth and development of the economy of the state.

The functions of the Securities Division are, as in the case of small loan supervision, essentially related to licensing and consumer protection. Likewise, the division is not responsible for ensuring the continued solvency of the regulated institutions. On the basis of this functional differentiation, the supervisory responsibility for both securities and consumer finance might best be removed from the department in the eventuality of major state government reorganization.

Divisions

The proposed organization follows the current basis for creating divisions. A division is provided for each type of institution supervised. The supervision of credit unions and S&L's is separated, although the Credit Union Division and Consumer Finance Division would be under the same deputy supervisor.

The other changes in respect to the divisional structure are the recommended division status for securities and the expansion of the Small Loan Division's responsibilities.

Delegation

Proper delegation of authority should be facilitated through providing a clear and direct line of authority between the commissioner and each division administrator or deputy supervisor. This is accomplished, in part, by eliminating the position of executive assistant and the 2 unclassified positions of assistant to the commissioner and by separating the positions of director of administrative services and small loan administrator which are presently filled by 1 person.

New Procedure

The recommended acceptance of federal examinations requires a change in the internal organization of the Banking Division and Savings and Loan Division. A field examination section and a report review section, each with a director, would be required in both divisions.

Proposed Departmental Organization

Figures 1 and 2 outline the current formal organizational structure of the department and the proposed structure which incorporates the various recommendations of this report, respectively.

The proposed organization would require the following changes:

1) Assumption of a full-time, active, administrative role in the department by the bank commissioner; 2) Consolidation of the department in Baton Rouge; 3) Elimination of the unclassified positions of deputy commissioner and assistant commissioner; 4) Replacement of retained legal counsel with specific assignment of LSBD responsibility to a member of the state attorney general's staff; 5) Elimination of the position of executive assistant; 6) Centralization of the office staff under the director of administrative services; 7) Establishment of 5 major divisions, each responsible for 1 type of financial institution: Division of Securities, Division of Banking, Division of Homestead Building and Loans, Division of Credit Unions, and Division of Consumer Finance; 8) Appointment of a Deputy Supervisor, by the commissioner, from the classified civil service to administer each division except in the case of the Consumer Finance Division and Credit Union Division which would be administered by a single deputy supervisor; 9) Creation of a Report Review Section within the Banking Division and Savings and Loan Division; 10) Transfer of the Sale of Checks Division to the Department of Revenue; 11) Inclusion of the Sales Finance Division of the Louisiana Motor Vehicle Commission in the new Division of Consumer Finance; and 12) Change of name of the State Banking Department to State Department of Financial Institutions.

PERSONNEL

The banking department is not a large agency, and its personnel has grown rather gradually through the years. The examiner staff was cut
back sharply in 1970 creating a situation of understaffing in the Banking Division. Table 11 indicates the estimated departmental positions by division and job classification for fiscal 1971-72.

Civil Service Classification

All employees of the department are under classified civil service except the commissioner, deputy commissioner, assistant commissioner and general counsel. The classification used for administrative positions is the Bank Examination Program Supervisor (B.E.P.S.). The professional positions, those of the examiners in each division, are classified Bank Examiner I through IV.

The bank examiner position has been considered by the Civil Service Commission in line with the positions of Revenue Auditor, Public Funds Examiner and Insurance Examiner. At the present time an applicant who passes a single test is qualified for all 4 positions. The entrance examination does not require a specific knowledge of banking.

The entrance level has normally been the Bank Examiner I position which was established in the mid-1960's as a trainee position. Prior to this, the entrance level requirements were higher; however, the salary was insufficient to attract qualified applicants. The following qualifications are required for the trainee position:

1. Graduation from an accredited 4-year college or university with a minimum of 12 semester hours in accounting, plus 3 years of professional level experience in accounting or auditing work, 1 year of which must have been in bank accounting or bank auditing above the beginning professional level.

Experience in which accounting or bookkeeping was the primary duty may be substituted for the required college training on a year for year basis. The completion of a 9 to 12 month business course which included accounting subjects may be substituted for 1 year of college training.

The working title of “assistant examiner” is used for both Bank Examiner I and II positions. The working title of “bank examiner” is used to denote Bank Examiner III and IV positions. These positions are filled by promotion from within the unit. Bank Examiner IV is a highly responsible position, and the qualifications required have been set fairly high except for the same major loophole—allowing experience to substitute for college—which weakens the qualifications required at the lower levels. At the present time, any of the following will qualify:

1. Graduation from an accredited 4-year college or university with a minimum of 12 semester hours in accounting, plus 3 years of professional level experience in accounting or auditing work, 1 year of which must have been in bank accounting or bank auditing above the beginning professional level.

2. Graduation from an accredited 4-year college or university with a major (minimum of 27 semester hours) in accounting, plus 2 years of professional level experience in accounting or auditing work, 1 year of which must have been in bank accounting or bank auditing above the beginning professional level.

A master's degree in accounting may be substituted for the year of required general experience.

3. Possession of a certificate as a “Certified Public Accountant” and 1 year of experience in bank accounting or bank auditing above the beginning professional level.

For 1 year of college training.

The working title of “assistant examiner” is used for both Bank Examiner I and II positions. The working title of “bank examiner” is used to denote Bank Examiner III and IV positions. These positions are filled by promotion from within the unit. Bank Examiner IV is a highly responsible position, and the qualifications required have been set fairly high except for the same major loophole—allowing experience to substitute for college—which weakens the qualifications required at the lower levels. At the present time, any of the following will qualify:

1. Graduation from an accredited 4-year college or university with a minimum of 12 semester hours in accounting, plus 3 years of professional level experience in accounting or auditing work, 1 year of which must have been in bank accounting or bank auditing above the beginning professional level.

Experience in which accounting or bookkeeping was the primary duty may be substituted for the required college training on a year for year basis. The completion of a 9 to 12 month business course which included accounting subjects may be substituted for 1 year of college training.

2. Graduation from an accredited 4-year college or university with a major (minimum of 27 semester hours) in accounting, plus 2 years of professional level experience in accounting or auditing work, 1 year of which must have been in bank accounting or bank auditing above the beginning professional level.

A master's degree in accounting may be substituted for the year of required general experience.

3. Possession of a certificate as a “Certified Public Accountant” and 1 year of experience in bank accounting or bank auditing above the beginning professional level.

*Civil Service Title: Bank Examination Program Supervisor.
These alternative qualifications are providing for much leeway by equating 4 years of bookkeeping experience with a Certified Public Accountant (CPA) Certificate. Nearly half of the professionals in the department at the present time are qualified by substitution of experience for a portion of the formal education requirement. The experience substituted included dispatcher, innkeeper, insurance agent and office manager. There are no CPA’s or master’s in accounting, and only 6 of the 13 bachelor degrees held by department professionals are in accounting.

The recent hiring policy has begun to upgrade the education level within the department. If this upgrading is to continue, the requirement should be formalized at a higher level, prior experience should be closely scrutinized as to its applicability, specialized testing should be provided, and salaries should be adjusted. The position of examiner as viewed in this report should become a more highly professionalized and responsible one. The contemplated reduction in staff size and increase in individual responsibilities would require that new recruits be prepared to accept these responsibilities without a long training period.

It is recommended that substitution of experience for college training be discontinued for positions of Examiner III and above.

EFFECTS OF PRIOR RECOMMENDATIONS

The preceding recommendations would affect the personnel of each division within the LSBD in most cases allowing for a reduction in staff.

Banking Division

With the adoption of this report’s recommendations, the division’s 20 positions would be cut back through attrition to about half that number by eliminating the present assistant examiner positions (Bank Examiner I and II). The division would ultimately consist of a deputy supervisor, a review section of about 3 examiners and a small field examination section.

If the present position classification is retained, the heads of the 2 subsections should have B.E.P.S. ratings. It is evident that the supervision of banks is more technically complicated than the supervision of other institutions under the department. For this reason a differentiation in positions would be desirable. In addition to eliminating Bank Examiner I and II positions, the use of the B.E.P.S. class below the deputy supervisor only in the Banking Division might be a means of achieving greater differentiation.

The remaining positions in the subsections should be at an equivalent to the present Bank Examiner III and IV, but upgraded in respect to the present minimum qualifications. Salary should be adjusted to allow recruitment at the III level for the relatively few replacements that might occur.

It should be possible to provide rotation between office and field assignments, thus improving working conditions by eliminating the constant travel currently required of all examiners. With improved working conditions and salaries the recruitment and retention of experienced professionals would be facilitated.

The savings reflected in the recommended change of procedure would be considerable. Estimated salaries for this division in fiscal year 1971-72 total $129,902 plus an additional $75,937 for travel expenses. Because the division would be self supporting, cost cutting is not the major objective of this proposal. The objectives would be to create a smaller but highly qualified examiner force; to improve examiner working conditions; to provide salaries sufficient to attract trained and experienced persons at the higher levels who would not require the present 2 or 3 years’ training at the assistant level; and to transfer the routine aspects of the examination process to the federal examiners.

Savings and Loan Division

The recommendation for this division is not as immediately far reaching as in the Banking Division. Full acceptance of federal reports would allow a greater reduction in staff; however, annual examinations should be maintained. The acceptance of federal examinations as they occur within the year would decrease the field examination workload by about half, yet required office review of reports and field visits during federal exams will not allow an equivalent reduction in the examiner force. Some attrition might be expected, but the division’s 1971-72 staff of 5 positions, including the deputy supervisor, would appear sufficient.

The use of the B.E.P.S. class below the deputy supervisor would not appear warranted in this division.

Credit Union Division

The number of field examiners would be increased to 2. Although this division and the proposed Consumer Finance Division would be administered by the same deputy supervisor, the nature of the credit union examination is more demanding than that of the loan company examination and this should be reflected in the position classes within the 2 divisions as determined by a civil service job audit.

Small Loan Division

The effect upon this division would depend upon the extent to which the various state supervisory functions related to finance companies could be consolidated. A merger with the Auto Finance Division would eliminate considerable duplication of field examination effort and expense. The office staff would be increased by transferring clerical personnel currently used by the Auto Finance Division for record investigation. The classification of examiners in this division should be related to those in the other divisions on the basis of a job audit.

Sale of Checks Division

The transfer of this division to the Department of Revenue would eliminate 1 examiner position and remove a considerable clerical burden from the banking department.

Administrative Services

The consolidation of the Baton Rouge and New Orleans office staffs would reduce some duplication of effort largely by allowing greater specialization and centralization. The statistical aide position requested in the 1973 budget could, for instance, serve this function for all divisions rather than just those in the Baton Rouge office. Centralization of assessment billings, routine mailings, budget and report preparation, records and statistics, duplicating and other services would provide a more efficient operation. The clerical pool would be more effectively utilized. The workload of the present office staff would be reduced considerably by the recommended elimination of certain publications, standardizing of fee assessment and termination of typing separate bank examination reports.
Administration

With the elimination of all unclassified positions except for the commissioner, the administration would consist simply of the commissioner with the deputy supervisors and the head of administrative services reporting directly to him.

Summary of Personnel Recommendations

It is recommended:

1) That a civil service job audit be performed and limits be set within each division as to the civil service rank attainable depending upon the demands of the job;
2) That the position of examiner be upgraded both in qualifications and salary;
3) That a differential be provided for examiners in the Banking Division to account for the degree of difficulty in the supervisory responsibilities. (This would include using the B.E.P.S. class to head field and review sections and discontinuing entry at Examiner I and II levels);
4) That substitution of experience for educational requirements be discontinued for the Examiner III and above positions.

CONCLUSION

In conclusion, the recommendations in this report would provide for a strong Department of Financial Institutions with adequate financing and staffing. Greater emphasis would be placed on the supervisory function of the agency by reducing the workload in routine areas, eliminating duplication and upgrading staff qualifications. The commissioner of financial institutions would be given broader authority for regulating these institutions for the protection of the industry and the public. The proposed organizational structure would provide for clear lines of authority and responsibility.
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