Hurricane Ike Bonding Authority

Much like private activity bonds, disaster bonds are tax-exempt debt instruments that direct private sector money into communities recovering from hurricanes, floods, or other calamities.

Hurricane Ike struck Texas on September 11, 2008; on October 3, 2008, the President of the United States signed into law, as part of the Emergency Economic Stabilization Act of 2009 (Act), changes to the federal tax law designed to provide economic relief to the Hurricane Ike Disaster Area. The Act allowed for the issuance of $1,863,270,000 ($2,000 per resident living in the disaster area) of certain tax exempt, qualified Hurricane Ike disaster area bonds to provide financing in the Hurricane Ike disaster area, through December 31, 2012. The bonds could be used for nonresidential real property, qualified residential rental property, public utility property, rehabilitation projects and certain single-family residences.

The 81st Legislature added Subchapter D to Texas Government Code Chapter 1372 to direct the state government how to handle miscellaneous federal bond ceiling including disaster bonds.

On December 7, 2009 the Governor issued a Proclamation designating priorities to certain counties affected by Hurricane Ike as well as other program details.

By December 31, 2012, 99.6% of the total Ike Authority had been utilized.

Hurricane Ike Authority Status as of		**12/31/2012**			
		77%	13%	10%	
	Total	Group A	Group B	Group C	**All Issuers***
Ike Authority	$ 1,863,270,000	$1,434,717,900	$242,225,100	$ 186,327,000	$ 648,678,000
Amount Requested	$ 3,641,047,000	$ 2,180,750,000	$ 348,800,000	$ -	$ 1,111,497,000
Amount Reserved	$ 3,047,182,800	$ 1,898,870,800	$ 242,225,100	$ -	$ 906,086,900
Amount Allocated	$ 1,855,217,000	$ 1,160,592,000	$ 54,000,000	$ -	$ 640,625,000
Amount Available	$ 8,053,000	$ -	$ -	$ -	$ 8,053,000
*After February 17th, all remaining Hurricane Ike Bonding Authority is available to all issuers in the 34 affected counties					

Statement of Brian S. Engel

Thank you Mr. Chairman and Members of the Committee for the opportunity to address your interim charge to examine hurricane Harvey's impacts on the mortgage lending marketplace.

My name is Brian Engel. I am a partner in the law firm Barrett Daffin Frappier Turner & Engel, LLP ("BDFTE"), a Texas law firm formed 27 years ago. Headquartered in Addison, Texas, BDFTE also has offices in Houston and Austin. The firm currently employs about 280 attorneys and skilled staff. Non-attorney skilled staff make up the lion's share of employees. BDFTE primarily represents lenders and mortgage servicers regarding residential real property foreclosures.

Nothing in my remarks should be taken to diminish the suffering of those devastated by Harvey's winds and floodwaters, including homeowners, many of whom continue to suffer Harvey's impacts today.

Instead, I offer my remarks to inform some of Harvey's consequences that might otherwise go unnoticed.

Immediately following Harvey's rains, agencies and investors including the Department of Housing and Urban Development ("HUD"), Fannie Mae and Freddie Mac ("Government Sponsored Enterprises" or "GSEs") suspended actions to enforce deeds of trust and prohibit initiating actions for specified periods. The GSE moratoriums continued through December 31, 2017 and the HUD moratorium does not expire until February 21, 2018. These moratoriums covered at least 60 counties Governor Abbot identified as most affected.

Suspending lien enforcement in Harvey's immediate aftermath was certainly a compassionate and appropriate response. But it had material and detrimental consequences. It is not my role to speak for mortgage servicers, who are ably represented and I'm certain will offer the Committee their valuable input.

I can speak to how Harvey affected our firm:

- The moratoriums resulted in an immediate reduction in the number of newly referred matters to the firm of more than 35% on average between September and December 2017.
- Servicer "holds" on pending actions prevented the firm from reaching compensation milestones, which are based on the stage of the enforcement process a matter has reached. In foreclosure matters, flat fees based upon a published GSE schedule and milestone compensation are the rule. Firms have little ability to affect the flat-fee amounts or the timing for several reasons, including the fact that most invoicing is accomplished through EDI (electronic data interchange) systems according to complex rules that cannot be easily changed.
- Harvey's impact made it necessary to lay off 23 skilled staff.

At our firm, the real and projected reduction in referred matters, together with the direct affect on cash flow attributable to "holds" that prevented milestones from being reached required an immediate reaction.

A "hold" on pending matters does not mean that the firm stops performing work on the suspended matter. The firm must still work the file and report to its servicer clients, all of which is a cost to the firm. A paradoxical consequence of the combination of "holds" and the prevailing milestone-based compensation system is that firms' costs continue and increase, but compensation stops.

Like in most service businesses, opportunities to affect fixed costs are limited; facilities, equipment, information security infrastructure, and the like involve long term investment and long term obligations.

The unfortunate truth is that the only practical solution to achieve costs reductions in the short term necessary to respond to the Harvey catastrophe was to reduce the number of employees at the firm. Hurricane Harvey forced the firm on October 6 to lay off 23 staff.[1] Twenty of those who lost their jobs

[1] For context, the firm reduced its workforce by 7.3% directly caused by Harvey.

worked in the firm's Addison, Texas office, hundreds of miles distant from Harvey's flooding.

Our force reduction cut across all ages and tenures in the organization. What all of those lost had in common was that they were skilled staff with deep institutional knowledge about the lien enforcement processes and the customer procedures. As a point of reference, the average tenure of staff at our firm is about 8 years.

Even after business returns to pre-Harvey levels, and we hope it will, the experience and knowledge of those lost employees will be lost to the firm. Experienced staff are expensive to replace and train, so the firm will continue to feel Harvey's affects.

In addition, the law practice of enforcing liens on homes involves an intricate framework of regulations, statutes, and procedural requirements. Compliance with these requirements is important and is most effectively accomplished with a combination of experienced staff working with experienced attorneys. This is even more true concerning the areas most impacted by Harvey, where many properties—including those securing loans in default for reasons having nothing to do with Harvey—suffered extensive damage. That circumstance results in complicated insurance questions that affect the lien enforcement process.

Losing experienced and skilled staff to a disaster induced lay off is a strain for firms like ours. Those individuals' particular knowledge, skills, relationships with client staff and facility with the technology systems firms utilize are lost but remain necessary. Other firm staff have to absorb those responsibilities.

In our unique practice, a large amount of the skill and work involved in completing a non-judicial foreclosure is possessed and done by non-attorney staff at the firm supervised by attorneys. That is the only way to effectively represent clients on such matters for a low fixed flat fee, currently about

$1300-$1400 based on GSE fee schedules.[2] So the loss of non-attorney skilled staff and their talents is something to which I pay attention.

Personally, I do not overlook that our affected employees are real people that we know, and the force reduction Harvey caused interrupted their livelihoods doubtless interrupted their lives.

For us, Harvey brought into sharp focus the injurious consequences and reach of a natural disaster. We sympathize with the thousands terribly affected by winds and flooding; we are aware that mortgage delinquency rates have trended up in affected counties as homeowners who need aid have struggled to recover.[3]

I appreciate the chance to present these remarks and thank the Committee members for your commitment to Texas.

Brian S. Engel

[2] Firms in our industry organize and are constantly pressured to reduce costs to stay within low fixed flat fees that firms have little practical ability to affect. Achievable margins are razor thin, in our experience below 5%. So an unexpected natural disaster on the scale of Harvey that causes significant business interruption is felt immediately and acutely.

[3] Based on reported statistics from Black Knight, Inc., a firm that analyzes mortgage industry data.

CREDIT UNION DEPARTMENT

House Committee on Investments & Financial Services

Interim Charges Hearing

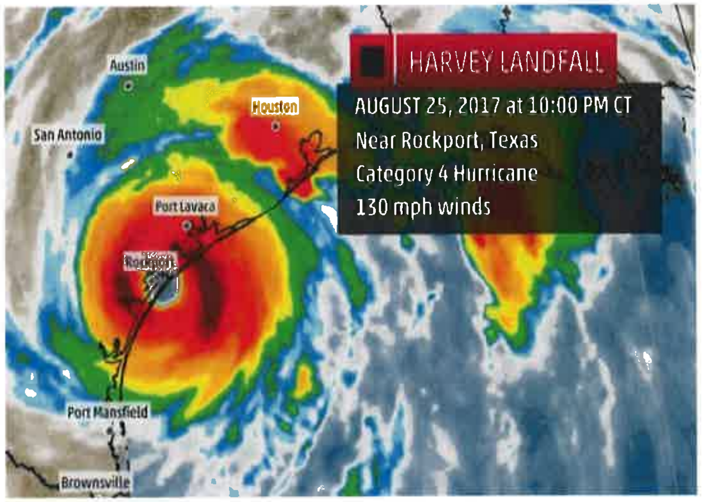
Impact of Hurricane Harvey on Financial Institutions
Harold E. Feeney, Credit Union Commissioner
January 31, 2018

Introduction

The Credit Union Department is entrusted with assuring the safety and soundness of state-chartered credit unions in Texas. The Department's supervisory authority is exercised over 187 unions that control approximately $40.1 billion in financial assets as of September 30, 2017. The agency also oversees 21 branches of out-of-state credit unions operating in the state.

Credit Union Industry

- Institutions negatively impacted by Hurricane Harvey
  - ➢68 Credit Unions
    - Aggregate Total Assets: $15.4 Billion
    - Number of Members: 1,226,445
    - Number of Office Locations: 307
    - Number of Employees: 3,288
  - ➢7 days was the longest period of time any single credit union was not open for business.
  - ➢Only three individual branch offices were not operational by September 15



Industry Preparation

- Disaster recovery and business continuity plans generally worked well in enabling credit unions to meet challenges and to restore operations relatively swiftly given the unprecedented magnitude and duration of the effects of Hurricane Harvey.
- In preparing for future emergency conditions, credit unions may need to ask themselves four questions based on the lessons learned from Hurricane Harvey:
  - **How will the credit union access and provide cash if armored carriers are not operating?**
  - **Should the credit union have an alternate location for serving members, if access to office(s) is either blocked or restricted?**
  - **Can the credit union activate alternate staffing?**
  - **How can the credit union communicate better with members during emergency situations?**

Department Actions

- Issued Annual Hurricane Awareness and Preparation Notice (May 2)
- Posted Hurricane Preparedness FAQ on website (August 24)
- Transmitted Hurricane Advisory Notice to CUs (August 25)
- Daily contact with affected CUs to assess damage, determine operational status, and offer assistance (August 28 – September 7)
- Issued Order authorizing temporary closure of affected CUs (August 29)
- Issued Memo encouraging CUs to work with affected Members (August 31)
- Posted FAQ for Members affected by Harvey (August 31)
- Issued guidance on home equity loans and home repairs (October 24)

Coordination with Other Agencies/Entities

- Participated in daily Situational Awareness Conference Calls with the Department of Treasury's Financial and Banking Information Infrastructure Committee
- Participated in daily conference calls with representatives of the Banking Department, Savings & Mortgage Lending Department, FDIC, Federal Reserve Bank of Dallas, NCUA, and the OCC.
- Participated in daily conference calls with the above named Financial Regulatory Agencies and Banking and Credit Union trade association representatives.
- Participated in twice weekly conference calls with the Texas Credit Union Association and other credit union related entities.

Summary

Overall, credit unions prevailed in very difficult circumstances through advance planning and preparation and by working together. The Department requires credit unions to develop, implement, and regularly test disaster recovery and business continuity plans. Due to the unprecedented magnitude and duration of the effects of Hurricane Harvey we may need to have some credit unions focus more attention on the frequency and scope of future testing strategies.

Testimony of Charles G. Cooper
Commissioner
Texas Department of Banking
House Committee on Investments and Financial Services
January 31, 2018

Good morning Chairman Parker and members of the committee. I am Charles G. Cooper, Commissioner for the Texas Department of Banking. I appreciate the opportunity to discuss the regulatory hurricane response.

Hurricane Harvey

Hurricane Harvey was one of the largest, most severe hurricanes in the history of Texas. According to the National Weather Service, Tropical Storm Harvey strengthened in the Gulf of Mexico and became a Category 4 hurricane on Thursday, August 24, 2017, heading straight for the Texas Coastline. In anticipation of the imminent disaster, Governor Greg Abbott declared a state of disaster for 30 Texas counties on August 23, 2017. On August 24, 2017, as Commissioner, I issued a proclamation (Exhibit A) allowing Texas state-chartered banks with offices in affected areas to temporarily close under Section 37.003 of the Texas Finance Code. When Hurricane Harvey (Harvey) made landfall on August 25th, it was the first Category 4 hurricane to make landfall along the Texas Coast since Hurricane Carla in 1961. Harvey initially made landfall near Rockport, Texas, threatening millions of Texans with 130-mph plus winds, heavy rains, and a massive storm surge that drenched coastal areas. Instead of moving inland, Harvey stalled around the shoreline of Texas for days producing catastrophic flash flooding throughout most of southeast and central Texas. According to the National Weather Service, Cedar Bayou, Texas, located just southeast of Houston, recorded over 51 inches of rain, setting the record for the most rainfall ever from a single storm in the continental United States.

Loss estimates for these counties are in the multi-billions, and recovery efforts will take years to complete. In many cases, roadways were completely impassable due to severe flood waters, which limited employee access to banking locations. However, many banks implemented their disaster recovery and business continuity plans, and their locations were quickly reopened and functioning to serve their respective communities. Within weeks, all state-chartered locations opened in some capacity except for two which remain temporarily closed. This is truly remarkable considering the magnitude of the devastation caused by Harvey.

Counties Declared a Disaster Area by Governor Greg Abbott	60
State-chartered Banks in Affected Areas	66
State Bank Branches in Affected Areas	670
Number of Branches Closed at Peak of Storm	260
Number of Branches Closed One Week After Storm	43
Number of Branches Closed One Month After Storm	2

Regulatory Response

After the August 24, 2017 proclamation was issued by the Texas Department of Banking, an updated proclamation and order were issued on August 28, 2017, authorizing state banks to establish temporary branches to serve their customers (Exhibit B).

Lessons taken from previous storms such as Hurricanes Katrina, Ike, and Rita proved to be invaluable not only for bankers, but also for regulators. Once Governor Abbott declared specific counties disaster areas, Department employees immediately developed a list of state-chartered banks domiciled or with branch locations in the affected counties. Subsequently, the Department contacted its federal counterparts at the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve Bank of Dallas (FRB) to coordinate contacting each financial institution in the disaster areas to assess what, if any, damage had occurred, and if any regulatory assistance was needed. Employees immediately began contacting bankers to gather details on the impact Harvey had on their respective institutions. To ensure consistency, the Department and FDIC utilized the "Event Management Database Script" to assess the impact. See Exhibit C for a copy of the call script. The responses were inputted into the FDIC's "Event Monitoring System" database, prioritizing what banks needed a follow-up call or assistance. In addition, the FRB provided a daily report detailing the conditions of all Fed member banks. Each subsequent day, follow-up calls were made to state banks with significant damage to get a status update on when their location(s) would be operational. Accommodations were also made for state-chartered banks with upcoming examinations by extending the start dates to allow bank management time to recover.

Obviously, everyone's first concern was the protection of life and property. I was also concerned with the ability of the banking technology infrastructure to withstand water and wind damage, along with a prolonged power outage. In 2001, Tropical Storm Allison caused widespread flooding in Houston resulting in disruptions at several major data centers. Since then, these facilities have been relocated to more secure areas. There had not been a major test of these "fixes" until now. As our citizens evacuated the flood areas to seek shelter and buy goods, and first responders traveled to the damaged areas, uninterrupted access to their bank accounts via debit or credit cards was critical. By contacting state-chartered banks and personnel on the ground to monitor the situation, the Department learned of only a few short-term localized disruptions. Furthermore, we did not receive a single citizen complaint. I consider this a major accomplishment attributed to banks emergency preparedness programs.

The Department participated in daily conference calls the weeks of August 28th and September 4th to assess the impact of Harvey with other government and bank trade group officials. The calls were with the State of Texas Operations Center, Financial and Banking Information Infrastructure Committee, National Cybersecurity and Communications Integration Center, and National Infrastructure Coordinating Center. These calls were valuable in coordinating and communicating among financial regulators, local banking trade groups, and other federal government officials to ensure that consumers had access to financial services.

Recovery

The Department and federal regulatory agencies encouraged financial institutions to work with borrowers in communities affected by Harvey. According to the Consumer Federation of America, only an estimated 15% of damaged homes in Houston, Texas had flood insurance, as most of the homes affected were not originally in a designated flood zone. Expectations are that commercial borrowers will face challenges as their normal business operations were interrupted, and unless they had business interruption insurance, it is anticipated that revenue losses could hinder their ability to service debt without some assistance. As such, the Department fully anticipates that lenders will make new loans to assist in recovery efforts and may need to adjust terms or temporarily extend maturities of existing loans where circumstances warrant, and safety and soundness is not compromised. On October 2, 2017, the Department issued an industry notice providing support and guidance to state banks and borrowers about the options and potential problem areas of extending new loans and renewing or modifying existing consumer loans. See Exhibit D for a copy of the notice.

Real estate values in the affected areas are expected to experience significant fluctuations in value, affecting existing and new real estate loans. As recovery efforts continue, it is anticipated that loan demand will increase as consumers and businesses rebuild. It has been communicated to banks that policies and practices regarding estimating values on collateral in the real estate market should be prudent and reasonable for the current situation. Sufficient documentation should also be retained in each loan file to support valuations and credit decisions. Federal regulators also provided some regulatory appraisal relief to areas affected by Hurricane Harvey. On October 26, 2017, the FDIC issued Financial Institutions Letter (FIL) 56-2017, providing temporary exceptions to the appraisal requirements for real estate-related related transactions in areas affected by Harvey. See Exhibit E for a copy of FIL 56-2017.

The November 2017 edition of the Department's *Texas Bank Report*, included an article regarding Harvey and its impact on Texans and the state banking system (Exhibit F). The article focused on lessons learned by bankers and recovery efforts, noting that financial institutions with customers located in the disaster areas should consider performing risk assessments on a more frequent basis to identify loans and investments that are significantly affected and may show a higher potential for loss. This may necessitate an increase in the frequency of loan reviews and additional provisions for potential loan losses. Although it is still premature to fully access the overall impact Harvey has had on financial institutions, some state banks in the affected counties report that provisions to the allowance for loan and lease losses have increased. The Department continues to actively monitor the post-Harvey environment, but based on a small sample of examinations performed on state banks domiciled in the affected areas, the financial impact has been manageable thus far. Further analysis of financial data will take place in early March 2018 after the Call Report information for December 31, 2017 is made available.

On December 15, 2017, the FDIC, in consultation with the Conference of State Bank Supervisors, jointly issued FIL 62-2017. The FIL provides guidance outlining the supervisory practices to be followed in assessing the financial condition of insured depository institutions and branches affected by Harvey. This guidance applies to all FDIC-supervised banks under $1 billion in total assets. See Exhibit G for a copy of

FIL 62-2017. Examiners have been instructed to consider the extent to which weaknesses in an institution's financial condition are caused by external problems related to Harvey and its aftermath.

Lessons Learned

As part of the Department's examination process, examiners routinely review and validate the bank's disaster recovery and business continuity plans to ensure that banks are prepared for a potential disruption in business operations. Such plans identify critical business assets and prioritize recovery of processes, systems, and applications of reasonable threats, including natural events, technical events, pandemics, malicious activity, and cyber threats. Banks are required to review and test these written plans at least annually to ensure employees are familiar with the plans and their individual responsibilities during an event. Many times, plans must be used in a live scenario to accurately determine their effectiveness.

Financial institutions responded admirably to the unique challenges caused by Harvey. Disaster recovery and business continuity plans were activated and generally provided sound direction in restoring services in quick order. Many bankers indicated that their success in getting back up and operating was extensive pre-planning and ensuring that each employee understood their role during a catastrophic event. In hindsight, the information technology function is probably the biggest component to recovery.

Due to advancements in technology, the impact to some customers was less severe than with prior events as technology provided alternative means to conduct business. In areas that had continuous power, the large-scale adoption of mobile banking and remote deposit technologies allowed most customers access to their accounts, which bridged the gap until brick and mortar banking locations were fully functional and accessible. Below are a few takeaways made by financial institutions regarding their disaster recovery plans and lessons learned from the effects of Harvey.

- Discuss with key third party vendors their disaster recovery process and determine how a disruption in their operations would impact the execution of the institution's disaster recovery procedure. For example, there were instances of armored car services being unable to meet their specified routes. In some cases, they did not answer phones and were slow to return to their scheduled routes. In many cases, state banks relied on employees to transport cash. Correspondent banks did an excellent job in providing cash where possible.
- Focus on effective communication with customers and employees. Institutions reported difficulties communicating with their employees and customers in an efficient and timely manner to ensure they were safe and properly informed. As a result, several state banks have since engaged third party companies that specialize in mass notification systems to help with delivering and receiving important messages to both staff and customers.
- Utilize social media (Facebook, Twitter, Snapchat, etc.) before, during, and after any catastrophic event. Social media was key in delivering cost-effective, timely updates and solutions to affected communities.

- Some institutions deployed teams to other cities prior to Harvey's arrival, to operate the bank's information technology systems in the event of lost power or communications in the affected areas.
- Multiple facilities sustained considerable damage; however, bankers acted swiftly to obtain temporary mobile facilities to serve their communities.
- In areas that had no power for an extended period, the use of satellite service communications was vital in providing power and internet access to the bank's core operating systems.
- Ensure that payment systems business resumption plans consider the possibility that employees will be unable to access bank locations due to flooding.
- Ensure that ample cash is on hand and that ATMs are fully stocked prior to the arrival of a catastrophic hurricane.
- Establish a rapport with local law enforcement agencies so that in the event of a natural disaster or emergency, these first responders already know who they are communicating with.
- Develop an internal database application that has predetermined questions focused on the needs of employees impacted by an event. Creating a centralized process will make it easier to track and prioritize which employees need financial and/or other assistance.

Timeline of Event

Wednesday, August 23rd – Governor Abbott issues disaster proclamation for 30 Texas Counties in anticipation of Tropical Depression Harvey making landfall.

Thursday, August 24th – Tropical Storm Harvey turns into a Category 4 hurricane in the Gulf of Mexico. The Texas Department of Banking issues proclamation to Texas state-chartered banks allowing those banks with offices in affected areas to temporarily close. The Department starts contacting state banks in the projected landfall area.

Friday, August 25th – Hurricane Harvey makes landfall along the Texas Coastline.

Saturday, August 26th – Governor Abbott adds 20 counties to original disaster declaration proclamation.

Sunday, August 27th – Governor Abbott adds four additional counties to original disaster declaration proclamation.

Monday, August 28th – Governor Abbott adds four additional counties to original disaster declaration proclamation. The Texas Department of Banking issues an updated proclamation and order authorizing temporary branches due to Hurricane Harvey. The Department begins contacting banks in affected areas utilizing the "Event Management Database Script." The FDIC and FRB assisted in this process.

Monday, August 28th – The Department creates a Hurricane Harvey webpage to keep the public notified on emergency information. This includes the proclamations issued by the Governor and the Department, as well as information on temporary operating facilities

Tuesday, August 29th – The Department employees begin logging state bank responses into the FDICs "Event Monitoring System" database, prioritizing which banks need a follow up call or assistance.

Wednesday, August 30th – Regulator contact information is added to the Department's website for consumers with questions about financial services during the emergency.

Wednesday, August 30th – The Department sends an employee to the George R. Brown Convention Center, Houston, Texas to see if the ATMs were functioning as intended for evacuees.

Thursday, August 31st – Continued follow-up calls with bankers.

Friday, September 1st – Continued follow-up calls with bankers. The Department's emergency phone line is monitored over the weekend in the event of an emergency.

Monday, September 4th – Continued follow-up calls with bankers. Determined what banks with upcoming examinations scheduled needed to be accommodated or delayed.

Tuesday, September 5th – Continued follow-up calls with bankers. Executive management conducted a post-hurricane meeting with staff to brainstorm and discuss the Department's emergency reaction plan for future disasters.

Wednesday, September 6th – Monday, September 11th – Continued follow-up calls with bankers.

Thursday, September 14th – Governor Abbott adds 2 counties and extends disaster proclamation.

Wednesday, September 20th – Governor Abbott extends disaster declaration for 60 counties affected by Harvey.

Monday, October 2nd – The Texas Department of Banking issues an industry notice that provides support and guidance for financial institutions and borrowers affected by Harvey – Home Equity Loans and Home Repairs.

Monday, October 9th – The Department adds a link to the consumer toolkit released by the Consumer Financial Protection Bureau that guides consumers through the necessary steps to secure their financial obligations after a natural disaster.

Friday, October 20th – Governor Abbott extends disaster declaration for 60 counties affected by Harvey

Sunday, November 19th – Governor Abbott extends the disaster declaration for 60 counties affected by Harvey.

Wednesday, November 22nd – Reports to determine if provision expense spiked at state banks in affected counties are developed.

Monday, November 27th – The Department releases the latest edition of the Texas Bank Report, which includes an article on Hurricane Harvey and the lessons learned from bankers and recovery efforts.

Monday, December 18th – Governor Abbott extends disaster declaration for 60 counties affected by Harvey.

Wednesday, January 17th – Governor Abbott extends disaster declaration for 60 counties affected by Harvey.

Exhibit A -

Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 /877-276-5554
www.dob.texas.gov

PRESS RELEASE
Date: August 24, 2017

Department Issues Proclamation to Texas State-Chartered Banks for Hurricane Harvey

Charles G. Cooper, Texas Banking Commissioner, today issued a proclamation allowing Texas state-chartered banks with offices in areas that may be affected by Hurricane Harvey to temporarily close under Section 37.003 of the Texas Finance Code.

In issuing the proclamation, Banking Commissioner Charles G. Cooper said he expects that only those bank offices directly affected by severe weather will close. Financial institutions needing additional information may contact the Department of Banking by email or toll-free at 877-893-6246.

Exhibit A -

TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 /877-276-5554
www.dob.texas.gov

Charles G. Cooper
Commissioner

Proclamation
By the Texas Banking Commissioner

In response to the declaration by Governor Greg Abbott of August 23, 2017, that Hurricane Harvey poses a threat of imminent disaster along the Texas Coast and in the counties of Aransas, Austin, Bee, Calhoun, Chambers, Colorado, Brazoria, DeWitt, Fayette, Fort Bend, Galveston, Goliad, Gonzales, Harris, Jackson, Jefferson, Jim Wells, Karnes, Kleberg, Lavaca, Liberty, Live Oak, Matagorda, Nueces, Refugio, San Patricio, Victoria, Waller, Wharton, and Wilson, and pursuant to Section 37.003 of the Texas Finance Code, I find that an emergency is impending in the above areas of the state.

Accordingly, I, Charles G. Cooper, Banking Commissioner of Texas, do hereby authorize banks organized under the laws of the State of Texas, at their discretion, to close offices in the areas indicated above and other areas that may be impacted by Hurricane Harvey and related weather conditions until appropriate human resources, utilities and security can be restored to safely serve the financial service needs of the affected communities.

Dated this 24th day of August 2017

/s/
Charles G. Cooper
Banking Commissioner

Exhibit B -

Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 /877-276-5554
www.dob.texas.gov

PRESS RELEASE
Date: August 28, 2017

Department Issues Updated Proclamation and Order Authorizing Temporary Branches Due to Hurricane Harvey

Commissioner Charles G. Cooper issued a new proclamation updating the list of counties in which banks with offices in areas that may be affected by Hurricane Harvey to temporarily close under Section 37.003 of the Texas Finance Code. The total number of counties affected has increased to 54:

> Aransas, Atascosa, Austin, Bastrop, Bee, Bexar, Brazoria, Brazos, Burleson, Caldwell, Calhoun, Cameron, Chambers, Colorado, Comal, DeWitt, Fayette, Fort Bend, Galveston, Goliad, Gonzales, Grimes, Guadalupe, Hardin, Harris, Jackson, Jasper, Jefferson, Jim Wells, Karnes, Kerr, Kleberg, Lavaca, Lee, Leon, Liberty, Live Oak, Madison, Matagorda, Montgomery, Newton, Nueces, Polk, Refugio, San Jacinto, San Patricio, Tyler, Victoria, Walker, Waller, Washington, Wharton, Willacy, and Wilson

In issuing the proclamation, Commissioner Cooper said he expects that only those bank offices directly affected by severe weather will close.

Commissioner Cooper also issued an Order authorizing Texas state-chartered banks to open temporary branch offices or other facilities required for banking operations for the purpose of prompt restoration of access by the public to banking services.

Banks seeking to open a temporary facility or needing additional information should notify the Department by email or toll-free phone at 877-893-6246.

Exhibit B -

Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 /877-276-5554
www.dob.texas.gov

Proclamation
By the Texas Banking Commissioner

In response to the continuing damage and threat of damage caused by Hurricane Harvey, and in recognition of the addition of several Texas counties to the disaster area declared by Governor Greg Abbott on August 23, 2017 and subsequent to that initial declaration, I find that an emergency exists in the counties of Aransas, Atascosa, Austin, Bastrop, Bee, Bexar, Brazoria, Brazos, Burleson, Caldwell, Calhoun, Cameron, Chambers, Colorado, Comal, DeWitt, Fayette, Fort Bend, Galveston, Goliad, Gonzales, Grimes, Guadalupe, Hardin, Harris, Jackson, Jasper, Jefferson, Jim Wells, Karnes, Kerr, Kleberg, Lavaca, Lee, Leon, Liberty, Live Oak, Madison, Matagorda, Montgomery, Newton, Nueces, Polk, Refugio, San Jacinto, San Patricio, Tyler, Victoria, Walker, Waller, Washington, Wharton, Willacy, and Wilson.

Accordingly, I, Charles G. Cooper, Banking Commissioner of Texas, do hereby authorize banks organized under the laws of this state, at their discretion, to close offices, pursuant to Section 37.003 of the Texas Finance Code in the areas indicated above and other areas that may be impacted by Hurricane Harvey and related weather conditions until appropriate human resources, utilities and security can be restored to safely serve the financial service needs of the affected communities.

Dated this 28th day of August 2017.

/s/
Charles G. Cooper
Banking Commissioner

Exhibit B

ORDER NO. 2017-013

<u>ORDER AUTHORIZING TEMPORARY BRANCHES OR OFFICES</u>

I, Charles G. Cooper, Banking Commissioner of the State of Texas, issued a proclamation on August 24, 2017, authorizing Texas state-chartered banks with offices in areas affected by Hurricane Harvey and related weather conditions to temporarily close pursuant to Section 37.003 of the Texas Finance Code. On August 28, 2017, in response to the continuing damage and threat of damage caused by Hurricane Harvey, I amended the aforementioned proclamation to recognize additional affected areas.

On August 23, 2017, Governor Greg Abbott issued a disaster proclamation certifying that Hurricane Harvey posed a threat of imminent disaster, including severe flooding, storm surge and damaging winds to several Texas counties. By amendments on August 26 and 27, 2017, Governor Abbott declared a disaster in additional counties, such that a disaster has been declared in Aransas, Atascosa, Austin, Bastrop, Bee, Bexar, Brazoria, Brazos, Burleson, Caldwell, Calhoun, Cameron, Chambers, Colorado, Comal, DeWitt, Fayette, Fort Bend, Galveston, Goliad, Gonzales, Grimes, Guadalupe, Hardin, Harris, Jackson, Jasper, Jefferson, Jim Wells, Karnes, Kerr, Kleberg, Lavaca, Lee, Leon, Liberty, Live Oak, Madison, Matagorda, Montgomery, Newton, Nueces, Polk, Refugio, San Jacinto, San Patricio, Tyler, Victoria, Walker, Waller, Washington, Wharton, Willacy and Wilson counties.

Accordingly, pursuant to the above disaster proclamations issued by Governor Abbott and myself, and in accordance with Texas Finance Code §§ 37.003 and 37.007, I find that an emergency has affected and will continue to affect certain Texas state-chartered banks for an extended period, and I hereby authorize banks organized under the laws of the State of Texas, in the areas indicated above and other areas that may be impacted by Hurricane Harvey and related weather conditions, to open temporary branch offices or other facilities required for banking operations for the purpose of prompt restoration of access by the public to banking services.

A temporary bank office opened pursuant to this Order may remain open for so long as the conditions requiring the temporary office continue to exist.

Effective Date

This Order is effective on August 28, 2017, and remains in effect until November 27, 2017 or until such time as I rescind this Order.

Signed on this 28th day of August, 2017.

/s/
Charles G. Cooper
Banking Commissioner of Texas

Exhibit C

EVENT MANAGEMENT DATABASE SCRIPT

1) Was your financial institution materially impacted by this event?

2) Is the physical condition and availability of your staff sufficient to implement your Business Continuity Plan?

3) Are all offices open? (Designate individual office openings/closings via office module.)

4) Are telecommunications available to all offices?

5) If not, please describe outages and estimated recovery time.

6) Is electrical power available to all offices? (Note: Also inquire if the bank is operating on a generator and note in comments section).

7) If not, please describe outages and estimated recovery time.

8) Is the institution using temporary locations?

9) If so, where?

10) Are there physical security concerns at any of your offices?

11) If so, please describe.

NOTE: If no concerns are noted in the first 11 questions, there is no need to continue with the remaining questions.

12) Is IT serviced in-house?

13) Have IT operations been moved to a backup site?

14) Is G/L processing current?

15) If G/L processing is not current, what is the estimated date to meet this objective?

16) Is customer transaction posting, including ACH, current?

17) If customer posting is not current, please estimate date.

18) Is the institution able to transmit & receive cash letters?

19) Is there a cash shortage?

Exhibit C

20) List current status and plan of action, if necessary.

21) Have there been any unusual withdrawals?

22) Does the institution offer online banking?

23) Is online banking operational?

24) Does the institution have its own ATM network?

25) Is the institution–owned ATM network operational?

26) Can customers access the national ATM network?

27) If the national ATM network is down, what is the estimated date to restore your ATM network?

28) Does the bank have a website?

29) Has the website been updated?

30) Can we refer customers to this website for updates?

31) Does institution issue debit/credit cards?

32) Are there any known issues with debit credit/cards?

33) Do you need any Regulatory assistance and/or flexibility?

34) What phone number would you like for us to give to customers?

35) Are there any special issues, needs, or concerns that we need to be aware of?

36) Please provide a Contact Name for the regulatory staff?

37) Contact Number?

38) Backup Contact Name?

39) Backup Contact Number?

Note: The proposed database will include a block that will be used to identify the specific event that is impacting the bank in question. In the case of multiple events, the user would first select the specific event associated with the call/update.

Exhibit D

TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705
512-475-1300 /877-276-5554
www.dob.texas.gov

Charles G. Cooper
Commissioner

INDUSTRY NOTICE 2017-10
Date: October 2, 2017

Texas Banking Department Provides Support and Guidance for Financial Institutions and Borrowers Affected by Hurricane Harvey – Home Equity Loans and Home Repairs

The Texas Department of Banking recognizes the impact that natural disasters such as Hurricane Harvey have on both customers and financial institutions. The Department fully anticipates that lenders will be making new loans to assist in recovery efforts and may need to adjust terms or temporarily extend maturities of existing loans where circumstances warrant and safety and soundness is not compromised. Financial institutions should identify distressed borrowers and monitor their progress to resolve financial difficulties caused by Hurricane Harvey. The Department is supportive of measures that will help borrowers recover and provide an opportunity to ultimately repay their debt. The purpose of this notice is to provide additional guidance to banks about the options and potential problem areas of extending new loans and renewing or modifying existing consumer loans.

Loans for Home Repair

Many homes in declared disaster areas need repairs and rehabilitation, and homeowners may seek to borrow funds for that purpose. A customer may seek a home equity loan, a home equity line of credit (HELOC), or a home improvement loan. Customers with an existing home equity loan may seek assistance if the loan is in danger of default in the form of a modification or a refinance, with or without additional cash advanced. These situations have constitutional implications, and banks should proceed with caution before modifying a home equity loan.

Loan Options – New versus Existing Loan

New Loans - For a new home equity loan or HELOC, the funds advanced, when added to the outstanding principal balance of all other loans secured by the homestead, may not exceed 80% of the homestead's fair market value (FMV) at the time the loan is made, as determined by a current appraisal. However, the FMV of flooded property will likely have declined due to the resulting damage, which may make this option unavailable.

Alternatively, a homeowner could apply for a home improvement loan to make repairs to the homestead. A home improvement loan is not subject to a loan-to-value (LTV) requirement but is typically evaluated based on the expected value after improvements are completed. Further, the closing for a home improvement loan is subject to a shorter waiting period (five days) than a home equity loan or HELOC. However, obtaining an adequate appraisal may be difficult during recovery efforts when resources are stretched thin. In such cases, institutions may adopt reasonable guidelines to allow rational flexibility in arriving at property values.

Existing HELOC – A homeowner with an existing HELOC may be able to obtain an additional advance on the HELOC. Because the maximum amount of a HELOC is determined at the time the HELOC was closed, additional draws are possible if the current outstanding balance on the HELOC is less than 50% of the FMV at closing. The minimum draw on an existing HELOC may not be less than $4,000.

Refinance of Existing Home Equity Loan – Although no additional funds are available to be drawn under an existing home equity loan, additional funds might be available through a refinance, provided the current FMV of the homestead will support the amount financed. An existing home equity loan may be refinanced without regard to the one-year seasoning requirement if the homestead is located within an area that has been declared a "disaster" by the Governor or the President of the United States, and if the homeowner requests the closing less than one year from the original closing due to the emergency or disaster.

Modification of Existing Home Equity Loan – An existing home equity loan may be modified at the request of the homeowner without violating the Texas Constitution if the modification is consistent with the opinion of the Texas Supreme Court in *Sims v. Carrington Mortgage Services, L.L.C.*, 440 S.W.3d 10 (2014). In the context of an existing home equity loan in default, the court held that a new agreement with the borrower that capitalizes past-due interest, fees (late charges), property taxes, and insurance premiums into the principal of the loan (all past-due amounts owed under the terms of the initial loan) and a lowering of the interest rate and the amount of installment payments, but does not involve the satisfaction or replacement of the original note, an advancement of new funds, or an increase in the obligations created by the original note, is not a new extension of credit for purposes of section 50 of Article XVI of the Texas Constitution.

As noted in 7 TAC §153.14(2), a home equity loan and a subsequent modification are considered a single transaction for purposes of the home equity lending requirements of Section 50(a)(6), including the percentage cap on loan fees.

Although the *Sims* case did not explicitly involve traditional payment deferrals or an extension of the term of the original note, we believe these to be permissible under the Court's holding that "[t]he Constitution does not prohibit the restructuring of a home equity loan that already meets its requirements in order to avoid foreclosure while maintaining the terms of the original extension of credit." However, we recommend that bank management consult with legal counsel before engaging in these types of loan modifications for home equity loans.

This Industry Notice is not an interpretation of the Texas Constitution and is not being issued under Texas Finance Code §11.308 and §15.413. State-chartered banks with questions related to home equity lending activity with customers affected by Hurricane Harvey should contact the Texas Department of Banking via email or 512- 475-1300.

Additional Resources

IBAT – Post Harvey Resources
IBAT – Home Improvement and Home Equity Loans: Bona Fide Emergencies
TBA – Hurricane Harvey Resources

Exhibit E

FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-56-2017
October 26, 2017

Regulatory Relief:
FDIC Issues Temporary Exceptions to Appraisal Requirements in Areas Affected by Severe Storms and Flooding Related to Hurricanes Harvey, Irma and Maria

Summary: The FDIC is providing flexibility relative to appraisal requirements for real estate-related transactions in areas declared a major disaster in Florida, Georgia, Puerto Rico, Texas, and the U.S. Virgin Islands due to severe storms and flooding related to Hurricanes Harvey, Irma, and Maria. The flexibilities may be exercised by any institution underwriting a real estate-related transaction in these areas.

Statement of Applicability to Institutions With Total Assets Under $1 Billion: This Financial Institution Letter applies to all FDIC-supervised institutions with loans secured by real estate in the affected areas.

Distribution:
FDIC-Supervised Institutions

Suggested Routing:
Chief Executive Officer
Chief Lending Officer

Related Topics:
12 CFR Part 323 of the *FDIC Rules and Regulations*

Interagency Appraisal and Evaluation Guidelines, FIL-82-2010

Attachments:
Press Release
Federal Register Notice and Order

Contact:
Beverlea S. Gardner, Senior Examination Specialist, at BGardner@FDIC.gov or (202) 898-3640

Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2017/index.html.
To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights: The FDIC is facilitating the recovery process in areas declared to be major disasters by temporarily easing appraisal requirements for real estate-related financial transactions under the *Financial Institutions Reform, Recovery, and Enforcement Act*.

- The exception expires three years after the date each state or territory was declared a major disaster.

- To qualify for the exception, an institution must document that:
  (1) The transaction involves real property in an area declared a major disaster;[1]
  (2) There is a binding commitment to fund a transaction in an area declared a major disaster in the states or territories listed below that was entered into on or after:
    - August 25, 2017, but no later than August 24, 2020, for Texas;
    - September 7, 2017, but no later than September 6, 2020, for the U.S. Virgin Islands;
    - September 10, 2017, but no later than September 9, 2020, for Florida and Puerto Rico; and
    - September 15, 2017, but no later than September 14, 2020, for Georgia;
    - September 20, 2017, but no later than September 19, 2020, for Puerto Rico; and
    - September 21, 2017, but no later than September 20, 2020, for the U.S. Virgin Islands.
  (3) The value of the real property supports the institution's decisions to enter into the transaction.

- A financial institution relying on the appraisal exception should maintain sufficient information estimating the collateral's value to support the institution's credit decision.

- The FDIC will review institutions' reliance on the appraisal exception during regularly scheduled examinations.

[1] See https://www.fema.gov/disaster/4332. See https://www.fema.gov/disaster/4335. See https://www.fema.gov/disaster/4337. See https://www.fema.gov/disaster/4336. See https://www.fema.gov/disaster/4338. See https://www.fema.gov/disaster/4339. See https://www.fema.gov/disaster/4340.

Exhibit F -

Texas Bank Report

Texas Department of Banking, Charles G. Cooper, Commissioner

November 2017

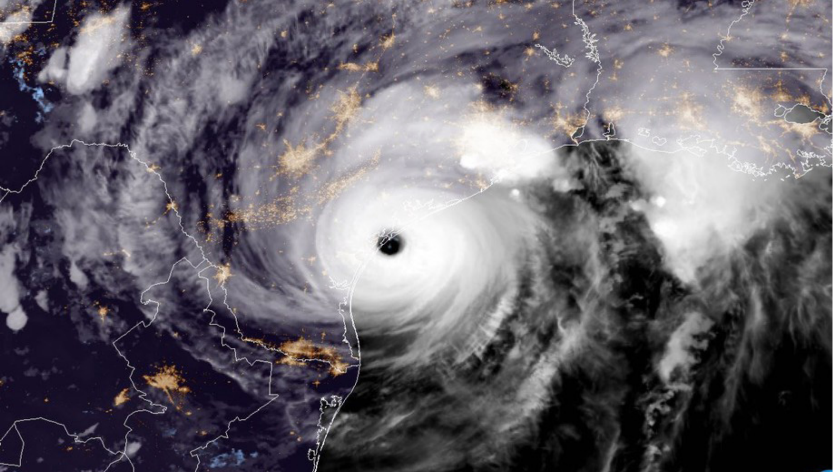


Exhibit F

Hurricane Harvey

By Jared Whitson

Hurricane Harvey will go down in the books as one of the largest, most severe hurricanes in the history of Texas. According to the Weather Channel, when Hurricane Harvey made landfall on August 25, 2017, it was the first Category 4 hurricane to hit the United States since Hurricane Charley hit southwest Florida in August 2004. Hurricane Harvey initially made landfall near Rockport, Texas, threatening millions of Texans with 130-mph plus winds, heavy rains, and a massive storm surge that drenched coastal areas. It then stalled around southern Texas for days as a weakening hurricane produced catastrophic flash flooding throughout most of southeast and central Texas. According to the National Weather Service, Cedar Bayou, Texas, located just southeast of Houston, recorded over 51 inches of rain, setting the record for the most rainfall ever from a single storm in the continental United States. In the aftermath, Governor Greg Abbott declared 54 Texas counties a disaster area, impacting 2,422 national and state-chartered branch locations. Loss estimates for these counties are in the multi-billions, and recovery efforts will take years to complete. At the peak, 260 state-chartered branches were temporarily closed due to the storm's massive destruction. In many cases, roadways were completely unpassable due to severe flood waters, which limited employee access to banking locations. However, through the strength and courage of many Texans, banks implemented their disaster recovery and business continuity plans, and their locations were quickly back up and functioning to serve their respected communities. Within several weeks, all state-chartered branches opened in some capacity, except for three that remain closed. This is truly remarkable considering the magnitude of the devastation caused by Hurricane Harvey.

Lessons Learned

Financial institutions responded admirably to the unique challenges caused by Hurricane Harvey. Disaster recovery and business continuity plans were activated and generally provided sound direction in restoring services in quick order. The lessons taken from previous storms such as Hurricanes Katrina, Ike and Rita proved to be invaluable, as many organizations utilized those experiences through advanced planning and preparation to guide them through this catastrophic event. Due to advancements in technology, the impact to some customers was less severe than with prior events as technology provided alternative means to conduct business. In areas that had continuous power, the large-scale adoption of mobile banking and remote deposit technologies allowed most customers access to their accounts, which bridged the gap until brick and mortar banking locations were fully functional and accessible. Below are a few takeaways provided by financial institutions regarding their disaster recovery plans and lessons learned from the effects of Hurricane Harvey.

- Focus on effective communication with customers and employees. Institutions reported difficulties communicating with their employees and customers in an efficient and timely manner to ensure they were safe and properly informed. As a result, several banks have since engaged third party companies that specialize in mass notification systems to help with delivering and receiving important messages to both staff and customers.

- Utilize social media (Facebook, Twitter, Snapchat, etc.) before, during, and after any catastrophic event. Social media was key in delivering cost-effective, timely updates and solutions to affected communities.

- Discuss with key third-party vendors their disaster recovery process and determine how a disruption in their operations would impact the execution of the institution's disaster recovery procedure. For example, there were instances of armored car services being understaffed and could not meet the demands of the institutions in affected areas.

- Some institutions deployed teams to Dallas, Texas prior to Hurricane Harvey's arrival, to operate the bank's information technology systems in the event of lost power or communications in the affected areas.

- Multiple facilities sustained considerable damage; however, bankers acted swiftly to obtain temporary mobile facilities to serve their communities.

- In areas that had no power for an extended period, the use of satellite service communications was vital in providing internet access to the bank's core operating systems.

- Ensure that payment systems business resumption plans consider the possibility that employees will be unable to access bank locations due to flooding.

- Accessing surveillance cameras of facilities offsite proved to be a useful tool in determining what, if any, damage had occurred during and after the storm. However, in some instances, the positioning of the cameras did not capture a view of the street to determine if the roadways leading into the parking lot were flooded. In hindsight, a properly positioned camera would have provided useful information in determining if employees could access the banking facility.

- Ensure that ample cash is on hand and that automated teller machines are fully stocked prior to the arrival of a catastrophic hurricane.

- Establish a rapport with local law enforcement agencies so that in the event of a natural disaster or emergency, these first responders already know who they are communicating with.

- Develop an internal database application that has predetermined questions focused on the needs of employees impacted by an event. Creating a centralized process will make it easier to track and prioritize which employees need financial and/or other assistance.

- Ensure that policies and procedures for endorsing insurance checks are up to date and meet the institution's needs.

- Report any operational difficulties to the Department.

As institutions resume normal operations, it is vital for executive management to review existing disaster recovery and business continuity plans, solicit input from staff, and make necessary modifications for future events. The plans should be enterprise-wide and address all critical needs, functions and processes, and personnel. Factors to consider, include, but are not limited to: establishment of effective communications; operating with limited staff; restoration of infrastructure or core systems; loss of customer data; treatment of destroyed documents, files, and collateral; and handling contaminated or destroyed safe deposit boxes and contents.

Bankers should also consider threats like a cyber security event, terrorist attack, fire, tornado, pandemic event, etc. and prepare accordingly.

Recovery

The Department and federal regulatory agencies are encouraging financial institutions to work with borrowers in communities affected by Hurricane Harvey. Commercial borrowers are expected to face challenges as their normal business operations are interrupted, and unless they had business interruption insurance, it is anticipated that revenue losses may hinder their ability to service debt without some assistance. As such, many banks are forbearing payments and/or modifying loan terms to provide storm victims relief until they can reassess their financial condition.

Financial institutions with customers located in the disaster areas should consider performing risk assessments on a more frequent basis to identify loans and investments that are significantly affected and may show a higher potential for loss. The assessment should include a mechanism for monitoring collateral and the collectability and timing of insurance. This may necessitate an increase in the frequency of loan reviews and additional provisions for potential loan losses. In addition, management should consider developing a disaster credit policy that provides guidance on how to appropriately monitor customers in affected areas.

Bank management should also monitor municipal securities which might be negatively affected by the economic conditions in the coastal bend and greater Houston areas. Prudent efforts to monitor these investments should be taken as part of a bank's ongoing risk assessment process.

Real estate values in the affected areas will experience significant fluctuations in value, affecting existing and new real estate loans. As recovery efforts begin, it is anticipated that loan demand will increase as consumers and businesses will need funds to rebuild. Policies and practices regarding estimating values on collateral in the real estate market should be prudent and reasonable for the current situation. Sufficient documentation should be retained in each loan file to support valuations and credit decisions.

On October 17, 2017, the federal financial regulatory agencies took action and issued a press release announcing temporary exceptions to the appraisal requirements for areas affected by Hurricanes Harvey, Irma, and Maria to aid in the recovery process. Similar regulatory relief occurred in 2005 after Hurricanes Katrina and Rita.

The Department has been in contact with affected institutions and will monitor conditions as recovery efforts continue. We are prepared to provide guidance as necessary to help address the needs of regulated entities and their customers during this process.

Acknowledgements

This article was composed using a variety of sources, including the FDIC, CFPB, the Office of the Governor, and community bankers. Other sources include the Weather Channel and Deloitte.

Exhibit G

FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-62-2017
December 15, 2017

MAJOR DISASTER EXAMINER GUIDANCE

Interagency Supervisory Examiner Guidance for Institutions Affected by a Major Disaster

Summary: The federal financial institution regulatory agencies, in consultation with the Conference of State Bank Supervisors, have jointly issued the attached guidance outlining the supervisory practices to be followed in assessing the financial condition of insured depository institutions and branches and agencies of foreign banking organizations (institutions) affected by a disaster that results in the President declaring an area a major disaster with individual assistance.

Statement of Applicability to Institutions With Total Assets Under $1 Billion: This Financial Institution Letter applies to all FDIC-supervised institutions that are directly affected by a major disaster.

Distribution:
FDIC-Supervised Institutions

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Lending Officer

Related Topics:
FFIEC Accounting and Regulatory Reporting Questions & Answers at www.FFIEC.gov

Attachments:
Interagency Supervisory Guidance for Institutions Affected by a Major Disaster

Contact:
Beverlea S. Gardner, Senior Examination Specialist, at BGardner@FDIC.gov or (202) 898-3640

Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2017/index.html.
To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.
Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

- Areas declared a major disaster with individual assistance generally experience extensive damage that will continue to affect the business activities of the institutions serving that area for an extended period of time.
- The attached *Interagency Supervisory Guidance for Institutions Affected by a Major Disaster* describes supervisory practices for institutions directly affected by a major disaster, including institutions that may be located outside the area declared a major disaster, but have loans or investments to individuals or entities located in the area declared a major disaster.
- The supervisory agencies will work with institutions affected by a major disaster to determine their needs, reschedule any examinations, consider extensions for filing quarterly Reports of Condition and Income or other reports, and address capital declines due to temporary deposit growth, as needed.
- The guidance indicates examiners will consider how management at affected institutions conduct initial risk assessments and refine such assessments as more complete information becomes available and recovery efforts proceed.
- The guidance states examiners will consider the extent to which weaknesses in an institution's financial condition are caused by external problems related to the major disaster and its aftermath.

HOUSE INVESTMENTS AND FINANCIAL SERVICES COMMITTEE

Independent Bankers Association of Texas Testimony

Interim Study Hearing January 31, 2018

My name is Karen Neeley. As general counsel for the Independent Bankers Association of Texas (IBAT), I am pleased to provide information and recommendations relating to the impact of the impact of Hurricane Harvey on Texas community banks as well as the impact on consumers with regard to mortgage and home equity markets.

Disaster Recovery Planning. All banks are required to have business continuity plans in place for their institution and to require significant vendors—like data processors—to also have such plans in place. Following Hurricane Katrina, the federal regulators promulgated a guidance titled *Lessons Learned From Hurricane Katrina: Preparing Your Institution for a Catastrophic Event.* Texas banks took these lessons to heart and put enhanced plans into place. Based on feedback from the state and federal regulators, we believe that those plans operated as well as they could under the difficult circumstances. Advance planning includes items such as identification of alternative sites for branches, generators for critical facilities, and response training. One issue that is beyond our control, however, is the delivery of adequate amounts of cash to branches and to ATMs. Couriers can't always get from the Federal Reserve branches to all of the places needing cash. This was one of many issues that were tracked in daily calls between the regulators and the trade associations during the height of the storm and the immediate aftermath. These daily calls were very useful in identifying concerns, allocating resources, and problem solving.

Customer Assistance. Community banks are committed to assuring that their customers and their communities have the resources to deal with the immediate financial needs and then the ongoing recovery efforts. Three community banks in Galveston (HomeTown Bank, Moody National Bank and Texas First Bank) quickly announced low-interest loans to help impacted businesses recovering from storm damages that are in dire need of available gap financing. [See news release.]

Bank responses are hemmed in to some extent by state and federal regulatory requirements, some of which can be waived. IBAT prepared, distributed, and posted on its web site a series of FAQs to answer some of the most common questions that arise. [See attached FAQs – Disaster Response Issues.]

Some issues cannot be waived, however. The following discussion identifies areas that are of concern to Texas lenders.

Home Equity Lien Requirements. The Texas Constitution contains over two dozen requirements for home equity liens, which if not satisfied destroy the validity of the lien.

And since these loans must be without personal liability, the loss of the collateral would be devastating.

The requirements include the following:

- a cooling-off period of twelve days following receipt of notice or application
- three day right of rescission
- amount of loan and all other indebtedness can't exceed 80% of fair market value on the date the extension of credit is made
- one year period before owner can refinance, but with exception for state or federal declaration of state of emergency.

Waiver for Disaster. These particular requirements create impediments for consumers who are trying to quickly obtain credit to deal with immediate cash needs or the need to begin repairs to badly damaged homes after a natural disaster, such as Hurricane Harvey. As noted, the one year period before a refinancing can occur was amended to permit a waiver upon request by the owner in the case of a declared disaster. However, that is the only provision with such an exception.

The home equity rescission period has no exceptions. However, both the rescission period for home improvement loans found in the Constitution and the one in Truth in Lending Act, Regulation Z permit waiver for certain good cause. Article XVI, Section 50(a)(5) (home improvement loans) permits waiver of both its cooling off period (five days) and the right of rescission (three days after closing) if the work and material are necessary to complete immediate repairs to conditions on the homestead property that materially affect the health or safety of the owner and the owner acknowledges this in writing. A similar exception to the cooling off period of twelve days and the right of rescission for home equity loans would appear to be appropriately limited and reasonable.

80% LTV. The thornier issue is the limitation of the amount of a home equity loan or a refinanced home equity loan to 80% of the fair market value at closing, taking into consideration all indebtedness secured by the homestead. Sadly, the value of the consumers' most important asset—their home—is likely decreased as a result of the natural disaster. Thus, the chance of obtaining a home equity loan is diminished. One possible solution could be determining the loan to value ratio based upon appraised value on an "as completed basis" as is used for construction lending in the event of a declared disaster. Such an appraisal would still need to comply with the state and federal standards for appraisals and would assure that the property was not over-leveraged.

Modification. Both the Finance Commission/Credit Union Commission in their interpretations and the Texas Supreme Court have concluded that modifications of existing home equity loans can be accomplished in lieu of a refinancing transaction, which would trigger all of the lien requirements. See *Sims v. Carrington Mortgage Services, LLC*, 440 SW3d 10 (Tex. Sup. 2014). Any fees imposed for the transaction would be subject to the original fee cap and no additional funds could be advanced other than those for insurance and taxes required to be paid under the original loan. See 7 TAC 153.14(2) (Joint Financial Regulatory Agencies Interpretation).

Under Regulation Z, a modification would not trigger new disclosures and waiting periods as would a refinancing. However, a new flood certification would be required under federal law. Typically, the cost for that is $10.

Forbearance. One concern raised by the recent natural disasters has been the need for lenders to delay the modification process and simply offer forbearance for a reasonable period of time until the homeowner can deal with the process. Their income stream may very well be interrupted due to their employer or business being closed. They simply may not be able to determine what changes to the loan terms (new payment schedule) will work or when they can start making payments again.

Some cautious attorneys have worried that there must be a modification with a new payment stream that satisfies the Constitutional requirement that payments be substantially equal successive periodic installments, consisting of accrued interest and some principal. However, the Texas Supreme Court in *Sims* and in *Garofolo v. Ocwen Loan Servicing, LLC*, 497 SW3d 474 (Tex. Sup. 2016) has ruled that the validity of the lien is determined at the time the loan is made. Thus, if the loan was originally set up for a compliant repayment schedule, a subsequent event should not invalidate the lien. See 7 TAC 153.11 for the repayment schedule rule. The original point of the repayment requirement in the home equity provision was to prohibit balloon payments. Unfortunately, rather than state that directly, the repayment language was used. It would be more straightforward to clearly prohibit balloon payments, defined as a final payment more than double the regular payment. (See definition in Section 343.202 Tex. Fin. Code)

IBAT and its fellow trade associations, Texas Bankers Association and Texas Mortgage Bankers Association, are working collaboratively to develop suggested interpretations for the Finance Commission to consider adopting.

Conclusion. The many, rigid protections of the Texas Constitution as to home equity lending prevent some potential abuses. However, they do so at the expense of the homeowners' ability to use this asset at critical points—such as after a natural disaster.

Respectfully submitted

Karen M. Neeley

General Counsel

NEWS RELEASE

Galveston Economic Development Partnership
1700 Strand, P.O. Box 8029, Galveston, Texas 77553

CONTACT: Jeffrey G. Sjostrom, President
(409) 770 - 0216
Email: sjostrom@gedp.org

GALVESTON ECONOMIC DEVELOPMENT PARTNERSHIP

SUBJECT: **Hurricane Harvey Business Recovery Loans**

FOR RELEASE: September 5, 2017

===

The devastation from Hurricane Harvey has prompted Galveston banks to reinstate a Business Recovery Loan program that proved successful following Hurricane Ike. "**HomeTown Bank, Moody National Bank and Texas First Bank** will again provide low-interest loans to help impacted businesses recovering from storm damages that are in dire need of available gap financing," said Jeffrey Sjostrom, President of the Galveston Economic Development Partnership (GEDP).

Victor Pierson of Moody National Bank stated "Following the success we achieved after Hurricane Ike, we passed this model on to other communities impacted by natural disasters. Today, it only makes sense to restart this lending program for Hurricane Harvey. It is an immediately useful recovery tool and is designed to sustain businesses throughout this difficult time. The model is fully inclusive and any bank that wishes to participate is welcome to join and help grow this important program."

Following the devastation of Hurricane Ike in 2008, these Banks came together in creating a program that could provide low-interest, short-term - gap financing to businesses negatively impacted by the storm. This program evolved into a national model for business recovery and today, these lenders are pleased to announce that they stand united to once again assist businesses impacted by Harvey.

Jimmy Rasmussen of HomeTown Bank said "This loan program proved to be an asset after the devastation of Hurricane Ike and we consider ourselves fortunate to be in a position to be able to offer it again, during this challenging time, as our community recovers from Harvey. We want to help local businesses get back on their feet and get our customers back in their homes any way we can."

This program provides for a short-term (180 day) low interest (fixed rate - 4% APR) single-pay note. The APR (Annual Percentage Rate) will be offered for a limited time (through December 31, 2017) and is intended to provide gap financing for businesses awaiting insurance, SBA or other funding in their long-term recovery.

Participating banks envision extending these loans throughout their customer base with the hope of other banks joining in for expanding the program throughout the affected region, expediting the economic recovery of our communities. "Texas First Bank has banking centers in most of the flood affected areas and I encourage other community banks to join me in providing this valuable program" said Chris Doyle of Texas First Bank.

For further information about the Hurricane Harvey Business Recovery Loan program call the GEDP (409/770-0216) or contact any of the participating banks.

HURRICANE HARVEY BUSINESS RECOVERY LOANS

Local Banks helping Local Businesses

Galveston banks announce special Disaster Recovery Loans for Businesses in the Houston – Galveston Region

- Low-interest business loans for working capital
- Simple, expedited local handling of applications

TERM:
180-Day Loan Program – short-term loan designed to assist in the recovery/rebuilding process.

INTEREST RATE:
4.00% APR* single-payment loan

ELIGIBILITY:
- Business within Galveston County or the disaster impacted area.
- Approval based on each participating bank's standard loan requirements, including credit scores, historical financial information and cash flow.
- Eligible loan uses include working capital, inventory, equipment, demolition, utility connection costs and other reasonable business expenses.
- Hurricane Harvey Recovery Loans are for new purposes only; proceeds cannot be used to pay off existing loans or debt.

EQUAL HOUSING LENDER FDIC

*Annual Percentage Rate; limited time offer begins Sept. 5, 2017, and ends Dec. 31, 2017.

Your Galveston County financial institutions are here as they have been for generations, with resources available and a willingness to help. We are putting our community needs ahead of our own interests for the recovery effort, and we encourage you to let us be part of your future.

Visit one of these participating banks for Hurricane Harvey Business Recovery Loan information

HomeTown Bank — THE BANK YOU'LL CALL HOME. MNB TEXAS FIRST BANK

HomeTown Bank	Moody National Bank	Texas First Bank
(409) 763–1271	(409) 765–5561	(409) 766–4350
www.htbna.bank	www.moodybank.com	www.texasfirst.bank

FAQs – Disaster Response Issues

The banking regulators urge bankers to be flexible and provide reasonable accommodations to their borrowers who are adversely affected by natural disasters. The following are some questions that arise from this.

Q. Many consumers have their income temporarily disrupted by storms. We would like to defer payments. Any legal or regulatory issues?

A. From a Reg Z perspective, a payment deferral should be a modification at most. It would not trigger new disclosures. It is explicitly not a refinancing. See sec. 1026.20(a)(4). From a Texas Credit Code perspective, you would not be able to charge a deferral fee on a loan under chapter 342 (installment loan with rate over10%). Of course, you probably wouldn't want to do so anyway!

Send the customer a letter or use the bank's website with the customer logged in to advise them of the deferral and when the payments should re-start.

Q. So, can we explicitly defer payments on home equity loans?

A. Risky. The Texas Constitution requires home equity loans to be scheduled to be repaid in "substantially equal successive periodic installments." I can argue that so long as the original schedule met that criteria, it is valid. Certainly, the bank can modify a home equity loan. The safest way to do that is to make accommodations (e.g. lower rate and decrease payments) and extend the term. So long as the payment covers accrued interest and "some amount of principal," the loan should be valid.

Q. We expect customers to need home improvement loans quickly in order to start repairs. Can we waive any of the regulatory requirements?

A. Yes, if you and the customer jump through the right hoops! The Texas Constitution requires both a waiting period of 5 days between application and closing and then a 3 day right of rescission. Those can be waived, however, if the owner acknowledges in writing that the work and material are necessary to complete immediate repairs to conditions on the homestead that materially affect the health or safety of the owner or person residing in the homestead.

The Reg Z 3 day right of rescission can be waived for a bona fide personal financial emergency. The consumer must give the creditor a dated written statement that describes the emergency, specifically waives the ROR, and is signed by all of the consumer entitled to rescind.

DO NOT USE PREPRINTED FORMS FOR THESE WAIVERS!

Q. Some consumers may wish to apply for a home equity loan so that they can not only fix the damages but also pull out a little cash. Any issues with that?

A. Sadly, yes. First, remember that the 80% loan to value ratio is measured at closing. If the homestead has been damaged, its current fair market value may not support a home equity loan.

Second, the Texas Constitution requires a twelve day cooling off period from application/receipt of notice concerning extensions of credit and a three day rescission period. These CANNOT BE WAIVED!

Q. We would like to offer special, low-rate unsecured loans to affected consumers. Any minefields with that?

A. Maybe. If your bank should be examined for fair lending pricing issues, this group of loans could skew the results. But since employee loans are typically excluded from the analysis (due to special rates), this portfolio should similarly be excluded.

Be sure that all of your customers know about the program...not just protected class members. If you market it, be sure to reach out to your Hispanic customers through Spanish-language radio, for example.

Q. Our customers will be filing claims on their insurance policies as to property damage. Any special problems there?

A. Yes. The Texas Insurance Code (chapter 557) includes some rules that apply to lenders. If a claim under a policy for damages to residential real property is paid to the insured and the bank and the bank holds all or part of the proceeds, the bank must notify the insured of its requirements for release of the proceeds. This notice must be provided not later than the 10th day after the bank receives the insurance payment.

Similarly, if an insurance proceeds check for damages to personal property is made payable to the bank or otherwise requires the bank's approval, then no later than the 14th business day after the bank receives a request for endorsement or approval it must either endorse/approve or provide a written statement of the reason for the denial.

Q. Many customers with debit/ATM cards did not opt-in to overdraft coverage when we sent the Reg E notice. Can we pay these if they overdraw?

A. Certainly you MUST pay if the items are force-pays under the card rules. But I believe that you could pay these so long as you do not charge a fee of any sort for doing so. Reg E, sec. 1005.17, prohibits a bank from assessing a fee or charge for an overdraft unless its requirements (notice and opt-in) have been satisfied.

Q. Are there any accounting consequences for waiving these (and other) fees?

A. No. You just have foregone revenue.

Texas Department of Savings and Mortgage Lending

House Committee on Investments and Financial Services
Interim Charges Hearing

Harvey Information

Caroline C. Jones, Commissioner

January 31, 2018

Introduction

The Department of Savings and Mortgage Lending exists to provide a healthy residential mortgage lending industry in Texas in order to protect consumers as they go through the mortgage process, and to provide a safe and sound thrift industry. Thrifts are also known as state savings banks and are required to commit to a certain percentage of their loan portfolio being residential mortgage loans.

Thrift Industry

State Savings Banks Damaged by Hurricane Harvey:

- ❖ 36 branches were temporarily closed.
- ❖ 7 days was the longest time a branch was closed.
- ❖ The Department placed a priority on expeditiously providing any approvals needed for the closing of a branch.

Residential Mortgage Lending Industry

Residential Mortgage Lending Entities Damaged by Hurricane Harvey:

- ❖ Harder to quantify the damages on the mortgage side.
- ❖ Some residential mortgage lending entities had their loan volume reduced.
- ❖ Complications from people who did not have flood insurance.
- ❖ The Department has received inquiries relating to flood insurance checks.

Resources and Guidance

- ❖ Important resources for the thrift industry and consumers are available on the Department's website; http://www.sml.texas.gov/
- ❖ The Department issued guidance to the thrift and mortgage industries so they can better assist their customers.

Post Harvey

- 90 day deferral period ended
- Thrift and mortgage entities are providing additional deferrals or modifications as needed
- Thrift and mortgage entities are working with customers to keep them in homes

MBA NEWSLINK®
THE DAILY NEWSLETTER OF THE MORTGAGE BANKERS ASSOCIATION

90-Day Delinquencies Jump Again as Hurricane Fallout Continues

Mike Sorohan **msorohan@mba.org**
January 24, 2018

Black Knight, Jacksonville, Fla., said another 60,000 mortgages became 90 days delinquent in December, driven by both continued hurricane-related fallout as well as upward seasonal and calendar-related pressures.

The company's First Look Mortgage Monitor reported 142,700 90+ days delinquent loans attributed to Hurricanes Harvey and Irma, representing 20 percent of all severely delinquent loans nationwide. The report attributed 102,500 severely delinquent loans in affected areas of Florida and Georgia to Hurricane Irma, while another 40,200 resulted from Hurricane Harvey in southeastern Texas.

The report said Florida has now overtaken Mississippi as the state with the largest share of severely delinquent mortgages

Meanwhile, Black Knight said the overall delinquency rate (representing loans 30 or more days past due, but not yet in active foreclosure) also rose another 3.47 percent in December to 4.71 percent, its highest level since early 2016. December's 6.54 percent year-over-year rise marked the fourth consecutive month of annual increases to the national delinquency rate.

Despite the rise in 90-day delinquencies, the report said foreclosure starts hit a post-recession low in December at 44,500. The inventory of loans in active foreclosure continues to improve, falling 152,000 from last year for a 32 percent annual decline.

Black Knight reported properties 30 or more days past due, but not in foreclosure at 2.412 million, up by 88,000 from November and up by 164,000 from a year ago. Properties 90 or more days past due, but not in foreclosure totaled 726,000, up by 60,000 from November and up by 44,000 from a year ago.

The report said properties in foreclosure pre-sale inventory fell to 331,000, down by 6,000 from November and down by 152,000 from a year ago. Properties 30 or more days past due or in foreclosure totaled 2.743 million, up by 82,000 from November and up by 12,000 from a year ago.

Black Knight said states with the highest rate of non-current mortgages were Mississippi, Louisiana, Florida, Alabama and West Virginia; states with the lowest rates were Colorado, North Dakota, Oregon, Washington and Idaho.

Texas Public Finance Authority

Hurricane Harvey Impact & Agency Highlights

House Committee on Investments & Financial Services

January 31, 2018

Texas Public Finance Authority Overview

The Legislature created the Texas Public Finance Authority (Authority or TPFA) in 1983 to issue bonds on behalf of the Texas Facilities Commission, formerly the General Services Commission, and has since expanded its clients to currently include 20 state agencies and institutions of higher education, as well as open-enrollment charter schools.

The Authority's mission is to provide efficient, cost-effective financing to fund capital projects, equipment acquisitions, and programs as authorized by the Texas Legislature and the citizens of Texas. To achieve this mission, the Authority carries out the following key activities:

- Issues general obligation bonds and revenue bonds for its client agencies to finance capital projects authorized by the Legislature;
- Makes debt service payments and manages bond proceeds, to ensure compliance with federal and state law governing the proper use of the funds;
- Provides financing for certain capital equipment purchases such as computers, telephone systems, and vehicles; and
- Issues bonds on behalf of open-enrollment charter schools and other state-related entities as authorized by the Legislature.

The textbox on the right provides a list of current clients by type.

Current TPFA Clients

State Agencies
-Texas Military Department
-Cancer Prevention and Research Institute
-Department of Agriculture (Agricultural Finance Authority)
-Department of Criminal Justice
-Department of Juvenile Justice (Youth Commission)
-Department of Public Safety
-Department of Transportation/Office of the Governor (Colonias Roadway Grant Program)
-Facilities Commission
-Health and Human Services Commission
-Historical Commission
-Military Preparedness Commission (Military Value Revolving Loan Fund Program)
-Parks and Wildlife Department
-School for the Blind and Visually Impaired
-School for the Deaf
-State Preservation Board
-Workforce Commission

Universities
-Midwestern State
-Texas Southern
-Any other State Institution of Higher Education at the request of the institution

Other
-TPFA Charter School Finance Corporation
-Windstorm Insurance Association

Key Facts

- **TPFA's Role in Texas Debt.** The Authority is the only state agency whose purpose is to consolidate the financings of multiple state entities consisting of a variety of projects, monitor expenditure of bond proceeds, and to pay debt service on outstanding debt. Staff manage bond proceeds to ensure compliance with bond covenants, applicable federal securities and tax laws, and pay debt service on time to maintain the state's "AAA" credit rating.
- **TPFA Board.** The Authority's Board is composed of seven members appointed by the Governor. The Board has an active meeting schedule and must approve the terms of debt issued by the Authority.

- **Funding and Staffing.** The Authority's administrative budget is $3 million for the FY 2018-2019 biennium for 14.5 FTEs. An additional $635.9 million was appropriated to the Authority for the payment of general obligation bond debt service.

- **Debt Issuance and Management.** As of August 2017, the Authority managed approximately $2.6 billion in outstanding state debt. This does not include debt issued for charter schools, universities, or the Texas Windstorm Insurance Association.

Hurricane Harvey Impact – TPFA and Client Agencies

TPFA has a single duty station, a suite of offices in the William P. Clements State Office Building in Austin, Texas. TPFA and its employees were not directly impacted by Hurricane Harvey.

Several of TPFA's client state agencies, institutions of higher education and open enrollment charter schools have facilities that are located in the Hurricane Harvey impact zone. To date, TPFA has received no Hurricane Harvey related requests for financing from entities that may have been impacted. Anecdotally, TPFA is aware that certain charter schools and state facilities suffered hurricane damage. TPFA is available to provide financing upon request.

One low-cost financing tool that is available to state agencies and institutions of higher education is the short-term Master Lease Purchase Program "MLPP", which can fund equipment replacement. At the present time, relatively few state agencies are utilizing the MLPP program, however, all state agencies and institutions of higher education are eligible to participate.

Before a state agency can request disaster-related financing from TPFA, that debt must be authorized and appropriated by the legislature. The legislature has not met to consider Hurricane Harvey related debt financing and only a handful of small debt authorizations exist that may be applicable to disaster-related projects. Please see Appendix B and Appendix C, which enumerate TPFA's authorized general obligation and revenue bond authority and identify the remaining bonding authority.

Texas Windstorm Insurance Association

The legislature created the Texas Windstorm Insurance Association ("TWIA") in 1971 in response to regional market conditions following Hurricane Celia in August 1970. TWIA provides windstorm and hail insurance in the Texas seacoast. TWIA is governed by Chapter 2210 of the Insurance Code (Chapter 2210). TWIA is a residual insurer of last resort and not a direct competitor in the voluntary insurance market. TWIA provides coverage to residential and commercial properties in certain designated portions of the Texas seacoast territory. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available to a substantial number of the owners of insurable property located in that territory.

By statute, TPFA is the designated public security issuer for TWIA. The 81st Legislature authorized TPFA to issue up to $2.5 billion in revenue bonds on behalf of TWIA to provide liquidity and pay insurance claims in the event of a catastrophic storm. Under current law TPFA may issue up to $1 billion in revenue bonds on behalf of TWIA. In 2014, TPFA issued $500 million of Class 1 bonds on behalf of TWIA. The 2014 bonds are obligations of TWIA and are not debt of the State of Texas.

As of January 28, 2018, TWIA has requested $348 million out of the $500 million of proceeds generated by the issuance of the 2014 bonds to pay claims incurred after Hurricane Harvey . These requests include investment income, held in trust for the exclusive use and benefit of TWIA, to be disbursed from the Program Fund to pay insured claims as well as TWIA operating expenses. The $348 million is in addition to claims paid by TWIA from its Catastrophic Reserve Trust Fund, earned premiums and other fund sources.

The issuance of public securities is one element of TWIA's "funding stack", and debt may be issued on either a pre-event or a post-event basis depending on TWIA's needs, the existence of other cost-effective alternatives, and statutory requirements. Pursuant to SB 900, 84th Leg., R.S. (2015), effective September 1, 2015, the limit on the amount of outstanding Class 1 public securities is $500 million per catastrophe year., The maximum limit on the issuance of Class 2 public securities is $250 million per catastrophe year, and the maximum limit on the issuance of Class 3 public securities is $250 million per catastrophe year.

TPFA maintains regular communications with TWIA and regularly provides financial and legal analysis related to currently outstanding debt and the prospective issuance of future debt. TPFA stands ready, should the need arise to promptly issue bonds for TWIA in response to a major storm event or as needed to provide liquidity in advance of one.

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Appendix A

TPFA Financing Program Highlights

During fiscal year 2018 to date, the Authority has executed two bond and five commercial paper financings totaling $109.6 million. These issues provided project financing for: the Cancer Prevention and Research Institute of Texas; the Texas Facilities Commission; the Texas Parks and Wildlife Department; as well as other state agencies.

- **Texas Windstorm Insurance Association (TWIA) Bonds.** The 81st Legislature authorized TPFA to issue up to $2.5 billion in revenue bonds on behalf of TWIA to provide liquidity to pay insurance claims in the event of a catastrophic storm. In 2014, TPFA issued $500 million of Class 1 Pre-event bonds. TWIA bonds are obligations of TWIA and are not state debt. Pursuant to SB 900, 84th Leg., R.S. (2015), effective September 1, 2015, the limit on the amount of outstanding Class 1 public securities is $500 million, the annual limit on the issuance of Class 2 public securities is $250 million, and the annual limit on the issuance of Class 3 public securities is $250 million. The Authority is prepared to promptly respond to TWIA's request to issue bonds in the event of a major hurricane.
- **Texas Facilities Commission.** The 84th Legislature authorized the issuance of $767 million of revenue bonds for the construction of office buildings and parking structures in the capitol complex and north Austin state office complex. Bond proceeds and funding for lease payments were appropriated to the Texas Facilities Commission, which will enter into a lease purchase agreement with the Authority. The Authority has established a commercial program to issue low cost short-term notes to finance the projects and will periodically refund outstanding notes into long-term fixed rate bonds.
- **Cancer Prevention and Research Institute Bonds (CPRIT).** The 80th Legislature and Texas voters authorized the issuance of $3 billion in general obligation debt over 10 years to support cancer research and prevention. The 85th Legislature appropriated $600 million of TPFA issued general obligation bonds to CPRIT for the 2018-2019 biennium. As of August 2017, TPFA has issued $1.293 billion on behalf of the CPRIT.

- **Master Lease Purchase Program.** The Legislature created the Master Lease Purchase Program ("MLPP") in 1992 to give state agencies a more affordable means of financing capital equipment purchases such as major IT systems, mechanical equipment and vehicles. Sixty-nine state agencies and universities have used the program to finance capital equipment purchases. As of August 2017, $5.9 million of leases are outstanding. MLPP is a financing tool that is available to help agencies/universities address rebuilding after Hurricane Harvey or other disasters.

- **Higher Education Revenue Bonds – T**PFA may provide debt issuance services, upon request to institutions of higher education, and TPFA is the designated issuer for two independent universities. TPFA has recently issued $60 million of tuition revenue bonds for Texas Southern University to fund a Library and Learning center and $55 million for Midwestern State University for a health sciences-related education building. In response to higher education financing needs for capital construction, equipment or disaster-related requests, TPFA can issue a variety of short or long-term debt instruments.

- **Charter School Finance Corporation (Corporation).** In 2001, the Legislature required the Authority to establish the Corporation to help charter schools secure capital financing for facilities. The Authority provides staff and administrative services to the Corporation to oversee the issuance of charter school bonds and administer federal credit enhancement grants to help charter schools obtain the credit rating necessary to issue bonds. Charter school bonds issued through the Corporation are either backed by the schools themselves or by the Permanent School Fund (PSF). As of August 2017, the Authority has assisted the Corporation with the issuance of bonds for 15 charter schools totaling $353.32 million, and with active grant awards to charter schools totaling over $4.36 million. The Corporation's first two PSF guaranteed bond issues were completed in 2014. Debt financings may include financings requested in response to natural disasters.

Debt Structure
State bonds are typically issued for 10, 20 or 30 years. Twenty-year financing for non self-supporting capital improvements is common, matching the financing term to the estimated useful life of the asset. In order to achieve the overall lowest cost of financing, bonds typically have call features, i.e., the bonds can be called for redemption after a certain number of years usually at the midpoint of the bond issue. After the call date, bonds can be redeemed and future interest cost is avoided. If bonds are defeased prior to the call date, the bonds will remain outstanding and money appropriated to redeem the bonds will be held in a defeasance escrow account to pay periodic principal and interest until the bonds may be called for redemption and paid in full.

Refunding and Defeasance
Since the 2008 financial crisis, interest rates have been at historic lows, making it much less expensive for the State to borrow money. TPFA has refunded $1.5 billion of outstanding general obligation bonds and revenue bonds to save $131.6 million in future debt service costs.

Outstanding bonds chosen for advance refunding typically have a minimum 3% present value savings and the Authority avoids refunding bonds that would have significant negative arbitrage. Negative arbitrage occurs when the interest earned on the defeasance account is less than the interest rate paid on the bonds.

The Tax Cuts and Jobs Act of 2017 now prohibits the use of tax-exempt bonds to advance refund outstanding bonds. TPFA had refunded all of its eligible tax-exempt debt prior to enactment of the Act.

Due to its short-term nature, commercial paper can be paid off at any time at no additional cost to the State. Commercial paper is the lowest cost debt in TPFA's portfolio. Currently, commercial paper interest rate on the Authority's general obligation tax-exempt commercial paper is approximately 1.41% plus costs of issuance. The all-in cost to fund equipment for agencies and universities through the TPFA Master Lease Purchase Program is approximately 1.82%.

The FY 2017 Bond Review Board Annual Report provides comprehensive information about all currently outstanding debt, as well as the debt programs of the State's bond issuing agencies and institutions of higher education.

Appendix B

General Obligation Bond Authority

as of 8/31/2017

Authority		Authorized Amount*	Appropriated		Unappropriated
			Issued	Unissued	
Self-Supporting					
Art III, Sec. 49-f	TAFA-Farm and Ranch Loans	$500,000,000	$0	$500,000,000	0
Art III, Sec. 49-i	TAFA-Texas Agricultural Fund	30,000,000	0	30,000,000	0
2003 Art III, Sec. 49-n	TMPC-Loans to defense communities	250,000,000	49,595,000	0	200,405,000
Non Self-Supporting					
1987-1993 Art III, Sec. 49-h	Acquisition, construction and repair of State facilities	3,000,000,000	2,998,575,000	0	1,425,000
2001 Art III, Sec. 49-l	Colonias Roadway Project	175,000,000	172,000,000	0	3,000,000
2001 Art III, Sec. 50-f	Construction & Repair Projects, & Equipment Acquisition	850,000,000	849,429,995	0	570,005
2007 Art III, Sec. 50-g	Maintenance, Improvement, Repair, or Construction	1,000,000,000	931,757,674	68,242,326	0
2007 Art III, Sec. 67	Cancer Research	3,000,000,000	1,293,800	1,706,200,000	750,000,000

* Per S.B. 1016, 81st Leg., R.S. (2009), the TPFA is authorized to issue debt on behalf of the Texas Agricultural Finance Authority for certain agricultural revolving loan programs. As of this report date, TAFA has not requested TPFA to issue debt. The authorization provided by Sec. 49-f authorizes the issuance of General Obligation debt so long as the amount outstanding at any one point in time does not exceed $500 million. The authorization provided by Sec. 49-i authorizes the issuance of General Obligation debt so long as the amount outstanding at any one point in time does not exceed $30 million.

Appendix C

Revenue Bonds

Authorized and Unissued

as of 8/31/2017

Revenue Authorization [1]	**Estimated Project Costs Authorized and Not Financed**	**150% Allowance**	**Total Authorized / Unissued**
Self-Supporting			
Insurance Code, Chapter 2203			
Nursing Home Liability Insurance	$75,000,000	N/A	$75,000,000
Labor Code, Chapter 203			
Texas Workforce Commission[2]	N/A	N/A	N/A
Insurance Code, Chapter 2211			
FAIR Plan	$75,000,000	N/A	$75,000,000
Insurance Code, Chapter 2210			
Texas Windstorm Insurance Association [4, 5]	N/A	N/A	N/A
Non Self-Supporting			
Government Code, Sec 1232.104			
Alternative Fuels	N/A	N/A	$50,000,000
Government Code, Sec. 1232.110			
State Board of Insurance Bldg (Hobby)			
Aircraft Pooling Board Relocation			
Mueller Office Complex	$11,818,767	$41,787,267	$41,787,267
Purchase/Renovation of Office Buildings			
In Tarrant County	$10,000,000	$15,000,000	$15,000,000
In Harris County	$4,093,718	$14,093,718	$14,093,718
Government Code, Sec 1232.103			
Master Lease Commercial Paper [3]	N/A	N/A	N/A
House Bill 1, 84th Leg. RS, p. I-45, Rider 19 [6]			
Texas Facilities Commission (North Austin & Capitol Complex Projects)	$750,670,000	N/A	$750,670,000

[1] All issues of revenue bonds by TPFA under Chapter 1232 are subject to the 150% maximum limit, unless the legislature specifically overrides it by expressly capping the maximum par amount.

[2] Authorization is $2 billion per issue. As of this report, no related debt is outstanding.

[3] The size of the TPFA Master Lease Purchase Program is established by TPFA Board Resolution. The current liquidity commitment is $100 million, and $35,850,000 was outstanding as of 8/31/17. Per the TPFA Board Resolution, the amount of outstanding notes shall not exceed $150 million; however, the amount of outstanding notes is further limited by the TPFA Board Resolution to an amount not to exceed the applicable liquidity commitment.

[4] Prior to enactment of S.B. 900, R.S., 84th Leg., the following limits were applicable: the limit on the amount of "Class 1" public securities was $1 billion, the annual limit of the amount of "Class 2" public securities was $500 million, the annual limit of the amount of "Class 3" public securities was $500 million. As of this report, $414.6 million of pre-event "Class 1" bonds, issued under the statute as it existed prior to the effective date of S.B. 900, were outstanding.

[5] Pursuant to S.B. 900, 84th Leg., R.S. (2015) effective September 1, 2015 the limit on the amount of outstanding "Class 1" securities is $500 million, the annual limit on the issuance of "Class 2" is $250 million, and the annual limit on the issuance of "Class 3" is $250 million.

[6] Issuance of debt authorized in General Appropriations Act. Appropriation authorized to the Texas Facilities Commission effective 09/01/2015.