



STATE OF ARKANSAS
**Department of Finance
and Administration**

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October 17, 2017

Senator John Cooper, Co-Chairperson
Representative Les Eaves, Co-Chairperson
Uniform Personnel Classification and
Compensation Plan Subcommittee
Arkansas Legislative Council
State Capitol Building, Room 315
Little Rock, Arkansas 72201

Dear Co-Chairs:

The Arkansas Bank Department has requested establishment of a salary administration grid pursuant to Ark. Code Ann. §21-5-222.

The Arkansas Bank Department has historically used salary administration grids to recruit and retain bank examiners. Bank examination is a field with a series of defined certification and training steps that are used throughout the industry. The Arkansas Bank Department competes for well-trained staff with Arkansas banks and U.S. government agencies that regulate banking.

Changes in the new pay plan have helped eliminate pay disparities that once existed between Arkansas and surrounding states regarding entry pay for bank examiner classifications; however, maintenance of a salary administration grid is necessary to create a path for bank examiners as they acquire higher levels of experience and certification.

The salary administration grid that OPM is referring for your consideration covers the following classifications:

- Bank Examiner, A070C, GS08
- Bank Senior Examiner, A106C, GS10
- Certified Bank Senior Examiner, A039C, GS13
- Bank Examinations Manager, A107C, GS14
- Bank Certified Examinations Manager, A030C, GS14
- Bank Chief Examiner, A018C, GS14
- Assistant Deputy Bank Commissioner, A005N, GS15

The Arkansas Bank Department divides employees in the Bank Examiner and Bank Senior Examiner classifications into levels based on years of experience and the passage of certain examinations. These levels are not classifications, but methods to distinguish different levels of attainment for compensation purposes. The Arkansas Bank Department requests the ability to grant 10% increases for incumbents in these classifications when incumbents meet the eligibility requirements. The levels and salaries that OPM is recommending for this grid for Fiscal Year 2018 are as follows:

<u>Authorized Class Code/Title/Grade</u>	<u>Levels, If Any</u>	<u>Pay Level</u>
A070C, Bank Examiner, GS08	Bank Examiner Trainee	\$45,010
	Bank Assistant Examiner	\$49,511
	Bank Junior Examiner	\$54,462
A106C, Bank Senior Examiner, GS10	Bank Senior Examiner	\$59,908
	Commissioned Senior Examiner	\$69,194
A039C, Certified Bank Senior Examiner, GS13	N/A	\$79,919
A107C, Bank Examinations Manager, GS14	N/A	\$87,911
A030C, Bank Certified Examinations Manager, GS14	N/A	\$96,702
A108C, Bank Chief Examiner, GS14	N/A	\$96,702
A005C, Asst. Deputy Bank Commissioner, GS15	N/A	\$105,000

A description of the levels in the first two classifications are as follows:

- **Bank Examiner**—Examiners spend at least three years at this level. When examiners enter the classification, they are considered Bank Examiner Trainees. Examiners who satisfactorily demonstrate the ability to perform required tasks, receive favorable performance evaluations, and meet established criteria are eligible to move to the next level after one year in their current levels. An examiner's skills, knowledge, and abilities are evaluated using standardized measurement testing.
- **Bank Senior Examiner**—Promotion to Bank Senior Examiner requires demonstrated ability to handle a wide variety of problems with very limited supervision, leadership qualities, training abilities, and satisfactory completion of required training and testing. After two years of acceptable performance, a Bank Senior Examiner is eligible to take the Commissioned Senior Examiner examination. If the incumbent passes the examination, he or she is eligible to move to the next level. Incumbents must serve as Commissioned Senior Examiners for at least two years before being eligible to apply for certification level through the Conference of State Bank Supervisors.

The Arkansas Bank Department receives accreditation from the Conference of State Bank Supervisors (CSBS); accreditation certifies that the Arkansas Bank Department maintains the highest standards and practices for state banking supervision. The Arkansas Bank Department is subject to an on-site evaluation process every five years to maintain its accreditation.

In order to help maintain accreditation, the Arkansas Bank Department encourages its employees to achieve CSBS certifications that are above and beyond the certifications normally achieved and that require additional training and examinations. As a part of its salary administration grid in Fiscal Year 2017, the Arkansas Bank Department was authorized to offer certification differentials up to 6% for certifications for Assistant Deputy Bank Commissioners. The Arkansas Bank Department has asked to include these differentials in its Fiscal Year 2018 salary administration grid for Assistant Deputy Bank Commissioners, Certified Senior Bank Examiners, Bank Exam Managers, and Bank Certified Examinations Managers for the following certifications:

- Certified Large Institution Examiner
- Certified Senior Trust Examiner
- Certified Examinations Manager
- Certified Fraud Examiner
- Certified Information Systems Auditor
- Certified Anti-Money Laundering Specialist

Due to the competitive labor market for bank examiners, the Arkansas Bank Department has historically been authorized to pay annual increases for classifications included in its grid if employees in those classifications did not move to the next level during the fiscal year. OPM recommends that annual increases be authorized for incumbents on this pay grid at a rate established by the Bank Commissioner not to exceed 5% up to the midpoint salary for the respective classification. In Fiscal Year 2017, OPM estimates that 58 positions at the Arkansas Bank Department were covered by the grid, with an estimated cost of \$145,507.

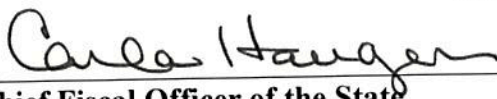
The Office of Personnel Management has reviewed this request from the Arkansas Bank Department and **recommends** the establishment of the foregoing salary administration grid in Fiscal Year 2018.

Your consideration of this request is greatly appreciated.

Sincerely,



Kay Barnhill
State Personnel Administrator



Chief Fiscal Officer of the State

OCT 04 2017

Date



Arkansas State Bank Department

Candace A. Franks
Commissioner

Asa Hutchinson
Governor

May 2, 2017

Ms. Kay Barnhill, Administrator
Department of Finance and Administration
1509 W. 7th Street, Suite 201
Little Rock, AR 72201

RE: Pay Grid Request

Dear Kay:

The Bank Department appreciates all the work you and the Office of Personnel Management have put into the new pay plan. The new plan has addressed most of our immediate issues and I am very thankful for the new grades and salaries that will be implemented in FY 2018. We are at this time requesting continued authorization of our current salary administration grid for the attached job classifications. I feel confident that the new pay grades, along with the approval of the attached grid, will help us maintain most of our critical personnel; which as you know, is a critical situation for the Bank Department.

Enclosed with this request is a copy of our Examiner Career Path Manual which outlines the responsibilities of each level and the training/educational courses an examiner must complete before being considered for promotion to the next level. The salary grid provides career paths for examination staff and maintains salary levels comparable to market rates in an attempt to reduce turnover. The grid is based solely on performance for each level of our examination staff.

If approved, the grid will continue to provide a framework within the pay plan for the retention of examiners; and to ensure that the Bank Department has the personnel resources to provide the best services possible to the banking industry safeguard the general public and continue to operate the agency at a high level of performance.

JUSTIFICATION:

Background

The primary responsibility of the Bank Department is to ensure the safety and soundness of the Arkansas state chartered banks. Our Department is fully funded by assessments paid by its supervised institutions and therefore takes no funding from the General Fund.

As background, for those who may read this and are not familiar with the operations and responsibilities of the Arkansas State Bank Department, we are the chartering agency and are responsible for the regulation of 83 commercial banks headquartered in Arkansas, as well as 79 parent bank holding companies, 44 trust departments, one trust company and one industrial development corporation. The assets of all 83 state chartered banks exceeded \$81 billion as of December 31, 2016. We currently operate with 72 budgeted positions. Ten years ago, in December of 2006, we had 116 state chartered banks with assets of \$34.7 billion and an operating staff of 77 budgeted positions.

While the number of banks and the number of employees have both decreased in the past ten (10) years, our supervisory responsibility and examination authority have increased tremendously as the banks in Arkansas continue to grow. Due to the growth and expansion in our institutions, the advent of a continuous examination cycle has become prevalent. This increase has led to more frequent and complex examinations and an expanded scope of examinations. Our examination staff is highly trained and educated in the vast universe of regulations and laws which govern the banking industry. They are required to maintain a high level of knowledge and exhibit an extremely unique skill set.

Included in our 83 banks are two institutions that exceed \$10 billion in total assets, which is a significant market indicator for the banking industry. Based on current projections and indicators, in the near future, two (2) additional Arkansas state chartered banks will exceed \$10 billion in total assets, bringing the total to four (4) Arkansas state chartered banks in this category of large institutions. This will result in Arkansas being in the top five (5) states in the country that regulate large institutions. Arkansas is also home to four (4) large, publicly traded banking organizations and eleven (11) of the 83 also operate in multiple states with a notable presence in the Gulf Coast region, as well as the Central and Southern areas of the country. Our banks operate in twelve (12) additional states, and we are responsible for the supervision and examination of all of their operations in Arkansas and the twelve (12) other states in which they operate.

We perform examinations of these banks either jointly, or on an alternating basis with the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve. Joint examinations are performed with the federal regulators on large and problem banks, where our examiners work side-by-side with their federal counterparts in divided responsibilities, including the lead roles on the examinations to produce one report of joint findings. State-only examinations are performed by the Department on all other banks.

In addition to the 83 state chartered banks, the State of Arkansas has 17 National Banks. As you can see we are indeed the charter of choice in the banking industry in Arkansas. I believe our reason for being so successful is the working relationships we have with our local bankers. In a financial downturn, my staff is there to work hand in hand with our Arkansas bankers to ensure that we do everything possible to prevent a bank from becoming a problem bank. We continually strive to provide an efficient structure for safe and sound economic stability in all our financial institutions.

Department Personnel Losses

- The Department has lost seventeen (17) of its 55 bank examination personnel within the last four (4) years to the federal regulators or to the banking industry. This represents a 30.9% turnover and a tremendous loss of trained examiner talent and institutional knowledge.
- This turnover represents a very substantial drain on Department resources, as we estimate that we spend approximately \$420,000, per employee, to fully train a bank examiner during the first five (5) years of employment.
- Our excessive turnover and inability to acquire or keep superior talent will substantially impact our ability to manage the next financial crisis, and the ability to fully supervise the increasing amount of assets under our regulatory authority.

Shortfall versus Comparable Industry and Federal Regulator Pay

I believe that we are losing highly skilled and promising examiners due to our pay ranges having become increasingly non-competitive with both the banking industry and our federal regulatory counterparts. As a state agency, we have always tried to operate efficiently. The key to being able to maintain efficiency is to reasonably compensate and retain a knowledgeable and highly productive workforce for their superior skills and elevated workload. The new pay plan along with the requested salary grid will afford us the opportunity to become competitive from a salary standpoint in all of our bank examination positions.

- Banking continues to evolve into a vastly more complex industry which greatly values the skillsets of our examiners.
- Federal regulators have been able to adjust their pay to compensate for the increasing complexity and workload of their bank examination positions.
- Our examiners do the same work, have the same or greater responsibilities, have the same education and training, and have the same or more experience as their FDIC and Federal Reserve counterparts who may receive **50%** more pay in comparable positions.

Increases in Responsibilities and Complexity of Position

Increased responsibilities and complexities associated with the Bank Examination positions have caused the position to evolve over time. This evolution has been brought on by new activities and responsibilities of the Department; new state and federal laws, regulations, rules, and statements of policy which the Department's examiners must know and enforce; and by the increasingly complex and diverse risks undertaken by the banking industry.

Additional or Enhanced Responsibilities of Department Examiners

- Bank Secrecy Act and Anti-money Laundering Examinations (BSA/AML) are conducted on every bank that we examine. These procedures represent a robust and complex work program to determine if banks are well-equipped to detect, report, and prevent money laundering and to ensure compliance with requirements of the federal Bank Secrecy Act, the US Patriot Act, and the Office of Foreign Assets Control.
- Business Continuity/Disaster Preparedness Examinations are conducted on every bank that we examine and these specific procedures continue to evolve and multiply as a result of experiences obtained and lessons learned from various catastrophic events or natural disasters such as Hurricanes Ivan (2004) and Katrina (2005). The Department has made business continuity and disaster preparedness key elements of every bank examination. We follow the examination procedures and guidelines set forth in the Federal Financial Institutions Examination Council Business Continuity Examination Handbook, which focuses on "an enterprise-wide, process-oriented approach that considers technology, business operations, testing, and communication strategies that are critical to the business continuity planning for the entire business, instead of just the information technology department" of the banks.
- Bank Holding Company (BHC) The authority and supervision of bank holding companies has always been a component of the Department's examination procedures. In Arkansas, there are 79 such BHCs of Arkansas state-chartered banks over which the Department has supervisory responsibility and examination authority. The overall objective of BHC examinations is to assess the overall risks and risk management of the BHC, the financial strength of the BHC, and the competency of BHC management.
- Expansion of Off-Site Monitoring Programs The Department has always maintained a strong off-site monitoring program; however, with the growth in total bank assets and the significant number of large institutions, our examination staff, specifically senior personnel, have added responsibility for off-site monitoring and supervision of many of our largest, most complex, and rapidly growing banks. In this off-site monitoring program, and on a quarterly basis, Bank Examiners must compile information on significant financial ratios, indicators, and trends for each assigned bank. They also follow-up on prior and outstanding examination issues, and may recommend further investigation and follow-up through on-site visitations at the banks.
- Capital Markets Activities and Responsibilities continue to expand in scope and complexity. This responsibility is now one of the more complex parts of our examinations of some of our institutions. Specialized capital markets responsibilities

have also expanded to encompass a bank's entire investment, asset/liability management, and liquidity positions and functions. We increasingly encounter and have to conduct detailed analyses of emerging investment products. Our examiners must understand sophisticated types of bank investments as well as valuation techniques, methods, and concepts for those complex investments.

- Increased Activities and Responsibilities for Leadership on Nationwide Bank Supervisory Initiatives Over the past five years, the Department has increasingly taken on a role in developing new nationwide bank supervision initiatives through our membership in the Conference of State Bank Supervisors (CSBS), the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. Various Bank Examiners from our agency have led efforts on a number of CSBS projects, committees, and working groups. Examples include:
 - Development of national bank examination software used in the examination of all state-chartered banks,
 - Membership in Risk Identification Teams to identify nationwide potential and emerging financial risks,
 - Membership in the State Examiner Review Team (SERT) which evaluates and issues new bank examination tools to be used nationwide,
 - Membership in the national Supervisory Processes Committee (SPC) which initiates and implements strategic examination initiatives in conjunction with federal regulators, and
 - Membership in the Large Bank Working Group which is a working group for state examiners who have supervisory authority for banks greater than \$10 billion in assets.
- Increased Consumer Protection Requirements and Responsibilities include ensuring compliance with cooperative agreements entered into with the Financial Crimes Enforcement Network (FINCEN) in 2009 and the Consumer Financial Protection Bureau (CFPB) in 2011. The volume of laws and regulations dealing with consumer protections and financial crimes has increased dramatically. Bank Examiners are charged with the responsibility of dealing with these complex issues and we have seen an increase in amount of time required to fully analyze and assess the bank's compliance with FINCEN and Treasury requirements and procedures
- Increased Training Responsibilities and Needs – To maintain the Department's position as one of the best state banking departments, our Bank Examiners must master the dramatically increased complexity of bank activities and the significant increase in new federal and state laws, regulations and statements of policies. We

have had to substantially increase our training efforts due to the hiring of many new, completely inexperienced personnel brought on by increased turnover. As previously noted, we estimate the cost to fully train a bank examiner to be about \$420,000. If turnover continually occurs among our senior staff, we would be hurt in an even greater way by a tremendous loss of institutional knowledge. Regardless, the Department must continually hire new examiners, and we need to maintain a stable force of highly experienced trainers to maintain the quality of the Department.

Expanded Original Bank Examination Activities include each of the following items that, while covered by the job descriptions written in 2009 for Bank Examination staff, have greatly expanded in associated workload to the point that the duties are vastly different than what was originally contemplated:

- Increase in Large Banks – Due to the growth and expansion of our institutions, the advent of a continuous examination cycle has become prevalent in our largest banks. This increase has led to more frequent and complex examinations, expanded scope of examinations, and increased meetings with bank boards of directors and management teams.
- The basic format of an examination has been expanded to include increased reviews of each bank's loan portfolio and loan loss reserves and detailed analyses of increasingly complex bank assets.
- An increase in examinations on bank charter conversions and mergers – due to the increased number of charter conversion applications and merger applications, the number of on-site examinations and reviews of the pending applications have added a significant amount of demand for resources, staffing and work products to the existing examination schedules. Due to the time sensitive nature of these unexpected events, the Department must ensure it maintains adequately trained senior personnel who are able to ensure the successful completion of these activities in accordance with Department guidelines and procedures. The Department rarely conducted the volume of these examinations prior to 2010. This application and examination activity continues to increase in volume and places additional workload on our examiners with projections for this trend to continue in the future.

Unique Department Expertise Needs Fulfilled by Incumbents in Position

As can be seen above in the comments on the expansion of Bank Examiner responsibilities, these examiners often fill unique roles requiring considerable expertise in specialized supervisory activities such as accounting/auditing, capital markets, trust, and information systems. The incumbents in these positions cannot be easily replaced, and we cannot afford to lose more of this specialized knowledge. Most importantly, the incumbents in these positions represent the

future management of the Department. We have spent years and resources training and developing these employees to the point where we can call on them to assume management positions with even more responsibilities.

During the recent financial crisis alone, they received an education like no other. The institutional knowledge gained from that experience will serve us well for years to come if we are able to keep them. If not, every loss of a Bank Examiner weakens our ability to deal with future crises and the increasing complexity of Arkansas state chartered banks.

As previously mentioned the Arkansas State Bank Department takes no funding from the General Fund and is completely funded by assessments and fees from our banks. We have adequate current and ongoing assessments to fund these requests.

We believe that our grid request provides us with a viable solution to our turnover issues and a way to ensure retention of our current staff. Your consideration of these requests is greatly appreciated. The approval of these requests will allow this Department to continue to function at a high level well into future years without a reduction or decline in capabilities.

Best regards,



Candace A. Franks
Commissioner

BANK DEPARTMENT 2018 PAY GRID

CLASS CODE	PAY GRADE	MINIMUM		MAXIMUM	TITLES
A070C	GS8	\$45,010	21 6394	\$65,264	Bank Examiner Trainee
In-House	GS8	\$49,511	23 8034	\$65,264	Bank Assistant Examiner
In-House	GS8	\$54,462	26 1837	\$65,264	Bank Jr. Examiner
A106C	GS10	\$59,908	28 8021	\$81,256	Bank Sr. Examiner
In-House	GS10	\$69,194	33 2663	\$81,256	Commissioned Sr. Examiner
A039C	GS13	\$79,919	38 4226	\$112,899	Certified Bank Sr. Examiner
A107C	GS14	\$87,911	42 2649	\$125,986	Bank Exam Manager
A030	GS14	\$96,702	46 4913	\$125,986	Bank Certified Exam Mgr
A018C	GS14	\$96,702	46 4913	\$125,986	Bank Chief Examiner
G257C	GS14	\$86,887	41 7726	\$125,986	Bank Chief Counsel
A0005	GS15	\$105,000	50 4808	\$140,592	Asst Deputy Bank Commissioner

Positions included in this pay grid will be paid according to the salaries listed above. In line with our approved Career Path, as each examiner completes required schools and/or testing, a ten percent (10%) promotion will be granted. This promotion will not preclude any award of merit pay the Governor may approve.

In addition, a retention increase may be given annually to those employees who have not reached maximum pay and who are not being promoted to a different level of examiner. In no situation will an increase of retention plus merit pay exceed 10% in any fiscal year. With the approval of the Governor for merit pay, merit percentage will be at the discretion of the Commissioner.

RETENTION: 1 to 5%

Arkansas State Bank Department Pay Plan Grid Explanation

**Synopsis – Please see detailed requirements in Career Path Manual for each level of examination.*

Bank Examiner (GS8)

Examiners will spend three (3) years at this level. An examiner's skills, knowledge and abilities will be evaluated utilizing standardized measurement testing. An examiner, whose job performance satisfactorily demonstrates ability to perform required tasks, receives favorable performance evaluations, and meets established criteria for designated positions can expect to be promoted to the next level after one (1) year in the existing level. As the examiner progresses through the different levels of a GS8 and satisfactorily passes each test, promotions in salary will be given accordingly.

Bank Senior Examiner (GS10)

Promotion to a bank senior examiner requires the ability to handle a wide variety of problems with very limited supervision, leadership qualities, training abilities, and satisfactory completion of required schools and testing. After two years (2) of satisfactory performance, a Senior Examiner is eligible to take the Commissioned Examiner Assessment testing.

Commissioned Senior Examiner (GS10)

Upon completion of the Commissioned Examiner Assessment test, examiners are given a 10% salary increase. They must serve as a Commissioned Senior Examiner for two (2) years before they apply for Certification level through the Conference of State Bank Supervisors (CSBS).

Certified Bank Senior Examiner (GS13)

Requires five (5) years as an examiner, two (2) years as a Commissioned Examiner, and certification through the Conference of State Bank Supervisors (CSBS). CSBS is the nationwide organization for state bank regulators.

Bank Examiner Manager (GS14)

To be eligible to apply for this management position, an employee must be a Certified Bank Senior Examiner and have met all requirements of that position. The Conference of State Bank Supervisors requires the Bank Examiner Manager to serve in this capacity for a minimum of 1 year before applying for manager certification through CSBS.

Certified Examiner Manager (GS14)

Before consideration for promotion to the Certified Examiner Manager level, the Bank Examiner Manager must excel in all areas of bank regulation, supervision and leadership. The manager must have a successful job performance and mastery of appropriate job-related skills and abilities. In addition, the examiner must successfully complete the certification process and obtain the designation of Certified Bank Examination Manager from CSBS.

Bank Chief Counsel (GS14)

As the Chief Counsel for the State Bank Department the employee is responsible for providing information on federal and state legislation and litigation affecting the state banking system. Successful completion of the CSBS Annual Legal Seminar or similar seminar training programs offered by various agencies or other sources on banking issues is required. Twelve hours of Continuing Legal Education, one of which covers the topic of ethics, is required each year. The Chief Counsel is also required to attend and complete Graduate Banking School.

Assistant Deputy Bank Commissioner (GS15)

An Assistant Deputy Bank Commissioner (ADC) supervises on and off-site monitoring activities of the financial condition of institutions to determine safety and soundness and to ensure adherence to federal and state laws and regulations governing bank activities; they also conduct on-site visits with financial institutions to validate present conditions. Additionally, the ADC position serves as a dedicated examination staff member assigned to one or more, large and/or complex, state chartered banks. This dedicated position requires a significant amount of experience and knowledge of the institution in order to fully develop a strong familiarity with the subject financial institution. The ADC conducts a sizable volume of meetings across the regulatory spectrum. Specifically, the meetings include a majority of the discussions and oversight of the large institutions, as well as bank Board meetings of all levels and severity. Lastly, the ADC is highly engaged with examination staff in order to provide evaluation of problem situations and assessment of the operation and functions of all examination teams. The ADC serves as the primary line of communication between office staff and examination staff.