

MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS

Utah Department of Financial Institutions

Salt Lake City, Utah

January 16, 2025

MINUTES

BOARD MEMBERS PRESENT: Paul Atkinson, Brad Baldwin, Kip Cashmore, Andrea Moss and Bill Tingey

DEPARTMENT STAFF PRESENT: Commissioner Darryle Rude, Paul Allred, Shaun Berrett, Layne Blanch, Andrea Staheli, and Emily Stanton

1. Call Meeting to Order - Commissioner Darryle Rude

Commissioner Darryle Rude welcomed the group and said all board members are in attendance.

2. Approval of Minutes - September 18, 2024

Commissioner Rude called for a motion to approve minutes from the last board meetings. Kip Cashmore motion to approve the minutes from the meeting on September 18, 2024. Brad Baldwin seconded. The vote to approve was unanimous.

3. Industry Updates

- Bill Tingey

Bill Tingey commented that rate increases trended up 7-9% for fire coverage even before the wildfires in California grew to where they are now. Even before a large disaster, whether you

have claims or not, that is the standard increase you can expect year after year. If you have losses or claims, the rates increase more.

Cyber cover is going down. Coverage rates have been growing for the last couple of years; they call it a hard market. When your prices go up, those have topped out, and you're starting to see the soft market hit where every year you paid \$200,000 last year. This year, you're paying \$190,000 for the same coverage. We should start to see some reductions in some of the lines of business.

The total loss resulting from the California wildfires is still growing. Generally, it takes trillions of dollars of loss to move the needle on coverage. Like hurricanes that hit Florida, it has to be a devastating hurricane to impact rates. Otherwise, the carriers have enough reserves that they cover it.

The group discussed cover limits in high-risk areas like California and Florida, insurance carriers excluding certain areas, and state-offered insurance coverage.

- Kip Cashmore

Kip said the industry continues to grow at a steady rate. We are seeing more demand for the different products in our industry now, which indicates that inflation is still hurting people. Consumers need money to get by, so they're looking at various avenues.

This is the first few months we've seen an uptick in our bad debt. So that's a little interesting. But we're thrilled about some possibilities for making changes next year within the industry.

Kip said the loss rate in the industry fluctuates. It increases in January and February because everybody spends their money on holidays in December. Then people start getting their tax refunds back, and then they pay back their loans. Last year saw a net gain, which was interesting. We collected more than was returned, meaning we collected some from past years.

- Andrea Moss

Andrea Moss said industrial loan companies are thriving and are seeing good results. The most significant change has been the change in administration.

The FDIC had implemented some proposed rules at the end of last year, which would've been very problematic to the industry. It's likely those rules will just fade out and sit there.

Chairman Martin Gruenberg is stepping down in a couple of days. The industry is waiting to see who the agency's next leader will be.

Andrea said the FDIC announced Doreen Eberley retirement after 38 years. Doreen has been the Director of the Division of Risk Management Supervision since 2013.

New blood and some changes will be exciting and helpful for our industry. We expect Travis Hill to be the acting chairman of the FDIC and possibly the permanent chair.

Andrea said the industry expects to see de novo applications picking up and refiling from organizers who have been in process for years.

It could be healthy for the industry, but we're also hoping to get the right applicants that strengthen the industry and not cause more concern about its regulation.

Andrea said the industry heard there would be a lot more change than what Jelena McWilliams was able to do. There will be more retirements and turnover as the new administration pushes its agenda.

Andrea asked how the Department was preparing changes in the FDIC.

Darryle commented about several rules the FDIC and CFPB put in place that will probably be rolled out or back. We're hoping the attitude of the agencies has also rolled back and that they take a little more time and effort to figure out what they're doing and not just look for violations.

Shaun Berrett commented that Travis Hill, who we presume will replace Martin Gruenberg, gave a speech last week and was pretty vocal about criticizing hyperfocus on process and minutia and less emphasis on big-picture risk and moving the needle on this.

Andrea said the industry is watching Colorado's appeal to the US Tenth Circuit Court of Appeals regarding the Depository Institutions Deregulation and Monetary Control Act (DIDMCA).

- Brad Baldwin

Brad said that credit quality is stable. The economy is doing well, so interest rates may not come down as expected. We expected to see a rise in short-term rates to fight long-term inflation.

Mortgage rates are still high. Many home builders still buy down rates rather than offering new countertops or finishing the garage.

Brad said demand at community banks is high.

Brad commented about efforts to fight check fraud and changes to Positive Pay that now identifies the payee so we can screen for the correct payee to eliminate check washing.

The group discussed Positive Pay and recent improvements that can search payee, not just date and amount.

Brad said Utah's banks are doing well, and they are expecting to have a great year.

The group discussed mail fraud instances where entire mailboxes have been stolen or destroyed.

- Paul Atkinson

Paul said 2024 was a reasonably strong year and reviewed the year-end metrics, and net worth ratios remained strong for Utah's credit unions, which experienced 8.63% capital growth.

Loan growth through September is about 6%, which is down a little bit from what we typically see. Most credit unions usually have 7% loan growth and 7% deposit growth. It's slightly off than before and is attributed to high interest rates. Our share growth remains strong, above 9%. Number growth is strong, and the return on assets (ROA) has remained strong.

The challenges we face regarding lending growth regulation have been particularly difficult under this administration.

That's one of the concerns that we'll watch as a new administration takes effect: what the CFPB does, if there are rollbacks, if there are other things that impact us.

We are also concerned about the Federal Reserve's plans and their ability to manage inflation, shifting away from what they had signaled several months ago about what would happen.

Credit unions perform well when interest rates move slowly when we have time to react and balance sheet repricing. Aggressive drops or increases are more challenging as things take time to switch over. We think a slower approach is better for us as an industry.

Delinquencies have been increasing. The interesting thing is charge-offs have flattened. Typically, those two go together. Net Charge-Offs have flattened in 2024, even with rising delinquencies.

Housing remains frustratingly unaffordable for most members. We don't see any kind of solution in the near or long term with that, but we continue to see mortgage requests and applications, which are obviously down significantly from where they were before.

Utah's credit unions are doing well in a challenging environment. Members are enjoying higher rates and earning dividends.

The future impact of rates, regulation, economic changes, and policy are concerning, but credit unions are well positioned to handle challenges.

Commissioner Rude said the National Credit Union Administration named Julie Cayse as the new Western Region director.

4. Financial Statements – Finance Director Layne Blanch

Layne Blanch said he chose a format similar to what Michael Jones has previously used to avoid any confusion regarding our current status compared to prior reports. The first three pages cover revenues, expenses, and our restricted accounts. The last three pages present much of the same information.

The first four columns on pages three through six are consistent; the only difference is the last column, which provides insight into our budget status for the year. As we are now halfway through the fiscal year, this should help you assess where we currently stand and where we should ideally be.

Layne said he plans to present these documents to the board in advance, so you could review them and come up with any questions or comments you'd like to discuss. We will work on implementing this change in the future.

Layne reviewed the financial statements and highlighted changes since the last meeting.

Layne discussed the sundry revenue category, including funds from settlements and penalties paid by non-depository companies negotiated with the CSBS. We helped fund the Women in the Money Conference, hosted by the Utah Financial Empowerment Coalition, which is part of the treasurer's office, where they invite women and underbanked people to come and try to learn about finances and budgeting. We also contributed to other financial literacy projects. We plan to use the remaining funds for similar projects for the rest of this fiscal year.

The group discussed the meeting format and what information they hope to see in future reports.

Kip commented that it's easy to get lost because the information doesn't always align with what you are discussing. You prepare your notes, and then we are trying to locate specific details on the page. If we could have a profit and loss format that we're all familiar with—especially if it were sent out a week or ten days in advance—we could review it as we would before a board meeting. This way, we could ask questions that arise during our review. Seeing metrics like your

labor percentage and overhead costs would be helpful. This format might work better for the board.

Additionally, it would be beneficial to see a comparison of last year versus the current budget. A side-by-side overview would quickly show where we stand regarding the budget, particularly for the same period last year.

Brad said he utilizes a lot of dashboards, which might be helpful in this context. A quick glance at dashboards covering various metrics can provide a clear view of our status. Detailed discussions are important but having a visual representation of what is off track would be ideal.

Andrea said the board should be on the lookout for areas that are not performing as expected. If things are on track, we don't need an in-depth analysis, but a dashboard highlighting issues and providing explanations for timing or unexpected high expenses would be helpful.

The board agreed that in the past, we spent an excessive amount of time discussing travel expenses.

Darryle commented that when there was a noticeable increase in our travel expenses some board members expressed a need for more information regarding travel expenses. Michael picked up on that and reported on it over the years. Moving forward, we'll share high-level summaries instead of individual breakdowns.

The board discussed reporting on department operations and staffing changes.

Brad said it's important to recognize those employees who have been with the Department for a long time and to acknowledge their accomplishments. We should bring department employees in and thank them for their service. It helps to put a name to a face.

Kip commented that we've discussed turnover rates before, which can give us an idea of where the Department stands compared to industry benchmarks.

Shaun said he appreciates the idea of having some dashboard reporting with charts and graphs. We're pretty good at that, and we have plenty of them.

Layne said he would work on consolidating some of the reporting and coordinating with Shaun to create dashboard reporting.

Andrea Moss asked where the Department was in terms of in-office work for examiners.

Commissioner Rude said there was a program put in place a year before the pandemic aimed at utilizing real estate more efficiently, reducing the carbon footprint for state government, and allowing for teleworking and shared spaces. This is the approach we've been following.

Currently, most of our examiners work remotely and aren't often in the office. The administrative staff does not telework and is responsible for office coverage. Most of the supervisors spend around 75% to 80% of their time in the office. Many supervisors are on modified schedules, working a week in the office followed by a week out, or three days in and two days out, adjusting as needed. We will continue to operate this way until we receive any new directives, which we haven't heard about yet.

Commissioner Rude said some state agencies, like the Department of Government Operations, have mandated a return to the office five days a week. As a result, they lost a significant portion of their staff. We believe that offering flexible work schedules may help us retain employees since we can't compete with federal agencies in terms of salary. With federal agencies drawing talent away, we hope to maintain low turnover and ensure that our industry has enough staffing as well.

5. Chief Examiner's Comments Chief Examiner Shaun Berrett

Shaun provided an update on hiring and examiner staffing.

Shaun said we posted a mid-career position, which we've done a couple of times recently to see if we could attract good talent. Fortunately, we hired a young man who had worked for the OCC in the Chicago area for three years. He is an outdoor enthusiast and was eager to relocate to Utah. He has been an excellent addition to us, joining us as a level two examiner due to his experience. We have been very pleased with his competency and his ability to engage in the work right away.

In addition, for our level one examiner recruitment in the fall, we successfully hired four examiners of good quality. I often feel a bit anxious about the number of applications we receive, which has typically been around 45. In the past, it wasn't uncommon to have 80 or 90 applicants. This raises concerns about whether we can find the quality we hope for, but in each instance, we have been successful.

While our applicant pool is smaller than what we have historically seen, the quality of our hires has not suffered. We onboarded four new examiners in November, and they have already begun working in the field on exams.

Currently, we have two vacancies, which we are holding in reserve for some upcoming administrative staff needs planned by Andrea. Overall, we have 45 examiners and feel quite good about our situation.

Shaun provided background information about the Department's current office location and mentioned that our lease expires at the end of June. We have begun negotiations with the Utah

System of Higher Education to move to their second floor in Gateway Tower II, directly across from the Delta Center.

We have gone through several floor plan revisions. We've pretty much settled on the current plan and the architect is now converting this into engineering plans, which will then be sent to the contractors managing the project.

Commissioner Rude has requested that our lease contract includes a right of first refusal for the Department regarding the open space on the floor. The landlord will check with us before renting that space to someone else.

Shaun reviewed the floor plans, gave a tour of the features, and proposed offices.

The group discussed the new lease, operating costs in the new building and total square footage.

Bill asked if we planned to move our current furniture or purchase new furniture.

Commissioner Rude said that it's still uncertain because our budget was planned so far in advance, and we had to rely on many estimates. We hope that our budget will be sufficient to cover all our needs.

We will need to decide if we bring the current board table into our new boardroom or try to match everything with a more modern aesthetic. We are aiming to modernize all the examination spaces to create an environment that employees actually want to come to, including the supervisors' offices.

Shaun shared additional details about the new location and the group discussed the impact of having a modern workspace for employees to use.

Shaun talked about employee recognition and the ways in which the Department shows appreciation. We recognize employees every time we have an in-person staff meeting in June. Similarly, during our holiday party, we present what we call "Well Done Awards," which are based on peer nominations. Employees can submit a nomination for their peers, and the winners receive a \$100 bonus.

This December, we introduced a new award tier called the Commissioner's Award. Commissioner Rude has the opportunity to choose individuals who have done outstanding work specifically. Several people received the Commissioner's Award, particularly the team leaders who stepped up to lead their workstream teams and took on leadership responsibilities.

All Department employees also received a Stanley tumbler.

6. Commissioner's comments Commissioner Darryle Rude

Commissioner Rude asked Paul Allred to give an update on what we expect to see in the upcoming general legislative session.

Paul Allred said we receive inquiries from the legislature about our trust chapter. We were asked to present during an interim session but haven't seen any concrete proposals yet, that doesn't mean something won't emerge soon.

There are not enough trust services in this state for someone who sets up a family trust and they're looking for trustees.

Paul said he was distressed to hear what members of the Utah bar thought would solve this issue —a licensing regime where individuals would be licensed as fiduciaries and trustees. We hope this idea does not gain traction in the legislature.

Commissioner Rude said we changed today's agenda because we knew we would need extra time to discuss the new building and the financial statements.

Commissioner Rude asked Andrea Staheli to give a quick preview of what she will present at the next meeting.

Andrea said that we are excited to present the consumer affairs structure and the work we're doing there. We'll look forward to doing that in the next meeting.

Commissioner Rude announced his retirement from the Department after 36 years. His last day will be March 14, 2025.

Commissioner Rude said his first two grandchildren will arrive in May and June. He decided to retire now because we have great people here, the Department has built a good succession plan, and we have quality employees taking care of all the industries.

The group worked to schedule a meeting before Commissioner Rude's retirement.

Commissioner Rude thanked the board members for their continued support, industry updates and partnership over the years.

7. Date of next meeting - March 11, 2025, at 11:00 am.