

# MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS

October 1, 2014

11:30 a.m.

Minutes

## **BOARD MEMBERS PRESENT:**

Rick Beard, Dennis Hymas, Louise Kelly, Kip Cashmore, and Commissioner Ed Leary. Bill Tingey is excused.

## **DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:**

Michael Jones, Darryle Rude, Paul Allred, and Sonja Long

## **OTHERS PRESENT:**

### **1. Call Meeting to Order – Commissioner Leary**

### **2. Minutes –**

There is one correction under the paragraph for Dennis Hymas, the word should be spelled “write”. With that correction, Rick Beard made a motion to accept the minutes, Kip Cashmore seconded the motion. It was unanimous.

### **3. Industry update –**

**Kip Cashmore** - One of the good things with CFPB, Patrick O’Shaughnessy who is the head of CFSA (Community Financial Services Association of America) got nominated to the advisory board. That is a good thing for their industry.

Their industry had a study done and the report said that said that 85% of the people that come to them are not using the loans for new debt; they are using it to shift debt, like paying their rent or utilities. Their volume is continuing to grow every year.

**Louise Kelly** – The industrial banks continue to be disappointed in the lack of new charters. They also have their antennae up on the WalMart/Green Dot announcement and are wondering if there could be any negative impact on their industry again. Not because WalMart is an industrial bank, but just because WalMart and industrial banks seem to go together. Commissioner Leary asked to respond, he said that he was with Lew Goodwin at the FRB Chicago Payments Conference; Lew is the president of Green Dot Bank. They have given the department the heads up on this topic. It probably went faster than even they expected. The questions that have been

received have not tied industrial banks into. Most of the questions have been is this a WalMart Bank product, no this is a Green Dot Bank product.

**Dennis Hymas** – Along those same lines with WalMart, financial institutions as we know them are changing a lot. That has been a big topic of discussion in their strategic planning sessions. Another item that is big on their horizon is the impact of all the data breaches. With so many of them it is getting very costly. Cybersecurity overall is a big concern as well. CUNA Mutual group just got a new President/CEO, Jim Mussell, from Iowa.

The new rules have come out on Risk Based Capital. The last meeting he mentioned a proposed rule and it got over 2,000 comment letters on it. They are re-writing that, not only will they come out with a dramatically revised rule that should be less of a regulatory burden but also will have an additional comment period.

**Rick Beard** – Cyber risk is a big issue for them. He asked if there was any help from the enforcement side. Law enforcement and FBI don't seem to be able to do anything when they are contacted. Commissioner Leary said that at both conferences that he has been to recently the issue of the data breaches and the effect on financial institutions, retail merchants being the open door, and then you add that with law enforcement action was talked about. The regulators are trying to bring attention to the problem. The interest rate risk is also a concern for them. On the positive side, loan demand is up. There seems to be more activity in the community. One other thing that he sees is that management teams are getting old. It is a concern on getting the next group trained.

#### **4. Budget review – Michael Jones**

Michael gave out his first handout; this is the meeting where we review the end of the fiscal year numbers. He went over those items since the last board meeting. Kip asked if we made any interest on the restricted account balance. Michael said no, it is managed by the State Treasurer's office, but they do not charge us anything to manage it.

His second handout was for FY15. Commissioner Leary asked Michael to talk about the lease. Michael explained that we have re-negotiated our lease for another five years. The rate will go up from \$17.25/square foot to \$17.50/square foot. They have increased the amount that we pay for parking. It will go up from \$80/stall to \$85/stall. He put in a preliminary request for a budget increase for the next five years of about \$26,000 to cover that. Kip asked about parking. Michael explained that we get 15 parking spaces with the lease and then we pay for 20 additional spaces. Commissioner Leary said that they are not reserved spaces.

There was a discussion on the new examiners that have been hired, salary levels, and overall employment numbers in the State.

#### **5. Out of State Travel – Michael Jones**

Michael gave out his handout for the remainder of FY14. All of the changes and new items are bolded. He went through those changes.

His second handout is the out of state travel for FY15. He went through those items.

## **6. Current topics – Commissioner Leary**

One of the areas that we are looking at in the upcoming legislative session is specifically in the area of Money Transmitters. Our current broad statute allows us to write rules addressing it; we have an Administrative Rule in place that deals with the process of registering a Money Transmitter with us and the requirements of maintaining that license. At this point, as a result of the national attention given to it and the extreme interest of anyone transmitting funds today we decided that we need to enhance our scrutiny, examination authority and everything else. We would currently be taking a bare bones rule and asking for a bill that would enhance our regulatory oversight of Money Transmitters and the licensing of them and put that into statute. We would follow through with part of that and put the Money Transmitters onto NMLS system and all other non-depository licenses that we have and put them onto NMLS as well.

Commissioner Leary is not aware of anything specific that is coming up in the session.

NASCUS annual meeting was attended by Commissioner Leary, Darryle Rude, and Riley Bergstedt. Great introduction opportunity, and Riley was encouraged to become involved with them. NASCUS' current president is retiring at the end of the year, they have hired a new president.

Community Banking in the 21<sup>st</sup> Century, put on by the St Louis Federal Reserve and CSBS. This was the 2<sup>nd</sup> Annual conference. It accomplishes two things; a call for research into community banking, 2<sup>nd</sup> part it brings everyone together to talk about community banking. CSBS has also done a survey both years and a request for a town hall meeting from every state. We used the Board of Bank Advisors meeting for that town hall meeting. The results from each town hall meeting are put into a report that is available on CSBS' website. They are summarized by state. He gave a copy of some of the questions and how Utah answered them.

He went from St Louis to Chicago. The Payments Symposium that the Chicago FED does was something that he was interested in. Commissioner Leary was nominated to the representative from CSBS for the Emerging Payments Task Force. They are trying to get the State's together on their thinking and give some initial thought with respect to virtual currencies, money transmitters, etc. The FED Chicago payments conference has been going on for quite a few years. It has an international flavor, there were regulators from Singapore, Japan, Australia, New Zealand, Europe, Canada, in addition to the payment people from each of the Federal Reserve branches. They did two general sessions; the first one was on the payment system, the second one was all on security on all of the existing systems. The international people were rather surprised because they have all gone through increasing the speed and security of their systems. The US has not done that. Commissioner Leary spoke at one of the break out session, Rules of the Road. He spoke on what CSBS' task force has done and hopes to accomplish.

**7. Other business –**

Rick Beard asked if he sees any movement towards the chip vs swipe card. Commissioner Leary said that he thinks that it is moving that way. The cost is rather prohibitive. But with all of the security breaches it is accelerating.

Rick Beard asked about what credit is looking like during the examination. Commissioner Leary said that he thinks that there is an increasing demand for credit and it is looking pretty good. Regulators are extremely sensitive about any concentrations develop in any area. Darryle Rude said that he thinks that those that were hit hard with real estate lending are still a bit hesitant to get back into it.

**8. Next meeting –** December 18, 2014 at 11:30 a.m.