

# **MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS**

Department of Financial Institutions

324 S. State Street, Suite 201

Salt Lake City, Utah

October 7th

via teleconference

## **Minutes**

BOARD MEMBERS PARTICIPATING VIA TELECONFERENCE: Paul Atkinson, Brad Baldwin, Kip Cashmore, Ron Ostler and Bill Tingey

DEPARTMENT STAFF PARTICIPATING VIA TELECONFERENCE: Paul Allred

DEPARTMENT STAFF PRESENT: Commissioner G. Edward Leary, Michael Jones, Darryle Rude and Emily Stanton

### **1. Approval of Minutes – June 24, 2020**

Kip Cashmore made a motion to approve the minutes from the meeting held on June 24th. Bill Tingey seconded the motion. The vote to approve was unanimous.

### **2. Resolution of the Board of Financial Institutions - Discussion & Vote**

Governor Hebert signed an Executive Order on March 18th allowing public bodies to conduct meetings electronically. The Order provided an exception to the Act allowing us to hold this meeting via teleconference. The Governor's Order expired at the end of September. In July the legislature, in an interim committee meeting, made amendments to Title 52. In order for the

Board of Financial Institutions to meet remotely, a resolution, rule or ordinance is needed authorizing the meeting to be held via teleconference.

On October 7th, in accordance with Utah Code § 52-4-207, Chairman G. Edward Leary made the determination that holding a meeting at an anchor location presented a substantial risk to the health and safety of those who may attend the meeting due to the current COVID-19 pandemic. This determination is valid for 30 days.

Commissioner Leary asked for a vote on the resolution of the Board of Financial Institutions. Bill Tingey made the motion, Ron Ostler seconded, all members of the board voted in favor of the resolution by the Board of Financial Institutions, that the board, in accordance with state law, is authorized to meet electronically.

### **3. Industry Updates**

#### **➤ Ron Ostler**

Ron said there hasn't been a lot of interaction recently because of the pandemic, but most industrial banks are well capitalized and doing well. New charter approvals and more de novo applications expected.

The industry is anxiously awaiting the final word from the Federal Deposit Insurance Corporation (FDIC) regarding the Notice of Proposed Rulemaking (NPR) for Parent Companies of Industrial Banks and Industrial Loan Companies (ILC). Ron thanked the Department for the hard work putting together a comment letter and said the industry appreciates it.

Ron said the industry is watching the election cycle closely. A change in administration could mean changes to FDIC leadership and that may negatively impact industrial bank charter application processing and approvals.

Ron said they have seen improved payments; consumers are not spending as much on discretionary items and paying their bills.

➤ **Paul Atkinson**

Paul Atkinson said credit unions continue to have challenges with the pandemic and member access to their branches. There are many different approaches taken as far as open lobbies, drive-up service, and mask mandates. Overall, this has not affected institutions enough to harm operations to any significant extent.

Comparing the impacts of this recession to the last one, 2009 capital was being eroded by charge offs; now it's slowly being eroded by share growth. Credit unions are seeing record share grow.

Paul said because of the stimulus money they are seeing record low delinquencies and charge offs.

There could be challenges if we see the same kind of charge off pressure as we did in 2009, combined with the current deposit pressure. Now is a good time to start looking at allowance accounts.

Paul said they are planning on 2021 being the challenging year in this crisis.

➤ **Kip Cashmore**

Customers are starting to come back slowly and small uptick in volume and need for small dollar loans as the stimulus money begins to run out.

Kip said the industry is seeing phenomenal collections and payback of revenue.

Kip said the fact they only lend to customers who are fully employed and able to meet the ability to repay requirements high unemployment has an impact on who can qualify.

The Consumer Financial Protection Bureau (CFPB) payday rule has been finalized but not put into effect because of the ongoing lawsuit. No dates of implementation at this time. The current hang-up is the payment provision part of the rule.

Kip said there is consolidation across the industry. Different groups' buying other businesses has condensed the market.

The election could have a major impact on operations and the CFPB's rule, the industry is watching closely.

➤ **Brad Baldwin**

Brad Baldwin mentioned the following industry trends.

Interest rates are at a historic low, we can expect that for at least another three years. Certainly great news for borrowers, but makes it harder on the net interest margin.

Deposits are very high; virtually all banks in the west are experiencing deposit growth. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) poured 3 trillion into the economy.

Technology adoption has been accelerated. The pandemic has forced businesses and consumers to utilize tech.

The community bank and credit unions model works. Community banks and credit unions were vital for Paycheck Protection Program (PPP) loans. Large numbers of new accounts from people moving to Utah and customers leaving large national banks looking for a relationship with a community bank.

Housing demand in Utah. Builders can't keep up. There is a migration of sorts happening to the Rocky Mountains. Colorado, Idaho and Montana have also seen this trend.

Delinquencies are low at most banks. The challenge will be when that trend begins to change. As PPP and stimulus money run out Congress may or may not send additional relief. A lot will depend on the outcome of the election.

Brad said there is a lot of frustration with the PPP forgiveness process and Small Business Administration (SBA).

➤ **Bill Tingey**

Bill said pricing on group life health continues to go up as it always has for the last many decades.

Property and casualty rates continue to be up, but we're seeing the other side. Clients undergoing audits and decreases as their revenues drop and employee and equipment counts do down.

Brad said some clients are doing well, others not so much. It's very industry specific; companies that sell exercise equipment are thriving while movie theaters are struggling.

#### **4. Department Budget Review – Michael Jones, Finance Director**

Michael Jones reviewed the financial statement handouts and summarized year end numbers and changes since the last meeting in June.

The Department ended fiscal year 2020 collecting \$7.5 million in revenue, \$78,000 more than we projected; the Department ended FY 2020 with \$7.1 million in expenditures, about a million below what we were appropriated. \$967 thousand will lapse back into our restricted account.

Out of state travel expenses went down in FY 2020 because we made a transfer of \$21,000 to FY 2021. This represents the airfare purchased for examiner travel before pandemic cancelations.

This carryover transfer will allow us to defer the credit so the expenses for the airline tickets are

reflected in FY in which the travel occurs. Michael said he does not expect us booking travel anytime soon.

The Department signed a five year lease. Our building has new property owners; they no longer offer a discount for paying annually, moving forward we will make monthly rental payments.

Personnel costs will be higher in FY 2021 because we are adding to our staff with examiner hiring.

Paul Atkinson asked about the Department's fee structure and if changes are possible. Commissioner Leary said our fee structure is in statute, changes require action by the legislature.

Michael reviewed the FY 2022 proposed budget. The Department will submit this base budget request to the Governor's office this week.

The group discussed legislative appropriations and reviewed the proposed budget.

Commissioner Leary asked for a motion to approve the budget request for FY 2022 recommendations to the Governor's office.

Kip made the motion to approve the base budget request as presented. Ron seconded. The vote to approve was unanimous.

## **5. Commissioner's Comments – Commissioner G. Edward Leary**

Commissioner Leary asked Chief Examiner Darryle Rude to mention the following Department updates.

Darryle said examiners are finishing up the last of the none-depository exams; this includes check cashers, deferred deposit and title lenders. All of these were conducted remotely.

Examiners continue to conduct safety and soundness examinations entirely offsite. Loan review can be cumbersome in a remote exam. There are new and interesting challenges at every exam.

Darryle said we are in the middle of the examiner hiring process, we started in mid-August. Out of 200 applicants, 124 were eligible and invited to take the written test. Out of 76 applicants that took the test we invited 36 to a communication interview. Of the 24 applicants that participated in the communication interview, we are inviting 18 candidates to a final interview. We plan to hire 6. Interviews are being conducted through video conferences. So far things are running efficiently with very few technology glitches. Onboarding will begin in November and will also be done remotely.

The Legislature's Business and Labor Interim Committee has scheduled a sunset review virtual hearing for our Board of Financial Institutions. Commissioner Leary and Brad Baldwin will give testimony in support of keeping the board.

FDIC Chairman Jelena McWilliams appointed Commissioner Leary to serve on the Advisory Committee of State Regulators (ACSR). The first meeting is scheduled for next week. It's a public meeting that will be live streamed. The original inaugural meeting was scheduled in March but was canceled due to pandemic restrictions. The Committee has twelve state banking commissioners and will provide advice and recommendations on policy and regulation of state-chartered financial institutions.

The Task Force on Financial Technology of the House Committee on Financial Services held a hearing on September 29, 2020 on *"License to Bank: Examining The Legal Framework Governing Who Can Lend and Process Payments in the Fintech Age."*

The hearing covered mostly fintech issues and concerns with technology companies getting into banking. We were told early on that ILCs would be a topic of discussion. The Department submitted a statement for the record describing how we oversee and supervise industrial banks. Commissioner Leary thanked the Supervisor of Industrial Banks, Shaun Berrett for his work.

The 2020 Community Banking Research and Policy Conference was held remotely this year. The conference is sponsored by the Federal Reserve, the Conference of State Bank Supervisors (CSBS) and the FDIC. Because the conference was held virtually, Commissioner Leary was able to invite two bankers to participate in the conference.

Commissioner Leary said the Department has no immediate plans to send examiners to onsite exams. The federal agencies are saying the same. We are still operating with minimal staff in the office. Back to work will likely not happen until it is safe to do so and it may not happen for a long while.

Commissioner Leary thanked the group for their participation and updates.

## **6. Date of next meeting – January 27, 2021**