

MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS

Utah Department of Financial Institutions

Salt Lake City, Utah

August 30, 2022

via teleconference

MINUTES

BOARD MEMBERS PARTICIPATING VIA TELECONFERENCE: Paul Atkinson, Kip Cashmore, and Bill Tingey

BOARD MEMBERS EXCUSED: Ron Ostler

DEPARTMENT STAFF PARTICIPATING VIA TELECONFERENCE: Commissioner Darryle Rude, Paul Allred, Michael Jones, Bryan Farnsworth and Emily Stanton

OTHERS PARTICIPATING VIA TELECONFERENCE: Andrea Moss

1. Call Meeting to Order – Commissioner Darryle Rude

Commissioner Rude welcomed the group.

2. Anchor Location Determination - Deputy Commissioner Paul Allred

Paul Allred said on August 29, 2022, in accordance with Utah Code § 52-4-207, Chairman Darryle Rude 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.

3. Approval of Minutes - June 15, 2022

Kip Cashmore made a motion to approve the minutes from the meeting held on June 15, 2022. Bill Tingy seconded the motion. The vote to approve was unanimous.

4. Industry Updates

- Bill Tingey

Bill commented on natural disasters happening throughout the country.

Prices for property and casualty continue to increase, some increases are specific to certain lines of coverage. Employee benefits increased as well.

Bill said Moreton Insurance completed a challenging cyber security coverage renewal last month. Almost all cyber insurance carriers are requiring multi factor authentication to even be considered for coverage. That is the baseline. Carriers are also looking at networks and firewalls in great detail. Additionally, policies are contingent upon extensive lists of subjectivity items like upgrading software and adding multi factor authentication. You will only receive coverage if all the requirements are met. All these factors make it more difficult to get cyber insurance coverage, and the trend of increased premiums for the same amount of coverage continues.

- Paul Atkinson

Paul Atkinson said their members are really starting to feel some inflation pressures, but delinquencies are still low and repossessions and charge offs also remain low. There is worry over how long that trend will remain.

Housing affordability is a struggle for many. Utah is unique with housing values and unemployment numbers usually trend better than the nation. There is hope the housing market will start to cool.

President Biden's announcement regarding student loan repayment starting again is a growing concern. Payments have been kicked down the road the last few years. There might be some

gridlock with the President's plan. Our concern is for those individuals who may struggle financially after not making those loan payments for some time.

Credit unions in that state of Utah have seen stronger than expected loan growth and are starting to see some of the liquidity put to work. Ratios are starting to stabilize and there is a notable increase in the net interest margin (NIM.) Overall things are looking up and encouraging. The unknown is just what a recession will look like and what the implications will be. Even with storm clouds on the horizon, credit unions are well positioned for what's next.

- Kip Cashmore

Kip Cashmore said his industry is still struggling with hiring and employee retention issues. Finding qualified employees is a struggle. Speaking with other companies, it doesn't seem to be improving. Utah is only slightly better than surrounding states.

Loan volume continues to increase within the industry, but is still down from pre-pandemic levels. With that increase, collections are also on the rise.

As customers are battling against inflation costs on everything they're buying, it continues to eat away at their income and ability to manage their expenses. Small dollar lenders are one of the first places consumers come to when all of the sudden they don't have enough at the end of the month.

Lawmakers in California advanced a bill that would have fast food workers' wages and working conditions set by a 10-member Fast Food Council. California's Governor has until September 30, 2022, to either sign or veto the bill.

Kip said the small dollar industry is worried about what other industries this might affect if signed into law. California sets the tone for a lot of the west, states like Oregon and Washington are usually quick to follow. It's not just added inflationary pressures that we're concerned over. It's the first time in a generation that legislation like this has made it this far. Industries that do business in the state of California know this is their test market for other entry level or low paying positions.

The small dollar industry's ongoing lawsuit against the Consumer Financial Protection Bureau's (CFPB) 2017 rule is still waiting for the judge to decide what to do next.

- Brad Baldwin

Brad Baldwin said overall rates in Utah seem to be lower than the national rates. There are a lot of institutions running rate specials to attract deposits. The deposits for most community banks in Utah are likely core demand deposit accounts so the cost of funds hasn't increased too sharply. It's becoming hard to go out and refinance your loan at a lower rate than you have now.

Banks are seeing slower commercial loan demand across all categories.

The United States Department of Agriculture (USDA) has not been able to fund some deals and that has slowed some projects. Their next budget year starts in October.

Contractors are still busy building homes and homes are still selling, but where they used to get 6 or 7 offers, they might only get 2 or 3. Several builders are putting homes on the market a little sooner, while they would typically wait until the home was complete so they have an accurate cost, buildings are marketing homes as soon as the drywall is up to expose to home an extra thirty to sixty days on the market.

Brad said their last Paycheck Protection Program (PPP) loan is due to be paid off this week. The program is wound down and finished. It was a positive endeavor, they picked up a lot of new customers as a result.

Brad commented on workforce issues and the proposed minimum wage laws in California. It's a worrying development.

There is still a housing shortage in Utah. It's not just consumers looking for investment properties. Large hedge funds are still buying homes in markets they see potential in further limiting the number of homes on the market.

Commissioner Rude introduced Andrea Moss and gave an overview of the board's responsibilities and the expectations for the quarterly meetings. Andrea is president of Nelnet Bank and will take Ron Ostler's place on the board representing the Industrial Banks (IB.)

Andrea introduced herself and said that industrial banks continue to be performing well and are experiencing the same market conditions described earlier.

Andrea commented on Representative Garcia's "Close the ILC Loophole" bill and the continued attacks in congress against the industrial bank charter. The industry is waiting to see what happens after the elections in November.

5. Financial Statements and Out of State Travel – Finance Director, Michael Jones

Michael Jones reviewed financial statements as of June 30, 2022, and highlighted changes since the last meeting. He also reviewed the statement from the first month of the new fiscal year.

Since the last meeting revenues increased \$22,000, the largest portion of that consists of examination fees from non-depository institutions.

We ended the fiscal year collecting a little more than \$9 million dollars.

Expenses were limited in the month of June, we paid \$130k in annual membership fees, the bulk going to the Conference of State Bank Supervisors (CSBS.)

During the closeout period of the previous fiscal, there were two significant transactions.

We rolled over \$24,500 worth of airline credits. These are from airfare purchased in the second quarter of 2020 that was canceled due to pandemic closures. The airlines tell us these credits still have a monetary value, so as we continue to use them up, we continue to roll that credit into the new fiscal year in order to have the expense show up in the year in which the travel occurs. We also rolled over \$2,000 in registration fees that were due in the old fiscal year, but the training doesn't happen until the next fiscal year, so again we roll that over to have the expense show in the fiscal year in which the training occurred.

At the end of the fiscal year we spent \$7.2 million of the \$8.6 million that was appropriated.

Overall, \$1.8 million lapsed back into our restricted account. This is due in part to not traveling like we did in pre-pandemic times and decreased training expenses because classes are held virtually.

Additionally, revenues were \$35,000 more than anticipated and expenditures were \$1.4 million less than we were approved to spend. We ended the fiscal year with \$13.9 million in our restricted account.

The group discussed the restricted account and the powers of the legislature.

We want to ensure the balance in the account would allow time to adjust and right size the Department to fit the new revenue levels if we lost one of our larger state chartered institutions.

Michael said that refunding fees is not outlined in statute and would require a change in the law to give rebates to institutions. Refunds would only be possible if the legislature changed the law to say the Department can rebate the amount over what we needed to collect back to institutions.

Commissioner Rude commented that there have been a lot of retirements over the last two years. Employees who were at the higher end of the pay scale are retiring and we are hiring examiners at the lower end of the pay scale.

Commissioner Rude said that we will try to improve examiner salaries and hope in the long run that will help with the restricted fund, but also employee retention.

Andrea asked if the airline credits are due to expire. Michael said for those that we had to cancel due to COVID restrictions, they do not expire. This is the third year we have rolled the credits over. We have used a significant amount of credit and if we get to the point where airlines will no longer honor those tickets, we'll write them off.

Michael reviewed out-of-state travel. We ended the fiscal year with about \$18,000 in out of state travel expenses. There were no in person schools in all of fiscal year 2022, all training was conducted virtually.

Examiners traveled to Grand Junction, CO to conduct an onsite exam. The Department received \$7,000 reimbursement for travel costs.

Commissioner Rude commented that he has several trips planned before the end of the year. We'll see how cold and flu season goes.

6. Commissioner Comments – Interim Commissioner, Darryle Rude

Commissioner Rude said he had a busy morning in front of the Senate Business and Labor Confirmation Committee. The Committee voted unanimously to favorably recommend him to the full senate to be Commissioner of Financial Institutions.

We had two more examiners leave the Department. One that was moving to Virginia that was interested in working remotely if that was allowed. When Governor Cox took office he took the position of employees for the State of Utah needing to be within the boundaries of the state to avoid potential tax and workers' comp issues. That examiner ended up taking a job with the Federal Reserve Bank of Richmond. The other examiner left for a position with the University of Utah.

Commissioner Rude said we are currently down four examiners and one office specialist. There are more planned retirements this year as well.

The FDIC is losing employees as well. This is the new normal in the industry. The private sector has very lucrative offers.

Commissioner Rude thanks the members for their continued participation.

7. Date of next meeting – November 30, 2022 at 1:00 PM.