

# Department of Financial Institutions

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# DISCUSSION TOPICS

- Hemp
  - Kentucky Department of Agriculture Statistics
  - National Legislation
  - Regulatory response
- Banking Update
- Credit Union Update
- Non-Depository Update
- Securities Update

# HEMP – KENTUCKY DEPT OF AG

- Growth in product sales:
  - 2017 - \$16.7 million
  - 2018 - \$57.75 million
- Growth in farm acres approved:
  - 2017 – 3,200
  - 2018 – 6,700
  - 2019 – 50,000
- Capital improvements - \$23.4 million
- Employed 459 people in 2018
- Amount paid to KY Farmers - \$17.75 million



# HEMP WOOD





# HEMP WOOD



# HEMP WOOD





# HEMP WOOD



# HEMP PRODUCTION





# HEMP PRODUCTION





# HEMP PRODUCTION





# HEMP – FEDERAL LEGISLATION

- 2014 Farm Bill
  - Established Pilot Program
  - Required MOU with state agricultural departments
  - Required extensive oversight
    - GPS coordinates of field
    - Notification of harvesting and transporting
- 2018 Farm Bill
  - Removed Hemp from controlled substance list
  - Required U.S. Department of Agriculture to develop guidelines



# HEMP – SENATOR McCONNELL

- 04/02/2019 Letter from Senate Majority Leader McConnell
- Letter Sent:
  - To the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Federal Reserve System, as well as the Farm Credit Administration (FCA)
  - Requested the regulatory bodies provide guidance to institutions under their jurisdictions to ease any concerns banks and other financial institutions may have with providing services to hemp businesses



# HEMP – REGULATORY ACTION

- KDFI
  - 2016 Guidance
    - Focused on Bank Secrecy Act and Anti-Money Laundering
    - KDFI expectations – do not treat customers as “high risk” simply because they deal with Hemp
  - 2019 Guidance
    - Acknowledged Hemp was removed from controlled substance list
    - Reminded financial services industry the customers involved in Hemp industry should not be treated as “high risk” simply because of Hemp business
- Federal Regulators:
  - No actions by FDIC, OCC, the Federal Reserve, or FinCen
  - NCUA released a letter on 08/19/2019, but it provided limited guidance



# DEPOSITORY DIVISION - BANKS

	Year-end 2016	Year-end 2017	Year-end 2018	03/31/2019
# of Banks	133	124	120	120
# of Banks (< \$100 million)	26	25	23	23
Total Assets (millions)	\$50,786	\$52,069	\$51,867	\$52,695
Total Loans (millions)	\$35,001	\$36,639	\$37,160	\$37,508





# BANKING CONDITIONS – 03/31/2019

	EMPLOYEES	NIM	ROAA	ROE	CAP
National	735,317	3.59	1.31	11.03	10.43
<b>Kentucky</b>	<b>11,669</b>	<b>3.94</b> <b>#1</b>	<b>1.28</b> <b>#4</b>	<b>11.22</b> <b>#3</b>	<b>11.31</b> <b>#1</b>
Illinois	44,120	2.69	1.14	10.73	9.20
Indiana	11,876	3.60	1.32	11.52	10.65
Missouri	24,489	3.58	1.40	13.22	10.23
Ohio	27,011	3.57	2.07	16.79	10.54
Tennessee	14,840	3.78	1.24	9.75	10.47
Virginia	13,970	3.72	1.13	7.97	10.99
West Virginia	5,349	3.76	1.20	8.97	10.34



# KY MERGER ACTIVITY

YEAR	KY ACQUIRER	OUT-OF-STATE ACQUIRER
2013	5	---
2014	4	---
2015	7	3
2016	5	---
2017	8	1
2018	1	4

# BANK PRICE/BOOK

## Raising the bar

Premiums for bank acquisitions rose last year



Source: Keefe, Bruyette & Woods

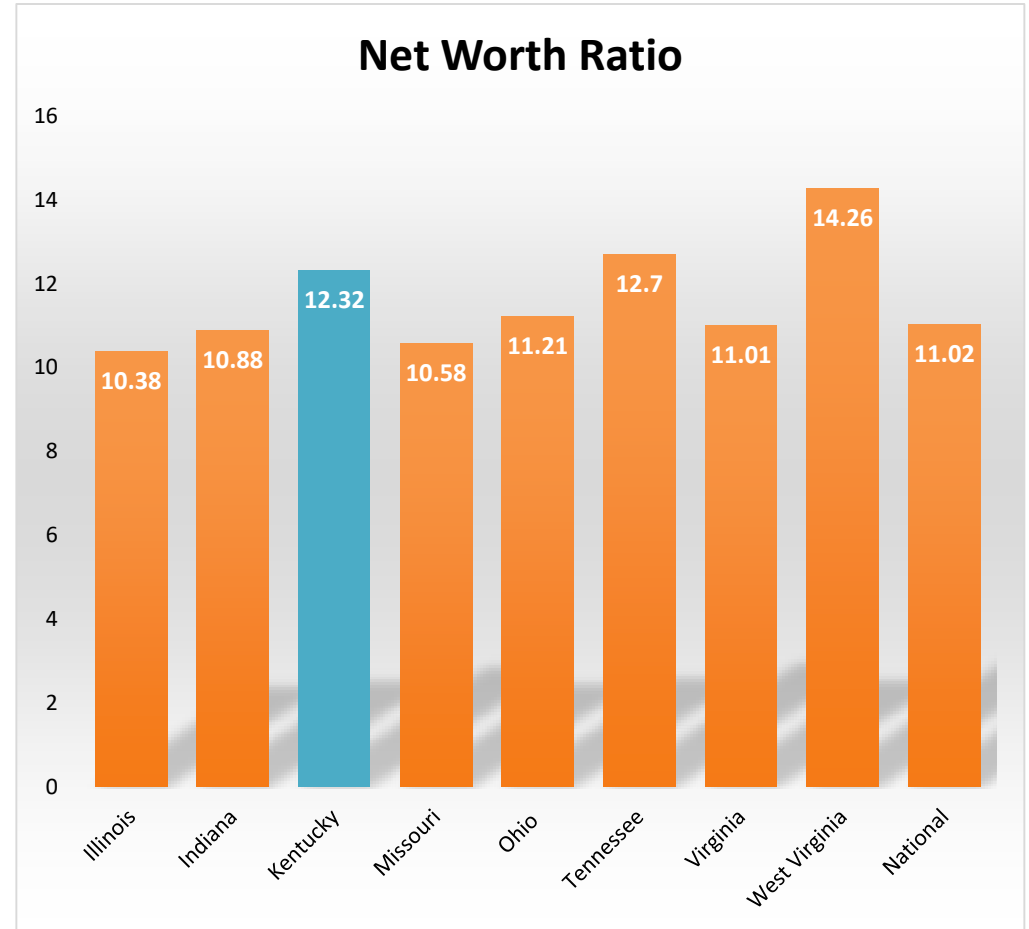


# DEPOSITORY DIVISION – CREDIT UNIONS

	Year-end 2016	Year-end 2017	Year-end 2018	Q1 2019
# of Credit Unions	24	24	22	22
# of Credit Unions (< \$100 million)	16	16	14	14
Total Assets (millions)	\$3,861	\$4,040	\$4,201	\$4,356
Total Loans (millions)	\$2,604	\$2,759	\$2,978	\$3,015

# DEPOSITORY DIVISION – CREDIT UNIONS

State	Credit Union (#)	Total Assets (millions)
Illinois	173	\$38.6
Indiana	25	\$12.6
Kentucky	22	\$4.4
Missouri	99	\$14.6
Ohio	69	\$18.9
Tennessee	79	\$12.8
Virginia	28	\$9.4
W. Virginia	3	\$0.1
National	5,335	\$1,506



# DEPOSITORY DIVISION – CREDIT UNIONS

	Year-end 2015	Year-end 2016	Year-end 2017	Year-end 2018	Q1 2019
NW ratio	12.68%	12.54%	12.15%	13.55%	13.43%
ROAA	0.71%	0.60%	0.64%	0.66%	0.72%
NIM	3.31%	3.19%	3.23%	3.30%	3.38%
Asset Growth	18.17%	6.38%	4.38%	3.98%	14.84%
Loan Growth	23.81%	10.64%	5.90%	7.94%	5.00%
Share Growth	18.87%	5.73%	3.10%	4.12%	21.32%





# NON-DEPOSITORY DIVISION

	2015	2018	06/30/2019
<b>Mortgage Companies and Brokers</b>	1,129	1,615	1,628
<b>Mortgage Loan Originators</b>	6,878	8,374	6,885
<b>Consumer Loan Companies</b>	376	386	365
<b>Money Transmitters</b>	83	105	125
<b>Check Cashers / Payday lenders *</b>	532	443	438

\* Note: The number of payday lenders has steadily declined since 2009 due to a statute change that placed a moratorium on new licenses. During the 2019 Legislative Session, the moratorium was indefinitely extended.



# SECURITIES DIVISION

	2015	2018	06/30/2019
Broker-Dealer Registrations	1,473	1,454	1,416
Broker-Dealer Agents	119,477	129,037	129,946
State Investment Advisors (IA)	1,300	1,303	1,335
IA Representatives	5,408	5,920	5,791

# CASE STUDY COMPETITION

- Nation-Wide CSBS/FRB Case Study Competition
  - Involve college students in community bank conference
  - Introduce college students to banking industry
- Kentucky universities:
  - Murray State
    - 2016 (finalist); also entered in 2017, 2018, and 2019
    - Case Study presentation at DFI Board meeting in 2016 and 2017
  - Eastern Kentucky University
    - First entry in 2018 – Fintech and the Banking Industry
    - **2018 - Won** the nation-wide competition
    - **2019 – Second Place** in the nation-wide competition
    - Team members from 2018 and 2019 EKU teams now KDFI employees

