

DFI

DEPARTMENT of
FINANCIAL INSTITUTIONS

PPC Public Protection Cabinet TEAM  KENTUCKY™

Banking & Insurance Interim Joint Committee Meeting

Kentucky Department of Financial Institutions

August 3, 2021

Discussion Topics

- **DFI Operations**
- **Divisional Updates**
 - Depository Division
 - Non-Depository Division
 - Securities Division
- **PPP Lending in Kentucky**

DFI Operations

- **DFI Guidance (Tied to State of Emergency)**

- Depository – 03/18/2020
- Non-Depository – 03/24/2020 and 06/05/2020
- Securities – 03/24/2020

- **Examination Procedures**

- Predominately off-site from March 2020 through July 2021
- Have conducted some on-site procedures, but extremely limited
- Virtual exit meetings and virtual board meetings
- On-site examinations resumed mid-July 2021, and future examinations will use increased off-site activities

Depository Division

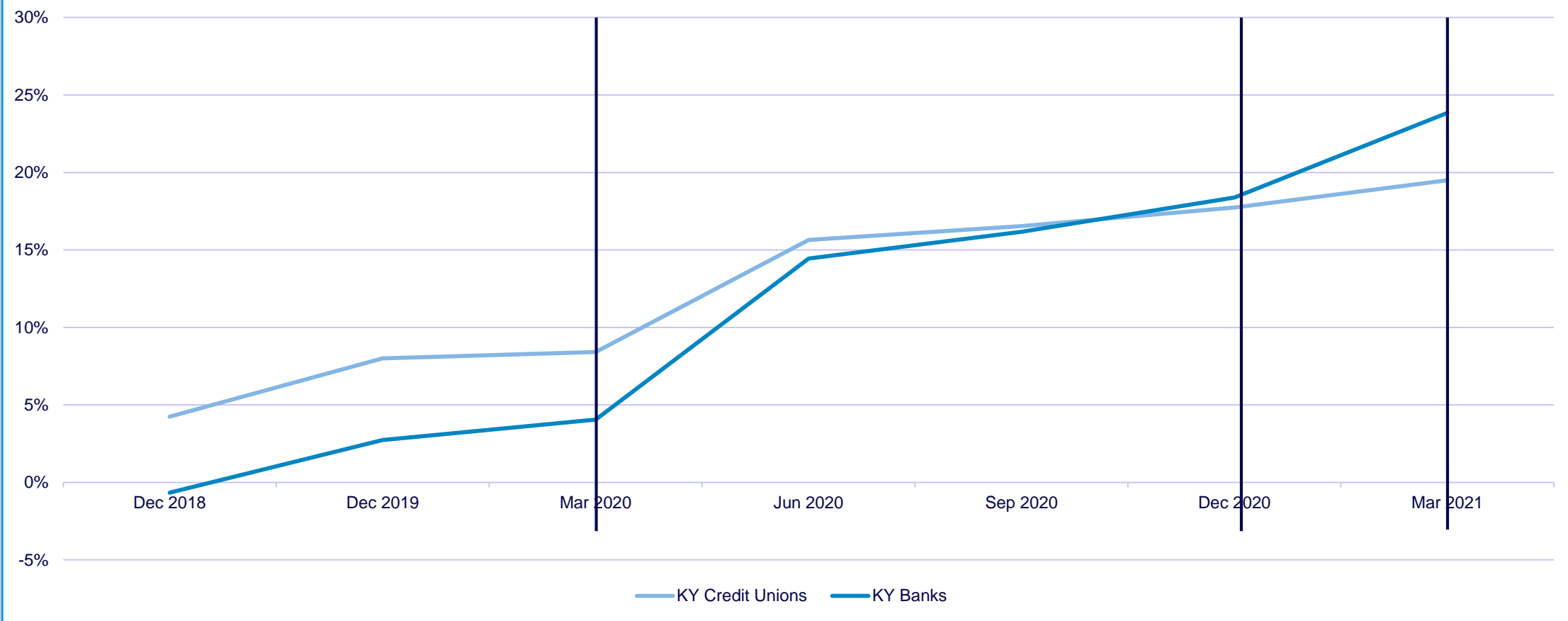
Banks and Credit Unions

Return to the Office

- Lobbies have re-opened
- Customers continue to use the online and mobile platforms adopted during the pandemic
- Financial institutions are ready to lend
- Interest rates are low



Deposits Surged Following Stimulus



Kentucky Bank Performance

	12/31/2018	12/31/2019	12/31/2020	03/31/2021
# of Banks	120	114	109	108
# of Banks (< \$100 million)	23	22	18	16
Total Assets (millions)	\$51,867	\$53,280	\$61,359	\$64,027
Total Loans (millions)	\$37,160	\$37,932	\$41,324	\$41,343

Kentucky Bank Performance

NIM – Net Interest Margin
 ROAA – Return on Average Assets
 ROE – Return on Equity
 CAP – Tier 1 Leverage Capital Ratio

03/31/2021	Employees	NIM	ROAA	ROE	CAP
National	714,364	2.91	1.41	13.31	9.36
Kentucky	11,295	3.48 #1	1.45 #3	13.44 #3	10.47 #1
Illinois	43,560	2.00	1.10	11.73	8.19
Indiana	12,508	3.22	1.56	14.39	9.82
Missouri	24,260	3.08	1.40	14.32	9.11
Ohio	10,112	3.32	1.34	10.97	10.02
Tennessee	23,250	3.04	1.34	12.18	9.16
Virginia	14,429	3.29	1.40	10.51	10.36
West Virginia	5,414	3.36	1.50	11.24	10.31

Kentucky Credit Unions

03/31/2021	Number of Credit Unions	Net Worth Ratio	Return on Average Assets	Net Interest Margin
National	1,901	9.86	1.03	2.48
Kentucky	20	10.87 #3	0.67 #7	2.61 #5
Illinois	161	9.55	1.44	2.67
Indiana	26	9.52	0.81	2.55
Missouri	94	9.18	0.93	2.45
Ohio	62	10.19	1.25	2.54
Tennessee	76	11.27	1.10	2.70
Virginia	24	9.67	0.68	2.69
West Virginia	3	13.93	0.62	2.94

Non-Depository Division

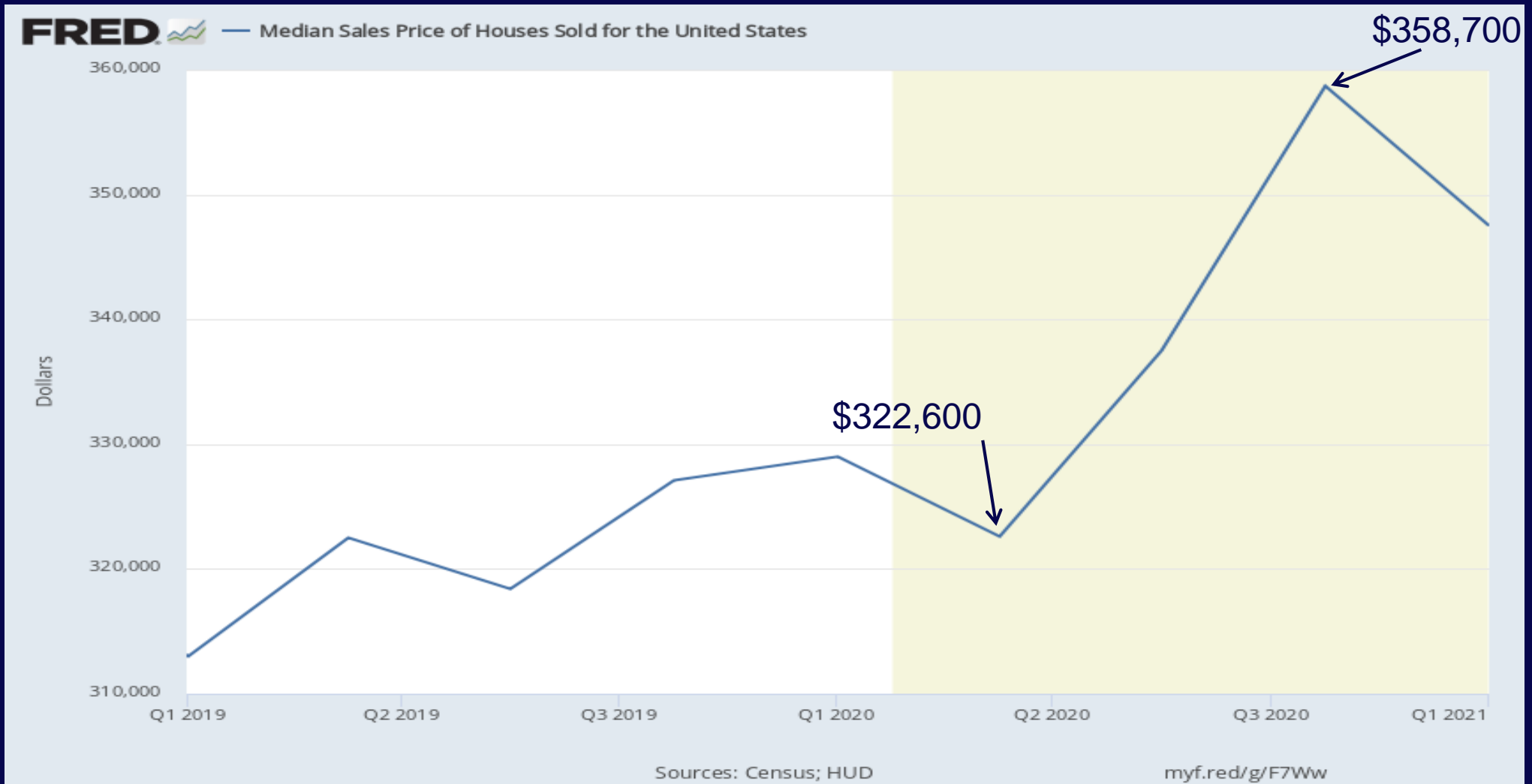
Non-Bank Lenders, Money Transmitters
and Check Cashers

Licensing Information

	12/31/2020	12/31/2020	6/25/2021
Mortgage Companies and Brokers	1,533	1,789	2,027
Mortgage Loan Originators	7,197	9,664	10,717
Consumer Loan Companies	362	364	363
Industrial Loan Companies	1	0	0
Check Cashers and Deferred Deposit Licensees	400	402	351
Limited Check Cashers	5	5	4
Money Transmitters	124	128	144
TOTAL	9,621	12,352	13,607

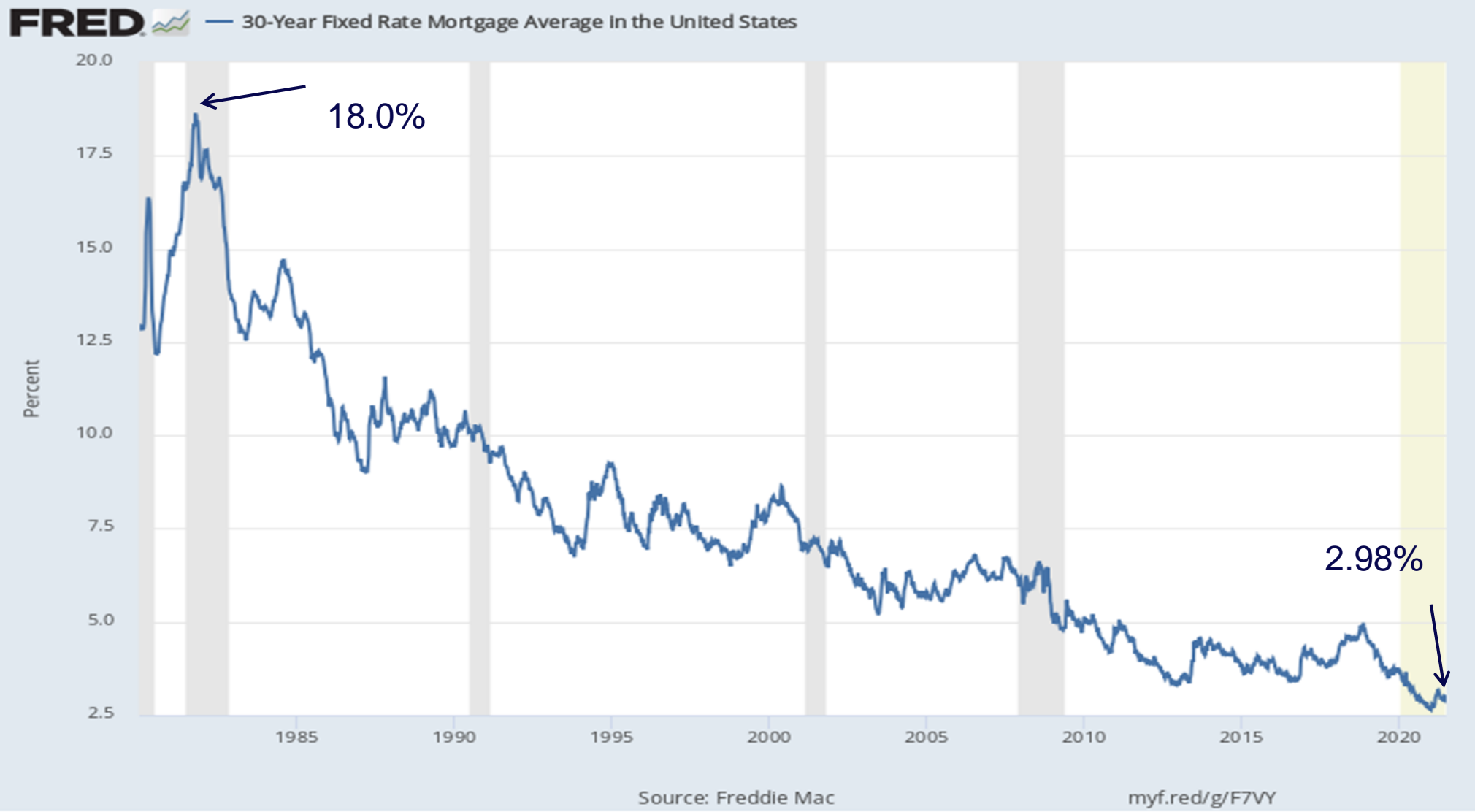
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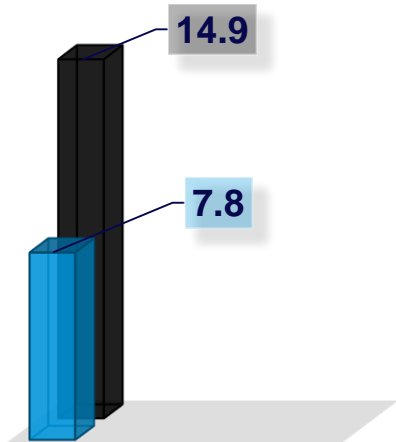
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Mortgage Origination Comparison (Non-Depository Mortgage Companies only)

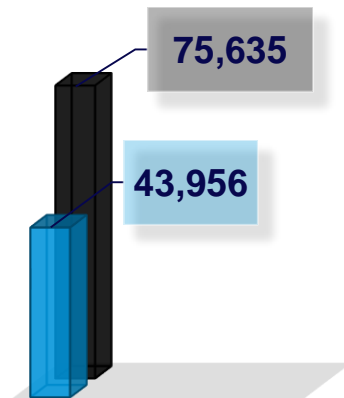
TOTAL MORTGAGE \$ (BILLIONS)

■ 2019 ■ 2020



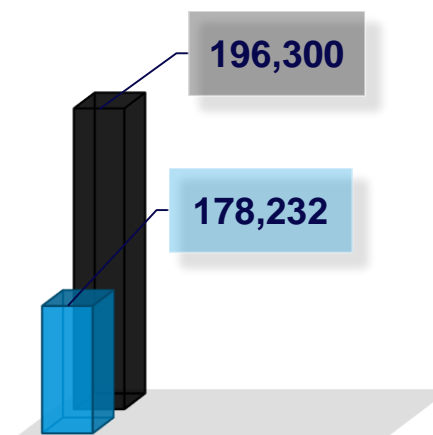
TOTAL NUMBER OF LOANS

■ 2019 ■ 2020



AVERAGE LOAN AMOUNT

■ 2019 ■ 2020



Small Dollar Loans and Money Transmitters

- **Payday Loan/Deferred Deposit Businesses**
 - Volume of loans declined 36.21% in 2020
 - Volume declined an additional 10% in 2021
- **Money Transmitters**
 - Most in locations deemed essential businesses and remained open, but some worked remotely
 - Numbers remain relatively consistent

Securities Division

Broker-Dealers, Investment Advisers and Issuers

Securities Registration

	12/31/2019	12/31/2020	06/30/2021
Broker-Dealer Registrations	1,415	1,382	1,414
Broker-Dealer Agents and Issuer Agents	131,505	134,830	143,262
Investment Advisers	1,344	1,339	1,449
Investment Adviser Representatives	5,889	6,109	6,311

COVID-19 Effects on the Securities Industry

- Broker-Dealers and Investment Advisers
 - Closed offices
 - Transitioned services to electronic delivery
 - Forced clients who were resisting online services to adapt
- Demand for services caused an increase in representatives
- Uncertainty in markets caused some to move to non-traditional investments with increased risk of fraud

Market Concerns

- **Social Media Posts**

- Platforms are being used to promote agenda-based trading
 - Could be used to manipulate markets and/or promote “pump and dump” schemes

- **Cryptocurrency**

- Higher risk and more volatility
- Few laws to protect consumers



- **Precious Metals (Gold and Silver)**

- With market uncertainties, fraud has increased

Paycheck Protection Program

PPP Loan Volume in Kentucky

	Number of Loans	Net Dollars	Average
Approved through 08/08/2020 (CARES Act)	50,655	\$5,282,244,302	\$104,278
Approved through 05/31/2021 (PPP Extension Act)	80,225	\$2,563,145,675	\$31,949
Loans outstanding at KY Banks (03/31/2021)	31,647	\$2,479,812,000	\$78,359

PPP Lenders (U.S.)

	08/08/2020	05/31/2021
Banks and S&L	82.0%	79.2%
Fintech	5.8%	7.9%
Small Business Lending	6.2%	5.6%
Credit Unions	3.0%	2.0%
Other	3.0%	5.3%

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