INTERIM JOINT COMMITTEE ON BANKING AND INSURANCE

Minutes of the 1st Meeting
of the 2018 Interim

August 28, 2018

Call to Order and Roll Call

The 1st meeting of the Interim Joint Committee on Banking and Insurance was held on Tuesday, August 28, 2018, at 10:00 AM, in Room 154 of the Capitol Annex. Representative Bart Rowland, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Tom Buford, Co-Chair; Representative Bart Rowland, Co-Chair; Senators Jared Carpenter, Morgan McGarvey, Dennis Parrett, Dorsey Ridley, Albert Robinson, John Schickel, and Dan "Malano" Seum; Representatives Jim DuPlessis, Joseph M. Fischer, Jeff Greer, Adam Koenig, Stan Lee, Chad McCoy, Michael Meredith, Steve Riggs, Dean Schamore, Wilson Stone, and Addia Wuchner.

Guests: Congressman Andy Barr, Kentucky 6th District; Charles Vice, Commissioner, Department of Financial Institutions (DFI); Wendell Lyons, President and Debbie Painter, Executive Vice President, Kentucky Credit Union League; and Karen Harbin, President and Chief Executive Officers, Commonwealth Credit Union.

LRC Staff: Sean Donaldson, Jessica Sharpe, and Dawn Johnson.

Economic Growth, Regulatory Relief, and Consumer Protection Act

Congressman Andy Barr, Kentucky Sixth Congressional District, Chairman of the Monetary Policy and Trade Subcommittee of the United States House of Representatives Committee on Financial Services, stated that since the enactment of the Dodd-Frank Financial Control Law in 2010, one in five Kentucky credit unions and community banks had closed. Nationwide more than 43 percent of banks with under $100 million in assets had closed. Dodd-Frank regulations altered the economy, especially in rural and underserved communities, by limiting access to essential financial services and products due to overwhelming bureaucratic red tape. The Congressional Budget Office estimated that, if unchanged, the Dodd-Frank Act would have reduced total economic output by $895 billion over the next decade. The Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155), is a bipartisan measure that gives credit worthy Kentuckians access to affordable financial products by tailoring provisions of the original law to reflect the unique nature of community and regional financial institutions that have different business models and risk profiles than large bank holding companies in the U.S. Significant changes include appraisal relief for certain real estate transactions under $400,000, relief from certain home mortgage disclosure act requirements for banks and credit unions that originate fewer than 500 mortgages and 500 open lines of credit, banks with under $10 billion in assets that have originated 1,000 or fewer loans secured by a first lien on a personal dwelling will receive escrow relief, and well-managed community banks will have greater access to reciprocal deposits. They will be exempt from the Volcker Rule and certain banks with up to $3 billion in assets will be eligible for an 18 month exam cycle instead of a 12 month cycle. In addition, S.2155 will provide a number of specific benefits for veterans, consumers, and homeowners including free account credit freezes, free credit monitoring for active duty military, and foreclosure relief for military personnel under the Service Member Civil Relief Act.

Congressman Barr reviewed regulation changes for regional and custodian banks including two bills he sponsored--the Portfolio Lending and Access Act and the Preserving Access to Manufactured Housing Act. Changes to the unique regulations of purchasing manufactured housing under Dodd-Frank. These regulations prevented many families in rural areas from purchasing affordable housing.

Congressman Barr said the U.S. House of Representative's Committee on Financial Services continues to work on other reforms including the Jobs and Investors Confidence Act of 2018, capital markets reform legislation to address antiquated securities regulations governing start-ups and investors.

He discussed other issues including the National Flood Insurance Program, and reforms to the National bridge notification standard, the Bank Secrecy Act and Anti-Money Laundering, the Federal Reserve System's monetary policy, housing finance, and the Federal Insurance Office.

Responding to Chairman Rowland's questions, Congressman Barr said anecdotally it appears that community lending is increasing since the passage of S.2155. Discussions to privatize at least part of the National Flood Insurance Program continue. The U.S. House of Representatives passed legislative reforms to address solvency and sustainability issues. Congress passed an extension to continue the current program through November 30, 2018.

Representative Meredith expressed support for the recent changes to the Qualified Mortgage Rule of the Home Mortgage Disclosure Act (HMDA). Congressman Barr said the Committee would like to further the disclosure relief which did not go far enough. Extending the disclosure requirements to small business lending was a bad idea.

Representative Riggs said repetitive losses in the flood program are problematic, accounting for thirty percent of program claims. Seventy-five percent of payout recipients do nothing to mitigate future loss. Recent rate increases should be more incremental. Congressman Barr said the reform legislation that passed the U.S. House of

Representatives addresses both issues. Some lower income homeowners may not be able to move from flood zones.

Responding to Representative Lee's question, Congressman Barr said consumer protection reform provides free placement and removal of security credit freezes to address the increase in data security breaches.

Kentucky Financial Institutions

Charles Vice, Commissioner, Department of Financial Institutions, said economic growth in Kentucky has been tremendous in 2018. Corporate investments for 2017 were $9.2 billion creating 17,200 jobs. State exports were $30.9 billion in 2017, an increase of 5.8 percent. On a per capita basis, Kentucky ranks fifth nationally in exporting. The July 2018 unemployment rate was 4.3 percent, down from five percent for July 2017.

Commissioner Vice discussed the state and national housing market. Of note is the increase in home values since the recession. In the past two years, home prices have increased twelve percent nationwide. In Kentucky, home prices increased 7.2 percent in 2017 and the number of homes sold has increased 7.4 percent.

Commissioner Vice said the federal tax relief package has already had a significant economic impact. According to a February 22, 2018, *American Banker* article, some companies have chosen to increase bonuses and minimum wage, increase dividend payouts, increase investment in technology, expand into new markets, and expand products and services including commercial and industrial lending and consumer lending.

Commissioner Vice discussed changes reported by the Non-Depository Division of DFI. These include a 46.2 percent increase over 2015 in the number of mortgage companies, a thirteen percent increase in mortgage brokers, a 21.8 percent increase in loan originators, a 2.7 percent increase in consumer loan companies and a 26.5 percent increase in money transmitters. The number of check cashers and payday lenders decreased by 16.75 percent due to a statutory moratorium on new licenses which is set to expire July 2019. Commissioner Vice reviewed modest changes reported by the Securities Division.

Commissioner Vice noted that while there is an upswing in the number of deposit insurance applications following the financial crisis, pre-recession the FDIC received 150 applications for new banks. In 2017 there were eight. He expressed concern over consolidation and the loss of banking institutions in smaller communities. Commissioner Vice reviewed information provided by the Depository Division. The data reflects modest growth in total assets and total loans. He reviewed national and regional banking conditions as of June 30, 2018 and reported on credit union conditions.

Commissioner Vice said recent actions by the DFI include the ongoing Red Tape Initiative which has eliminated sixteen percent of outstanding regulations relating to the financial services industry. DFI advocated for many items on S.2155, particularly right-sized regulation based on business model and risk, qualified mortgage status for portfolio lending and simplified capital rules for community banks.

Commissioner Vice spoke about the October 2018 Community Bank Conference, an initiative between the Federal Reserve Board and the Conference of State Bank Supervisors whose purpose is to provide research and study regarding community bank issues.

In response to Representative Greer's question, Commissioner Vice said it would help Kentucky's banking industry be more competitive to surrounding states by lowering the bank franchise tax to a more reasonable level.

Responding to Representative Stone's question, Commissioner Vice said the lower corporate tax rate may initially result in less revenue to the federal government but the overall economic impact is positive.

Credit Unions in Kentucky

Wendell Lyons, President of the Kentucky Credit Union League announced his upcoming retirement and introduced President-elect Debbie Painter. Ms. Painter reviewed the history and structure of credit unions. While the number of credit unions has decreased significantly Kentucky's 64 credit unions are doing well. Forty-four are federally chartered and twenty are state charters. All 64 are federally insured. The majority of the state's credit unions are small, but growth and membership are increasing. Credit unions are held to a slightly higher capital standard than the banking in industry. Credit unions maintain a strong network. Delinquencies are half the national average and returns on assets are twice the national average.

Chairman Buford thanked Mr. Lyons for his service and welcomed Ms. Painter.

Louisville Metro Police Credit Union Liquidation and Subsequent Acquisition by Commonwealth Credit Union

Commissioner Charles Vice explained the purpose and process of liquidation of the Louisville Metro Police Credit Union. The credit union was placed out to bid which was won by the Commonwealth Credit Union. The decision was executed June 29, 2018, and the final outcome was positive. No credit union members lost any deposits, operations continued throughout the entire process, and members have access to more products. Karen Harbin, President and Chief Executive Officer of the Commonwealth Credit Union, said CCU is honored to serve the members of the credit union because its members serve the people every day.

In response to Representative Stone's question, Ms. Harbin said there was only a slight decline in assets.

There being no further business, the meeting adjourned at 11:35 AM.