

INTERIM JOINT COMMITTEE ON BANKING AND INSURANCE

Minutes of the 1st Meeting of the 2020 Interim

September 15, 2020

Call to Order and Roll Call

The 1st meeting of the Interim Joint Committee on Banking and Insurance was held on Tuesday, September 15, 2020, at 8:30 AM, in Room 171 of the Capitol Annex. Senator Jared Carpenter, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jared Carpenter, Co-Chair; Representative Bart Rowland, Co-Chair; Senators Tom Buford, Rick Girdler, Christian McDaniel, Morgan McGarvey, Dennis Parrett, John Schickel, Brandon Smith, and Reginald Thomas; Representatives Terri Branham Clark, Joseph M. Fischer, Deanna Frazier, Jim Gooch Jr., Kathy Hinkle, Adam Koenig, Derek Lewis, Michael Meredith, Sal Santoro, Dean Schamore, Wilson Stone, and Rob Wiederstein.

Guests: Ballard Cassady, President and Chief Executive Officer, Kentucky Bankers Association, John P. Cooper, Governmental Affairs Consultant, Kentucky Bankers Association; Corey Craig, President, Bluegrass Community Bankers Association, Christy Carpenter, Director, Bluegrass Community Bankers Association, Gary Broady, Executive Director, Bluegrass Community Bankers Association; Debbie Painter, President and Chief Executive Officer, Kentucky Credit Union League

LRC Staff: Jessica Sharpe, Breanna Miller, and Elizabeth Hardy

Banking During Covid-19

Ballard Cassady, President and Chief Executive Officer of the Kentucky Bankers Association (KBA), discussed the extraordinary nature of the COVID-19 pandemic and stated that banks were deemed an essential business that continued to operate despite other businesses closing. County clerk offices, whose services are necessary for banking operations, had differing practices across the state, and some offices offered limited or no services. Mr. Cassady stated that county clerk offices must adopt consistent practices and restored services without delay. He also stated that all clerks should be required to offer electronic filing. According to a meeting of the legislature's special committee involving county clerks, electronic filing of official documents can be available statewide by December 31, 2021.

Businesses were mandated to close in Kentucky weeks before the state and federal government could provide any aid. Because customers could not wait, banks did not wait for government relief. Many provided modified loans and suspended foreclosures and evictions. For that reason, the Federal Deposit Insurance Corporation (FDIC) reported a 70 percent decrease in earnings for banks in the second quarter compared to a year ago.

Due to the pandemic, banks had to implement human resources and operational policies to protect their employees and customers. Many banks rotated staff on a two week basis, allowing one team to work remotely and the other team to work in-person. Most lobbies were closed so business was handled through drive-thru lanes, ATMs, interactive teller machines, and other means. In case of a bank shutdown, the KBA requested a list of core processors to facilitate the completion of transactions by another bank that shares the same processor.

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act included the Paycheck Protection Program (PPP). The PPP is a Small Business Administration (SBA) program, but banks created, funded, and underwrote these loans. Reimbursement from Washington D.C. will only occur when PPP loans are forgiven or paid off. Thus far, banks have not been reimbursed despite banks loaning \$650 billion to American businesses. Mr. Cassady discussed challenges in administering the PPP and uncertainty in meeting reimbursement requirements due to changing rules.

Despite these risks, by June 30, 2020, banks statewide made about 47,000 PPP loans, which protected around 592,000 jobs. \$4 billion of the banks' money was loaned out with an interest rate of one percent over a two year maturity. All other lenders, such as credit unions, farm credit, and others, made a total of 1,393 PPP loans in Kentucky during the pandemic. The loan amounts ranged from \$100 to over \$5 million, and community banks were the first to make loans under the program.

John P. Cooper, Governmental Affairs Consultant with the KBA, stated that county clerks also faced great operational challenges during the pandemic. The KBA has been working with county clerks and a coalition of stakeholders on fee structures to encourage electronic filings and to advance the electronic filing process. Mr. Cooper stated that the pandemic exposed existing vulnerabilities in the system and he hopes to start on electronic filing legislation during the 2021 session.

Co-chair Carpenter commented that he has observed people moving from larger cities to his district because of the pandemic. He also discussed how financial services during COVID-19 have adapted to accommodate changing needs.

In response to Representative Branham Clark's question about electronic filings in other states, Mr. Cooper responded that there are several states that are further along in the different stages of modifying their filing systems.

Representative Meredith discussed challenges banks face in bond portfolio yields and with federal loan forgiveness guidelines. Mr. Cassady responded that the industry is asking for the government to only audit PPP loans over \$150,000 so as to decrease burdens to banks. The industry is also asking for less burdensome forgiveness procedures.

In response to Senator Thomas' inquiry about access to capital and PPP funds for black and brown-owned businesses, Mr. Cassady stated that there was virtually no underwriting criteria for PPP loans. Since the Black Lives Matter movement, he is aware of at least one bank in Kentucky that set aside funds to lend to people of color and black and brown-owned businesses. The KBA is currently working with the regional president of the Federal Reserve in Louisville, and panels are being created, to address institutional racism.

Corey Craig, President of the Bluegrass Community Bankers Association (BCBA) stated that they have about 53 member banks across the state. Many of their members are also KBA members. He stated that the average asset size of a community bank is about \$250 million and that community banks tend to serve smaller communities. Gary Brody will be Executive Director of the BCBA starting October 1, 2020. Mr. Brody stated that he has 40 years of banking experience and is eager to work with committee members in the future.

Christy Carpenter, Director of the BCBA, discussed the challenges community banks encountered in administering PPP loans during the pandemic. These challenges included communication and processing issues, substantial regulatory uncertainty, and access to limited funds, all while bank staff worked under COVID protocols. Despite this, no one was turned away from Ms. Carpenter's bank for a PPP loan, even if they were not a bank customer.

Ms. Carpenter reported uncertainty entering the forgiveness phase of the PPP. Banks are still waiting on final directives from Congress. She stated that instituting a \$150,000 audit threshold would be an enormous help. To date, banks have collected most origination fees and are assisting clients with a confusing forgiveness process.

Ms. Carpenter said that PPP loans have made a difference in her community. 135 loans were approved and around \$8 million was brought into her town. She recalled several local businesses, firms, and independent contractors that were protected because of the PPP loan. Community banks have also built a strong network by helping each other during the pandemic as well as gaining new customers and improved relationships with current customers. Lastly, she discussed what legislators could do to help community banks.

Co-chair Carpenter commented that the PPP has made an impact and that small businesses are integral to our communities.

Serving Credit Union Members during COVID-19

Debbie Painter, President and Chief Executive Officer of the Kentucky Credit Union League (KCUL), explained what a credit union was and the status of credit unions in Kentucky. There are 63 credit unions in Kentucky, 22 are state-chartered and 41 are federally-chartered. Credit union assets in the state range from less than \$1 million to approximately \$1.8 billion. 48 credit unions in Kentucky have less than \$100 million in assets. Kentucky credit unions are well-capitalized and employ approximately 2,400 people.

Ms. Painter stated that credit unions adjusted their operating procedures when lobbies first started closing at the beginning of the pandemic. This included increasing drive through services, broadening service and call center hours, doing business in parking lots, and calling members. To Ms. Painter's knowledge, no employee at a Kentucky credit union has been laid off or furloughed. She also discussed ways that credit unions reached out to their employees and their communities during the pandemic.

Ms. Painter stated that credit unions do not usually make commercial loans. Rather, their niche is consumer loans, unsecured loans, auto loans, and mortgages. However, some Kentucky credit unions do participate in business lending. As of the end of August, four Kentucky credit unions made 273 PPP loans. A total of \$5.5 million was loaned and the average loan was around \$20,000.

The financial impact of COVID-19 has not been determined for Kentucky credit unions yet. Many credit unions went into payment deferrals. Some deferrals were 60-90 days while others were up to 180 days, and this could have a financial impact on credit unions in the future. Ms. Painter stated that one area where business boomed was with mortgage refinancing, due to the low-rate environment.

Similar to the KBA, KCUL would also like the county clerk system to utilize electronic filing. An issue the KCUL recently encountered was the Transportation Cabinet issued 200 car titles without liens perfected. Due to this error, many financial institutions across the state had to assess whether their liens were impacted. Another issue is that the law requires lien filings to be made within 30 days, but Ms. Painter stated that the Governor released two executive orders delaying county clerk filings beyond 30 days. Despite these orders, one Kentucky credit union had their lien stripped by a bankruptcy court because the credit union didn't comply with the 30 day deadline. If this continues to happen, financial institutions across the state are at risk. Ms. Painter stated that county clerks, financial institutions, and bankruptcy trustees need to work together to address this issue.