

INTERIM JOINT COMMITTEE ON BANKING AND INSURANCE

Minutes of the 2nd Meeting of the 2024 Interim

October 15, 2024

Call to Order and Roll Call

The second meeting of the Interim Joint Committee on Banking and Insurance was held on October 15, 2024, at 9:30 AM in Room 149 of the Capitol Annex. Senator Jared Carpenter, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Michael Meredith, Co-Chair; Senator Jared Carpenter, Co-Chair; Senators Donald Douglas, Jason Howell, Gerald A. Neal, and David Yates; Representatives Josh Bray, Deanna Frazier Gordon, Jim Gooch Jr., Derek Lewis, Shawn McPherson, Michael Sarge Pollock, Steven Rudy, Tom Smith, and Cherlynn Stevenson.

Guests: Jim Kasch, President & CEO, Kentucky's Credit Unions; Kyle Hagerty, Vice President, Kentucky's Credit Unions; Larry Lucas, President & CEO, Ashland Credit Union; Timothy Schenk, Vice President and General Counsel, Kentucky Bankers Association; and John Cooper, Governmental Affairs Consultant, Kentucky Bankers Association.

LRC Staff: Jessica Sharpe, Breanna Patterson, Anita Zipfel, and Nathan Carter.

Credit Union Industry Update

Kyle Hagerty, Vice President, Kentucky's Credit Unions, explained that credit unions are distinguished by their not-for-profit status and member-owned structure. These distinguishing characteristics result in earnings being returned to the member-owners through lower rates on loans, higher rates on savings, and fewer and lower fees. Despite economic conditions, Kentucky credit unions have continued to add more branches in the past 10 years. There are 56 credit unions in Kentucky, 18 are state-chartered and 38 are federally-chartered.

Larry Lucas, President & CEO, Ashland Credit Union, highlighted instances where his credit union was able to save members money. The credit union also hired a financial education specialist who speaks to community members and students about financial principles.

Jim Kasch, President & CEO, Kentucky's Credit Unions, stated that credit unions have been serving Kentuckians for over 100 years and there are approximately one million Kentuckians who are members. Mr. Kasch shared statistics on the financial benefits and loan funding that credit unions have provided to Kentucky families. Kentucky credit unions are the strongest they have ever been, despite the challenges of the interest rate market, and a recession-like environment. Credit unions play a vital role in filling the voids left by traditional banking providers.

In response to Senator Howell's question, Mr. Lucas stated the financial education program they use was developed internally and is used for both students and community members.

In response to Representative McPherson's question, Mr. Lucas explained Ashland Credit Union does offer accounts for kids. Representative McPherson commented on the importance of being exposed to financial principles early.

Kentucky Bankers Association - Legislative Update

Timothy Schenk, Vice President and General Counsel, Kentucky Bankers Association (KBA), recognized the committee for its passage of legislation relating to consumer protection, bank modernization, the Uniform Commercial Code, and settlements with minors, and discussed the KBA's priorities for the 2025 legislative session.

The KBA supports increasing state financial institution examiner salaries within the Kentucky Department of Financial Institutions (KDFI) to be more competitive with federal examiner salaries. Mr. Schenk explained that KDFI has the money in a trust and agency account, with over \$6 million of overflow each year that could be used to fund the salary increases. John Cooper, Governmental Affairs Consultant, KBA, commented that if examiner salaries are in the range of federal examiners then state examiners are more likely to stay.

Another KBA priority is legislation increasing the limit on new market tax credits. This credit incentivizes financial institutions to invest in communities that need housing. The KBA also supports legislative proposals to extend the timeline to complete a project associated with historical tax credits, as well as clean-up legislation to clarify who is required to provide notice associated with the release of certain liens under KRS 382.365(4).

Next, Mr. Schenk discussed legislative proposals that the KBA believes may harm the banking industry, including proposals relating to social credit scores, ESG Investments, and reducing interchange fees. Mr. Cooper noted a lot of the issues are being addressed

by states because Congress has not addressed them but it would be easier to have a federal standard.

In response to Chair Carpenter's question, Mr. Schenk spoke about the use of new market tax credits to reduce interest rates in order to make the construction of low-income housing more affordable. Mr. Cooper commented on the importance of having suitable rental properties.

In response to Representative Rudy's questions, Mr. Schenk explained that the full \$6 million would not be needed to increase examiner salaries. Mr. Schenk stated banks bear the cost of fraud under federal law which is paid through the interchange fee. With the increase in fraud, if banks are required to bear the full cost, it would put them in the position of reconsidering whether they will continue to offer cards. Mr. Cooper stated the KBA would work with retailers on the issue of interchange fees. Chair Carpenter added that some retailers are passing the interchange fee down to consumers and discussed the fraud protections for credit cards versus debit cards.

Representative Rudy commented on the respective roles of federal and state governments regarding ESG.

Senator Yates commended the KBA for its work communicating with banks about 2024 Regular Session Senate Bill 158, relating to settlements with minors.

In response to Representative Smith's questions, Mr. Schenk explained that new market tax credits are existing credits and the KBA is open to working on the exact amount of any increase. Mr. Cooper commented that some tax credits need to be reevaluated by the General Assembly. Regarding competition between banks and credit unions, Mr. Cooper stated they do not mind competition, if it is fair, but the General Assembly has limited ways to address those issues because most credit unions in Kentucky are federally-chartered.

In response to Senator Howell's questions, Mr. Cooper explained in the event of a short fall in funding for examiner salaries, financial institutions would need to make up the difference through an adjustment to the assessment on the institutions. Mr. Schenk stated there are potential constitutional issues if the money collected from the assessment is not invested in the industry. Mr. Cooper stated he did not know if retirement and health insurance would come out of the same fund.

Senator Howell and Chair Carpenter discussed the costs associated with the construction of homes.

Adjournment

There being no further business before the committee, the meeting adjourned at 10:32 AM.