

UTAH DEPARTMENT OF FINANCIAL INSTITUTIONS

Business, Economic Development, and Labor
Appropriations Subcommittee
Interim Meeting

July 26, 2017

UTAH DEPARTMENT OF FINANCIAL INSTITUTIONS

MISSION STATEMENT

The **primary mission** of the Department of Financial Institutions is to charter, regulate, and supervise persons, firms, corporations, associations, and other business entities furnishing financial services to the citizens of the state of Utah.

In the case of **depository institutions**, the statutory charge is to charter, regulate, supervise, and safeguard the interest of shareholders, members, and depositors through on-site examinations and remedial action orders. The primary activity of the department is the examination of supervised depository institutions to determine their financial strength and solvency.

In the case of **persons or entities** that provide financial services to the public, the statutory requirements is that these entities register with the department and that the department ensures credit is extended to consumers in the state of Utah in terms that are fair, lawful, and easily understood.

The department has a **secondary mission** to assist the development of the financial services industry in the state for the benefit of its citizens and the community in all ways consistent with safe and sound business practices.

The department provides a source of information and assistance to the citizens of Utah in connection with all forms of banking products and services.

The department is concerned with preservation and development of the state's role in providing financial services.

VISION

The Department of Financial Institutions' **vision** is to establish Utah as a nationally and internationally renowned center of financial services providers.

UTAH DEPARTMENT OF FINANCIAL INSTITUTIONS

(“UDFI”)

WHY STATE REGULATION THROUGH UDFI MATTERS

Dual Banking

Both States and Congress have bank/credit union chartering authority. Utah’s ability to supervise and regulate “State Banking” remains important to the economic well-being of Utah.

Nationally, 75% of all banks are state-chartered, in Utah 86% of all banks and 50% of all credit unions are state-chartered. Without the State Banking System, and *UDFI*, there would not be industrial banks headquartered here. All 25 state-chartered banks and 33 state-chartered credit unions would have to convert to a federal charter.

Utah Advantage

Utah-chartered industrial banks fostered by the *UDFI*, the last five Governors, and Legislative actions; have made Utah a national financial services center. Today, 15 industrial banks, totaling \$143 billion in Total Assets, representing nationally prominent companies, employ thousands and have contributed tens of millions in Community Reinvestment Act (CRA) funds to assist Utah’s low-income housing and community development programs.

WHY STATE REGULATION THROUGH UDFI MATTERS

Option to Leave Jurisdiction

UDFI is the only Utah regulatory agency whose constituents are there by choice. State-chartered financial institutions can convert to a federal charter at their election (i.e., 17 state CUs converted to federal CUs over an 18-month period).

While industrial banks can leave Utah's jurisdiction, (i.e., Goldman Sachs did to become a Bank Holding Company in New York) three industrial banks (with a total of \$124 billion in Total Assets) converted to a commercial bank and chose to stay headquartered in Utah. Other parent companies have expanded their operations beyond the scope of their industrial bank.

DFI Restricted Account in Statute

Per statute (UCA 7-1-403), *UDFI* operates entirely from a Restricted Fund, taking no General Funds. All *UDFI*'s fees are in statute, not Administrative Rules. Changes to fees requires Legislative approval. *UDFI*'s budget is reviewed quarterly (including all travel) by the Board of Financial Institutions. The annual budget request is reviewed by the Board, recommended by the Governor, and appropriated by the Legislature.

Banks React to Importance of UDFI

Utah is different because the Governor and the Legislature consistently demonstrate that financial institutions are important to the state. If the clout or stature of *UDFI* is diminished, the message to the industry will be financial institutions are not as important. Industrial bank presidents unequivocally have stated that a major consideration in their decision to seek a Utah charter was a strong and fair regulator, independent from other agencies.

WHY STATE REGULATION THROUGH UDFI MATTERS

Conclusion

Today, Utah enjoys a first-in-class bank regulatory agency, the 7th largest in the country when measured by Total Assets (\$277 billion) under jurisdiction. The *UDFI* provides quality regulation and supervision of state-chartered financial institutions. The agency has a national reputation as a strong, well-funded (entirely by the industry), and independent agency. These accomplishments have contributed to Utah becoming a national financial services center.

UTAH DEPARTMENT OF FINANCIAL INSTITUTIONS

Challenges and Issues

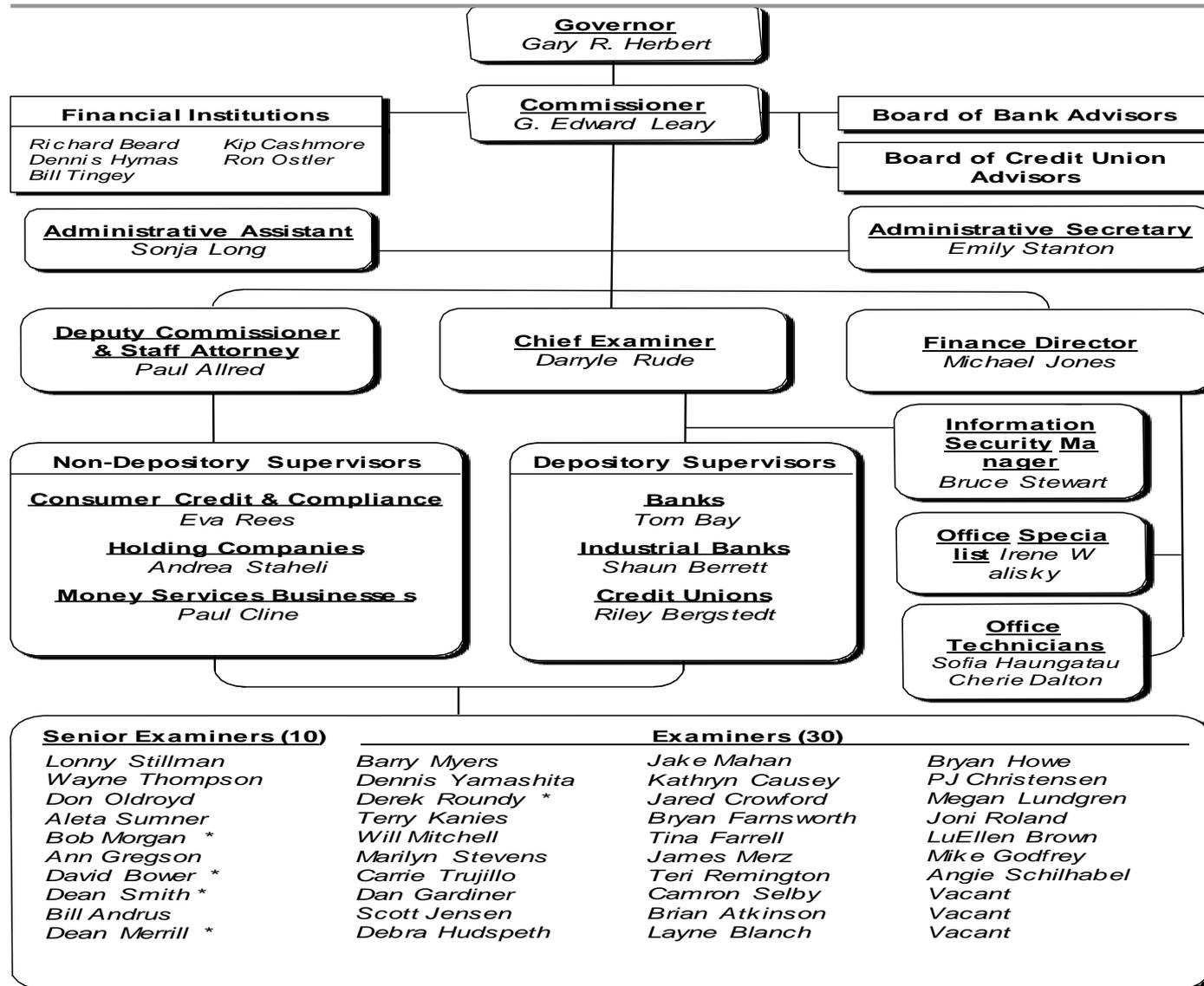
1. Continue **Safety and Soundness focus** particularly while some community banks and credit unions continue to work through the last vestiges of the Great Recession.
2. **Train the next generation of examiners** as effectively and efficiently as possible.
 - 19% of *UDFI's* examiners have under 4 years of experience.
 - 43% have less than 5 years of experience.
3. Devote more **resources to very large institutions** without compromising quality to the community banks and credit unions.
4. **Track and Manage** the expected **increase in mergers and acquisitions** nationally and potentially in Utah. Try to ensure that Utah citizens have a full range of financial services, fairly disclosed and competitively priced.

Challenges and Issues

5. Cooperate with Federal Banking Agencies in mitigating the impact and burden on Utah banks of the **increasing importance of Compliance and Consumer Protection**.
 - UDFI one of a few state agencies **doing joint Compliance examinations** with the Federal Banking Agencies, including the Consumer Financial Protection Bureau (CFPB).

6. Get **more state examiner presence** on joint **specialty examinations** being performed on Utah-chartered institutions by the Federal Banking Agencies, specifically **holding company and information technology** inspections.

STATE OF UTAH Department of Financial Institutions *July 17, 2017*



* Dedicated Large Bank Examiner

Utah Department of Financial Institutions Schedule of Depository Institutions Headquartered in Utah (Dollars in Billions)

	March 31, 2017	
	Number of Institutions	Total Assets
Commercial Banks		
State	25	\$ 133.4
National	<u>4</u>	<u>202.0</u>
Total	29	335.4
Industrial Banks		
State	<u>15</u>	\$ <u>143.2</u>
Total	15	143.2
Credit Unions		
State	33	\$ 1.7
Federal	<u>33</u>	<u>22.4</u>
Total	66	24.1
Savings Banks		
State	0	\$ 0
Federal	<u>2</u>	<u>123.0</u>
Total	2	123.0
TOTALS		
State	73	\$ 240.6
Federal	<u>39</u>	<u>205.2</u>
Total	112	445.8

UTAH DEPARTMENT OF FINANCIAL INSTITUTIONS

State Chartered Banks in Utah - By Asset Size

As of 3/31/2017 -- 40 BANKS

<u>Commercial Banks (25)</u>	<u>5</u>	<u>Industrial Banks (15)</u>	<u>10</u>
<u>Greater than \$1 billion</u>	<u>5</u>	<u>Greater than \$1 billion</u>	<u>10</u>
Ally Bank	\$ 122,313,000	UBS Bank USA	\$ 55,943,089
People's Intermountain Bank	\$ 1,682,347	American Express Centurion Bank	\$ 34,496,339
Bank of Utah	\$ 1,149,137	Sallie Mae Bank	\$ 19,027,250
Cache Valley Bank	\$ 1,041,353	BMW Bank of North America	\$ 9,942,712
Green Dot Bank	\$ 1,038,638	Optum Bank, Inc.	\$ 7,655,605
		Comenity Capital Bank	\$ 6,663,672
		Merrick Bank Corporation	\$ 2,980,106
		WEX Bank	\$ 2,176,331
		EnerBank USA	\$ 1,359,402
		Medallion Bank	\$ 1,083,931
<u>\$500 million to \$1 billion</u>	<u>4</u>	<u>\$500 million to \$1 billion</u>	<u>2</u>
Central Bank	\$ 971,483	Pitney Bowes Bank, Inc.	\$ 700,241
State Bank of Southern Utah	\$ 951,635	Celtic Bank	\$ 571,846
Marlin Business Bank	\$ 916,006		
Transportation Alliance Bank, Inc.	\$ 662,964		
<u>\$100 million to \$500 million</u>	<u>9</u>	<u>\$100 million to \$500 million</u>	<u>2</u>
Grand Valley Bank	\$ 369,743	WebBank	\$ 453,627
Rock Canyon Bank	\$ 330,590	LCA Bank Corporation	\$ 167,313
First Utah Bank	\$ 325,829		
Capital Community Bank	\$ 316,635		
Prime Alliance Bank	\$ 263,885		
Brighton Bank	\$ 201,640		
Continental Bank	\$ 157,728		
Home Savings Bank	\$ 135,081		
Town & Country Bank	\$ 125,854		
<u>Less Than \$100 million</u>	<u>7</u>	<u>Less Than \$100 million</u>	<u>1</u>
Gunnison Valley Bank	\$ 86,040	First Electronic Bank	\$ 20,742
American Bank of Commerce	\$ 84,022		
Utah Independent Bank	\$ 79,714		
FinWise Bank	\$ 56,036		
Holladay Bank & Trust	\$ 52,537		
Republic Bank	\$ 30,966		
Liberty Bank	\$ 11,713		
COMMERCIAL BANKS:	\$ 133,354,576	INDUSTRIAL BANKS:	\$ 143,242,206

Utah Department of Financial Institutions

What Were We Appropriated?

Appropriations for Fiscal Year 2017

\$ 7,898,100

Utah Department of Financial Institutions

What Were Our Costs?

Personnel Services \$ 5,972,387

80.49% of Fiscal Year 2017 Expenditures

Larger Categories:

- Regular Salaries & Wages
- State Retirement
- Health, Dental, Life, & Long-term Insurance
- Leave Paid
- FICA/Medicare

Utah Department of Financial Institutions

What Were Our Costs?

Travel (In-State and Out-of-State) \$ 351,875

4.74% of Fiscal Year 2017 Expenditures

Larger Categories:

- Out-of-State Transportation
- Out-of-State Lodging Reimbursements
- In-State Mileage Reimbursements
- Out-of-State Meal Reimbursements
- In-State Lodging Reimbursements

Utah Department of Financial Institutions

What Were Our Costs?

Current Expenses

\$ 338,513

4.56% of Fiscal Year 2017 Expenditures

Larger Categories:

- Human Resource Services
- Books & Subscriptions
- Employee Training & Development
- UTA Eco-Pass Costs
- Insurance and Bonds

Utah Department of Financial Institutions

What Were Our Costs?

Pass Through Expenses - CIBFS	\$ 300,000
4.04% of Fiscal Year 2017 Expenditures	
Rental of Land & Building	\$ 237,666
3.20% of Fiscal Year 2017 Expenditures	
Data Processing Current Expenses	\$ 220,606
2.97% of Fiscal Year 2017 Expenditures	

Utah Department of Financial Institutions

What Were Our Funding Sources?

Total Revenue for Fiscal Year 2017 \$ 6,686,906

Asset-Based Supervisory Assessments 95.08%

Registration Fees 4.08%

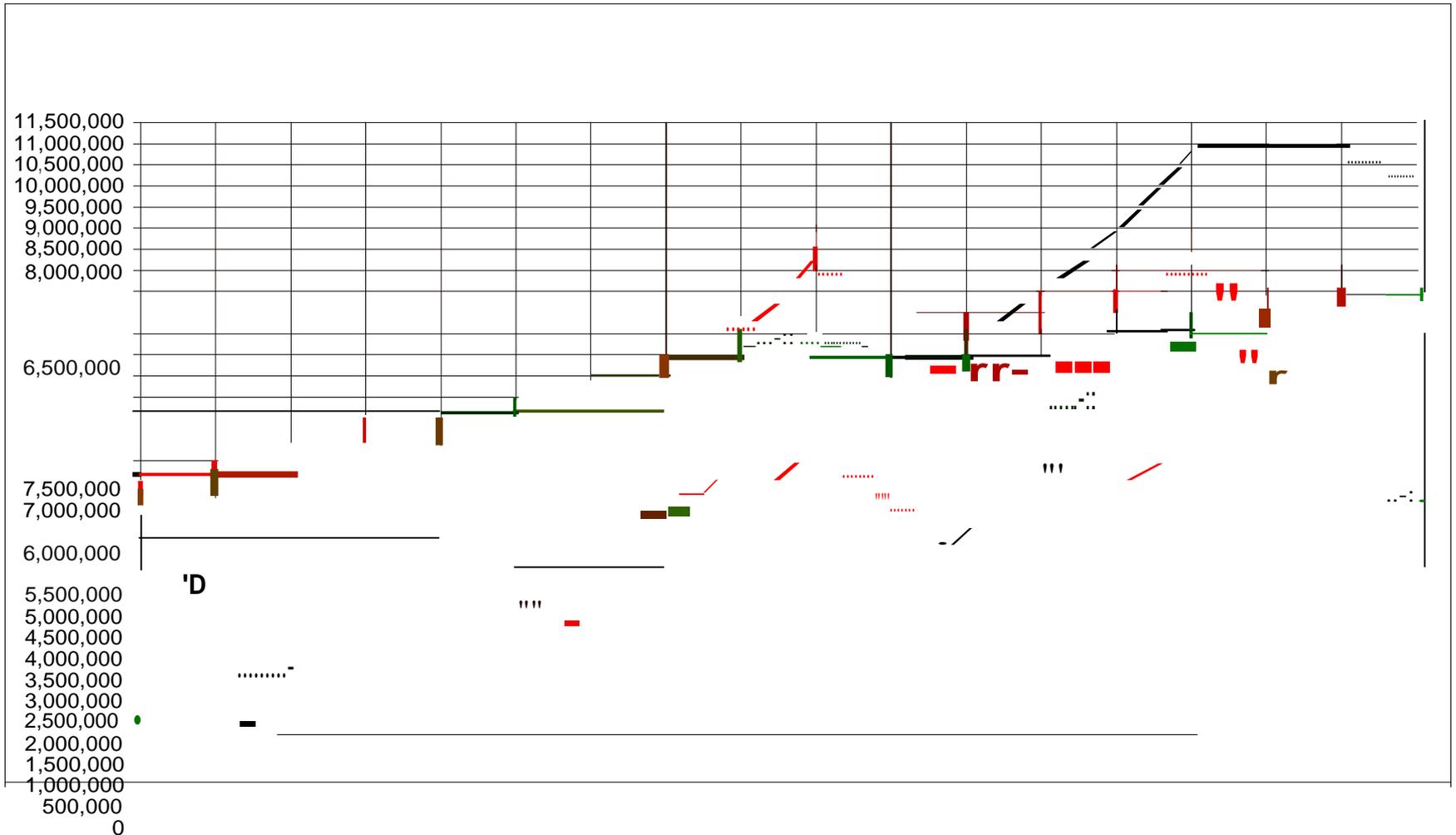
Examination Fees .77%

Application Fees and Administrative Fines .07%

Utah Department of Financial Institutions

Restricted Account Balance

Current Appropriations, Revenues, and Expenditures



2001
2002 (a)
2003
2004
2005
2006
2007 (i)
2008
2009
2010
2011
2012
2013
2014
2015 (a)
2016
2017

Appropriations Restricted Account Expenditures Revenue Collected

Lassonde Entrepreneur Institute's Center for Innovation in Banking and Financial Services

The Center for Innovation in Banking and Financial Services (CIBFS) made a second presentation to the Board of Financial Institutions on June 12, 2017. In their presentation, they discussed the following accomplishments and goals:

CIBFS FY 2016 and FY 2017 Accomplishments -

- ↗ Approved and funded 20 Research Projects.
- ↗ Developed a fundraising plan and identified a prominent former banker to manage the plan.
- ↗ Developed strategic partnerships with 12 national and local banking associations, policy institutes, and government agencies.
- ↗ Held its first Student Innovation Tournament; with 53 participants and 12 banking industry professionals involved. Eight financial innovations were presented. More Innovation Tournaments are in the planning stage.
- ↗ Downloaded Federal Regulatory Institutions database. Information from the database download has been accessed for use by:
 - House Oversight Government Relations Committee (July 2016)
 - House Financial Service Committee ILC Presentation (Summer/Fall 2017)
 - White House Treasury Presentation (Summer/Fall 2017)
 - Utah Governor's Office of Economic Development's Financial Services Cluster.
- ↗ Scheduled the 1st Annual CIBFS Conference for September 12, 2017, at the Homestead Resort in Midway Utah. The conference is expected to include keynote speakers and 10 to 12 research presentations.

Lassonde Entrepreneur Institute's Center for Innovation in Banking and Financial Services

CIBFS FY 2018 Goals

- ↗ Research - finalize current projects, launch new research initiatives, and expand database development.
- ↗ Publications- research reports, newsletters, and an annual report.
- ↗ Raise the Profile of CIBFS nationally.
- ↗ Connect with Utah's Universities and Colleges.
- ↗ Develop an undergraduate bank curriculum within the David Eccles School of Business' Finance Department.
- ↗ Grow Internship program.
- ↗ Accelerate fundraising.

The Board of Financial Institutions will consider the matter of the Center's FY 2018 pass-through funding at its September, 2017 meeting.