

CREDIT UNION COMMISSION MEETING MINUTES
Credit Union Department Building
(Via video/teleconference only)
914 East Anderson Lane, Austin, Texas
August 7, 2020

A. CALL TO ORDER -- Chair Yusuf Farran called the meeting to order at 9:04 a.m. via video/teleconference, pursuant to Chapter 551 of the Government Code, and declared that a quorum was present. Other members present included, Karyn Brownlee, Beckie Stockstill Cobb, Steven “Steve” Gilman, Sherri Merket, Jim Minge, David Shurtz, and Kay Swan. Assistant Attorney General Melissa Juarez was in attendance to serve as legal counsel. Representing the Department staff were John J. Kolhoff, Commissioner, Robert E. Etheridge, Deputy Commissioner, and Director of Information and Technology Joel Arevalo. Chair Farran appointed Isabel Velasquez as Recording Secretary. The Chair inquired and the Commissioner confirmed that the notice of the meeting was properly posted (**July 27, 2020, TRD#2020004107**).

❖ RECEIVE REQUESTS AND MOTIONS FOR EXCUSED ABSENCES –

Chair Farran inquired if there were any requests or motions to excuse an absence. Ms. Merket moved to excuse Commission Member Liz Bayless from the Commission meeting on August 7, 2020. Mr. Minge seconded the motion, and the motion was unanimously adopted.

❖ GENERAL PUBLIC COMMENT -- Chair Farran invited public input on matters that were not scheduled items on the agenda for possible future consideration by the Commission. No public comments were received.

B. MINUTES OF PREVIOUS MEETING (May 8, 2020) -- The Chair referred the members to the draft minutes of the previous meeting included in the agenda packet and asked for any proposed edits. Hearing none the Chair asked for

a motion to approve the minutes. Mr. Gilman moved for approval of the minutes of May 8, 2020 as presented. Mrs. Merket seconded the motion, and the commission carried the motion unanimously.

C. DEPARTMENT'S ACTIVITIES RELATED TO COVID-19 --

Commissioner Kolhoff reported that the Department has been very busy talking to our institutions, maintaining connection with them, ensuring that they have some background and some regulatory guidance, when necessary, on the issues that they are dealing with related to COVID. Mr. Kolhoff also reported that from the employment standpoint, we have acquired masks, hand sanitizer and wipes. Our field staff continues to work almost 100% remote, conducting examinations to the best of their ability as we move forward and are still getting the job done. Most of the institutions are working well with us with some hiccups when it comes to technology. The Department remains ready to enter a credit union, if necessary to perform its duties, but at this time almost all work has been effectively conducted offsite. The office staff continue to split their time in the office in order to ensure operations are continuing, but to mitigate as much as we can the operational risk of the entire staff getting infected by using two teams alternating, with each team spending 20 hours in the office and 20 hours offsite.

- ❖ **Commission Member Steve Gilman, CEO of Houston Texas Fire Fighters Federal Credit Union** raised the question regarding schools reopening from district to district and any foreseen issues with staff being able to continue to do their examinations remotely if a school did not reopen and the kids were back at home. Commissioner Kolhoff responded that so far everything is working well, and no issues have come up. Mr. Kolhoff expressed his gratitude to staff, both in the office and in the field, for their flexibility and their diligence during the pandemic.
- ❖ **Commission Member David F. Shurtz, Chief Risk Officer/General Counsel of EECU** added by thanking Commissioner Kolhoff for the communication and

information that he continues to send to the CEOs of the credit unions and for keeping the commission informed on a regular basis.

After a brief discussion, no formal action was taken by the Commission.

D. DEPARTMENT'S FY 2020 FINANCIAL PERFORMANCE –

Commissioner Kolhoff reported that at the end of the 3rd Quarter FY 2020 total expenditures were \$409,702, which was 12% below our budgeted projections. Almost all budget lines performed below budgeted levels apart from additional maintenance costs for YTD 2020. As of May 31, \$1.56 million in operating funds are available to cover the projected \$1.19 million in projected costs to complete the FY2020.

- ❖ **Commission Member David F. Shurtz, Chief Risk Officer/General Counsel of EECU** raised the question if any unexpected expenses would be coming up. Mr. Kolhoff responded that there is the roof leaking problem which we are currently working with Texas Facilities Commission on those repairs. Another expense is the replacing of the desktop computers in the office.
- ❖ **Commission Chairman Yusuf Farran** raised the issue of the roof and asked if the Department was getting bids. Commissioner Kolhoff responded that bids were being obtained.

After a lengthy discussion, no formal action was taken by the Commission.

E. DEPARTMENT'S TECHNOLOGY INVESTMENTS –

Commissioner Kolhoff reported that the Department has initiated several technology investments related to COVID-19 operational changes, cyber security and network maintenance. These initiatives are funded by a combination of FY 2020 and requested FY 2021 budget dollars. Commissioner Kolhoff directed the Commission to the Capital

Improvement Plan (Priority Item #3) and a summary of the projects that can be found in Appendix A of the agenda item which represents \$7,200 in costs.

After a lengthy discussion, Mrs. Cobb moved that the Commission approve the establishment of a reserve of \$10,910 FY 2020 funds to complete the installation of technology investments initiated in FY 2020 but likely to be completed after fiscal year end. Mr. Shurtz seconded the motion, and the motion was unanimously adopted.

F. PROPOSED ONE TIME EMPLOYEE PANDEMIC WORK FROM HOME COST STIPEND – Commissioner Kolhoff reported that employees have been working remotely since March 23 to ensure the health of Department staff, the communities with which we operate, and the industry we oversee. Staff commitment and flexibility have helped to ensure the mission of the Department continues despite the tumultuous situation in which the nation finds itself. The Department has saved significant funds related to travel and other costs associated with employees working in the office. Mr. Kolhoff proposed a one-time stipend to employees based on the percentage of time working from home during the pandemic. A stipend of \$1,000/\$500 for employees assigned to work 100% - 50% at their home that would assist to defray the employee costs associated with working remotely from their homes.

After a short discussion, Mr. Gilman moved that the Commission table this agenda item for further study to research and consult applicable laws and regulations before the commission approves a one-time stipend. Mrs. Brownlee seconded the motion, and the motion was unanimously adopted.

G. DEPARTMENT'S OPERATING PLAN AND BUDGET FOR FY 2021 – Commissioner Kolhoff reported that consistent with the Budget Assumptions approved by the Commission a proposed budget for FY 2021 of \$4,307,682 which represents a 3.1% decrease from the FY 2020 budget and which is consistent with the Budget Assumptions approved by the Commission. The proposed budget

includes strategic initiative funding for the costs related to a performance-based merit increase program (\$79,365); and additional funding of the Department's emergency reserves (\$51,250). The budget also includes \$192,749 in operating cost savings as part of Governor Abbott's initiative to respond to the economic impact of the COVID-19 pandemic. The Replacement/Capital improvement plan includes additional funding for cyber related infrastructure costs (\$7,200) and for technology support improvements (\$13,000).

- ❖ A member of the public, **Melodie Durst, Executive Director, Credit Union Coalition of Texas** expressed her appreciation to Commissioner Kolhoff and Deputy Commissioner Etheridge for taking the time to schedule a meeting to include the Coalition and the Cornerstone Credit Union League in going over the budget. Furthermore, Mrs. Durst reported that the Department has done an excellent job of outlining and looking at the various components of the budget.

After a lengthy discussion, Mrs. Cobb moved that the Commission approve the proposed Department's Budget for FY 2021, with a total budget of \$4,307,682 and 30 FTEs. Mr. Gilman seconded the motion, and the motion was unanimously adopted.

H. STATE CREDIT UNION SYSTEM – Commissioner Kolhoff indicated the information presented in this packet is based on the last financial numbers available and that Mr. Etheridge would proceed with a more detailed report on the state credit union system. Mr. Etheridge reported that many of the credit unions were starting to experience declining earnings-performance trends, rapid declines in fee revenues, increased provision costs to cover loan losses, significant declines in gross income due to reduced investment yields due to the lower rate environment, and also flattened loan volume. Net worth levels have started to decline this year based on March numbers. The net worth ratio for credit unions is 10.86%, which is a decline of 25 basis points during the first quarter of this year. The growth this year has been

substantial during the first quarter; assets of state-chartered credit unions grew by \$1.5 billion to a total of \$45.7 billion, which annualized, represents a growth trend of 13.6%.

After a brief discussion, the commission took no formal action.

I. SUNSET REVIEW – Commissioner Kolhoff reported that the Department submitted the Department’s Sunset review self-evaluation in August 2019, prior to the deadline of September 3, 2019. Mr. Kolhoff directed the Commission to the Department’s website where the self-evaluation report can be found. On April 13, 2020 the Sunset Commission staff formally presented to the Department the Sunset review process. Data requests from the Sunset Commission staff began the week of April 20, and interviews of Department personnel began April 23, with the last meeting conducted on June 25. Furthermore, the Department should be receiving the final report findings in late August and should expect potential hearings scheduled for September and November. At this time, the Sunset Commission has not approved a hearing schedule.

After a short discussion, the commission took no formal action.

J. COMMISSIONER EVALUATION PROCESS

(a) Adoption of the Commissioner’s FY 2021 Performance Objectives and Goals. Commissioner Kolhoff indicated that in collaboration with Chairman Farran and Chair of the Evaluation Committee Cobb it was determined that keeping the same format, goals, and initiatives was in the Department’s best interest for this year due to strange circumstances. It was felt that at this time it is better to just keep the same process in place.

(b) Review of the Commissioner Succession Plan. Commissioner Kolhoff explained that in the event the Commissioner were either unable or unavailable to perform his duties, the Deputy Commissioner would then take over the responsibilities of the Department, and the Commissioner Evaluation Committee and the Commission would proceed to look about naming an interim and proceeding with the replacement process.

After a brief discussion, Mr. Minge moved that the Commission approve the proposed FY 2021 Commissioner Performance Objectives and Goals and the Commissioner Succession Plan. Mrs. Cobb seconded the motion, and the motion was unanimously adopted.

K. RULEMAKING MATTERS

(a) Adoption of Proposed Amendments to 7 TAC Section 91.708 Concerning Real Estate Appraisals or Evaluations. Commissioner Kolhoff reported that at its May meeting the Commission approved for publication and comment in the *Texas Register* the proposed amendments to Rule 91.708. The rule reflects amendments made to the National Credit Union Administration Rules and Regulations Part 722 (12 CFR Part 722) to align with requirements of other depository financial services providers. The amended language increases the threshold at which licensed appraisals are required when underwriting consumer real estate loans. The proposed language requires consumer real estate loans at or exceeding \$400,000 to have an appraisal conducted by a state licensed appraiser, an increase from the current \$250,000 limit. No comments were received on the proposed amendments to the rule.

After a short discussion, Mr. Gilman moved that the Commission adopt the proposed amendments to **7 TAC Section 91.708** without changes to the proposed

text as published in the *Texas Register*. Mrs. Brownlee seconded the motion, and motion was unanimously adopted.

(b) Adoption of Rule Review and Re-adoption of 7 TAC, Part 8, Chapter 151 (concerning Home Equity Lending Procedures); Chapter 152 (concerning Repair, Renovation, and New Construction on Homestead Property); and Chapter 153 (concerning Home Equity Lending). Commissioner Kolhoff reported that the Texas Finance Commission and the Texas Credit Union Commission (commissions) have completed the rule review of the following chapters in the Texas Administrative Code, Title 7, Part 8, in their entirety: Chapter 151, concerning Home Equity Lending Procedures; Chapter 152, concerning Repair, Renovation, and New Construction on Homestead Property; and Chapter 153, concerning Home Equity Lending. No comments were received on the proposed amendments.

After a brief discussion, Mr. Shurtz moved that the Commission approve the rule review and re-adopt 7 TAC Chapters 151, 152 and 153. Mrs. Merket seconded the motion, and motion was unanimously adopted.

(c) Proposed Amendments, a New Rule, and Repeals in 7 TAC, Part 8, Chapter 151 (concerning Home Equity Lending Procedures); and Chapter 153 (concerning Home Equity Lending). Commissioner Kolhoff reported that the financial regulatory departments attached to the Texas Finance Commission and the the Credit Union Department are proposing identical language to their respective commissions to address 7 TAC chapters 151 and 153. The Commissioner asked for approval to publish proposed amendments to §151.1 and proposed repeals of §§151.2, 151.3, 151.4, 151.5, 151.6 and 151.7. The Commissioner asked for approval to publish proposed amendments to §§153.8, 153.11, 153.14, 153.15, 153.22 and 153.41, and a proposed new §153.26.

After a short discussion, Mr. Minge moved that the Commission approve for publication and comment proposed amendments to **7 TAC, Part 8, Chapters 151 and 153** as presented. Mr. Gilman seconded the motion, and motion was unanimously adopted.

❖ Member of the public, **Melodie Durst, Executive Director, Credit Union Coalition of Texas**, expressed her appreciation to the Department and the Texas Finance Commission for allowing virtual discussions and participations that would not have happened if it was not for online meetings such as Zoom and Microsoft Teams.

L. Resolutions of Appreciation for Retiring Staff – Commissioner Kolhoff reported that **Mark D. Buie**, Field Supervisor, will be retiring on August 31, 2020 after a long and distinguished career with the Department, spanning twenty-five years. Mark progressed to various positions within the Department. In recognition of the leadership he has provided in helping to develop the Department into the strong organization it is today, the staff has drafted a resolution for the Commission’s consideration.

Commissioner Kolhoff reported that **Michael (Mike) S. Riepen**, Director of Examination Support Activities will be retiring on October 31, 2020, after having worked for the Department for ten years combined over several different periods. Mike has served in various positions within the Department. In recognition of his contribution in helping to develop the Department into the strong organization it is today, the staff has drafted a resolution for the Commission’s consideration.

After a brief discussion and congratulatory wishes, Mrs. Cobb moved to approve the resolutions for **Mark D. Buie** and **Michael S. Riepen** as presented, and that copies of the resolutions be given to them as a token of the Commission’s

appreciation. Mrs. Merket seconded the motion, and motion was unanimously adopted.

M. Future Commission Meetings: Agenda Items, Arrangement, and Dates.

Chair Farran reminded everyone that the next regular meeting of the Commission has been tentatively scheduled for November 6, 2020 at 9:00 a.m., in Austin.

ADJOURNMENT – There being no further business for the Credit Union Commission, Chair Farran adjourned the meeting at 11:58 a.m.

Yusuf E. Farran
Chairman

Isabel Velasquez
Recording Secretary

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