

CREDIT UNION COMMISSION MEETING MINUTES
Credit Union Department Building
914 East Anderson Lane, Austin, Texas
July 12, 2019

A. CALL TO ORDER - ASCERTAIN A QUORUM – Chair Allyson “Missy” Morrow called the meeting to order at 9:01 a.m. in the conference room of the Credit Union Department Building, Austin, Texas, pursuant to Chapter 551 of the Government Code, and declared that a quorum was present. Other members present included, Beckie Stockstill Cobb, Liz Bayless, Yusuf Farran, Steven “Steve” Gilman, Sherri Merket, and Jim Minge. Commission members Kay Stewart and Rick Ybarra were absent due to schedule conflicts. Assistant Attorney General Melissa Juarez was in attendance to serve as legal counsel. Representing the Department staff were John J. Kolhoff, Commissioner, and Robert E. Etheridge, Deputy Commissioner. Chair Morrow appointed Isabel Velasquez as Recording Secretary. The Chair inquired and the Commissioner confirmed that the notice of the meeting was properly posted (**July 2, 2019, TRD#2019003909**).

❖ **INVITATION FOR PUBLIC INPUT FOR FUTURE CONSIDERATION** – Chair Morrow 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.

❖ **RECEIVE REQUESTS AND MOTIONS FOR EXCUSED ABSENCES**
– Chair Morrow inquired if there were any requests or motions to excuse an absence. Mrs. Cobb moved to excuse Commission Members Kay Stewart and Rick Ybarra from the Commission meeting on July 12, 2019. Mrs. Merket seconded the motion, and the motion was unanimously adopted.

B. RECEIVE MINUTES OF PREVIOUS MEETING (March 8, 2019). The Chair referred the members to the draft minutes of the previous meeting included in the agenda packet. Mr. Gilman moved for approval of the minutes of March 8, 2019 as presented. Mrs. Merket seconded the motion, and the motion was unanimously adopted.

C. COMMITTEE REPORT – Commissioner Evaluation Committee.

(a) Discussion, Consideration and Possible Vote to Recommend that the Credit Union Commission Take Action to Approve the Commissioner’s FY 2019 Performance Objectives and Goals. Mrs. Cobb, Commissioner Evaluation Committee Chairwoman, reported on the Committee’s public meeting held on July 11, 2019. Mrs. Cobb reported that it was the Committee’s determination that the 2019 Performance Objectives and Goals were still appropriate and on behalf of the Committee, she moved that the Commission re-adopt the current performance objectives and goals for FY 2020 with a correction noted on language dropped in the objectives to #2 Administration. Entered on a motion of a standing committee, a second was not needed and the motion passed unanimously.

(b) Discussion of the Procedures to be Utilized in the Commissioner’s FY 2019 Performance Review. Mrs. Cobb briefly highlighted the procedures to be used as part of the Commissioner’s performance review. No formal action was taken by the Commission.

D. PENDING AND ONGOING MATTERS

(a) Final Post-Payment Audit Report. Commissioner Kolhoff reported that the audit covered the period from December 1, 2016 through November 30, 2017. The Department was found in general compliance with the General Appropriations Act (GAA). No issues were found with travel and property management records. However, the Department was asked to consider improving

controls over verification of prior state service for new employees, compliance with procurement and contracting rules, system security access and expenditure processing. Furthermore, as part of the response the Department initiated policy changes to ensure future compliance and acted to correct errors when necessary. No formal action was taken by the Commission.

(b) Department's FY 2019 Budget and Financial Performance.

Commissioner Kolhoff indicated that for the first nine months of FY 2019, total expenditures totaled \$2,838,693, which is \$289,418 below the YTD budgeted amount. Appropriated funds remaining to cover the last quarter of the 2019 FY is \$1,422,216. He reiterated that most bills are not paid until 30 days after the due date so some of the operating cost being reflected are only for an eight-month period.

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

(c) Discussion and Consideration of Current Status of the State Credit Union System. Deputy Commissioner Etheridge indicated that Texas credit unions remain financially and operationally sound as the result of a healthy economy and low unemployment. He further explained that, generally, Texas credit unions continue to perform well and realize positive loan growth, strong asset quality trends, satisfactory earnings performance and stable net worth positions.

Commission Member Gilman suggested it would be helpful for Department staff to analyze and present to the Commission the potential impact of CECL implementation on Texas credit unions at a later meeting.

After a short discussion of some of the key financial trends, no formal action was taken by the Commission.

E. NEW MATTERS

(a) Discussion, Consideration and Possible Approval of the Department's Operating Plan and Budget for Fiscal Year 2020. Commissioner Kolhoff noted that Section 16.003 of the Finance Code gives the Commission exclusive responsibility for approving the Department's annual budget. He noted that in accordance with the budget policies and guidelines approved at the Commission's last meeting, staff was presenting for consideration a proposed FY 2020 budget of \$4,485,694 which represents a 5.3 percent increase from the FY 2019 budget. The proposed budget includes additional funding for the associated costs related to a performance-based merit increase program (\$102,339), funding to accomplish the NCUA laptop rollover (\$22,000), increase examiner training (\$10,000), examiner travel costs (\$20,000) and sunset review (every 12 years) (\$100,000). Commissioner Kolhoff further reported on each of the proposed strategic initiatives.

After a lengthy discussion, Mr. Minge moved that the Commission approve the proposed FY 2020 Operating Plan and Budget, with a total budget of ***\$4,485,694** and 30 full time employees. Mrs. Cobb seconded the motion, and the motion was unanimously adopted.

***Let the record show that the discussion included the Department not moving forward with the ACT! database conversion; therefore, the \$40,000 associated cost is no longer applicable to the proposed budget and should have been removed from the monies appropriated through the motion. Therefore, while the Commission's motion approved the amount of \$4,485,694, Commissioner Kolhoff is amending the operating budget amount to \$4,445,694 to remove the \$40,000 database conversion costs. The new operating budget will now represent a 4.3 percent increase from the FY 2019 budget.**

(b) Discussion, Consideration, and Possible Action to Approve the for Publication and Comment the Proposed Amendments to 7 TAC Section 91.101 Concerning Definitions and Interpretations. Commissioner Kolhoff indicated that the purpose of the proposed amendments would define the term “consolidated CUSO” utilized in Section 91.401 and make grammatical changes. This language is presented to clearly define the terms involved to both the industry and Department staff.

Mr. Gilman moved that the Commission approve for publication and comment the proposed amendments to **7 TAC Section 91.101** concerning definitions and interpretations. Mrs. Bayles seconded the motion and the motion was unanimously adopted.

(c) Discussion, Consideration, and Possible Vote to Take Action on the Completed Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter H (Relating to Investments) – Commissioner Kolhoff indicated that under Section 2001.039, Government Code, requires that a state agency review and consider for re-adoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years after that date. At its July 2016 meeting, the Commission approved a plan which establishes a date for the required review for each of the affected rules. In accordance with that plan, staff has reviewed 7 TAC, Part 6, Chapter 91, Subchapter H (Investments) and believes certain revisions are appropriate and necessary. Amendments to the noted subchapter are being separately presented for proposal.

Mrs. Merket moved that the Commission find that the reasons for adopting the rules in Subchapter H (Investments) continue to exist and that, subject to the separately proposed amendments, the Commission readopt the rules in this subchapter. Mrs. Cobb seconded the motion and the motion was unanimously adopted.

(d) Discussion, Consideration, and Possible Action to Approve the for Publication and Comment the Proposed Amendments to 7 TAC Section 91.801 Concerning Investments in Credit Union Service Organizations. Commissioner Kolhoff noted that the proposed amendment would authorize investments in certain CUSOs to the extent they are providing property management services. The language is presented to clearly document state credit union authority to invest in CUSOs providing property management services.

Mr. Minge moved that the Commission approve for publication and comment the proposed amendments to **7 TAC Section 91.801** concerning investments in credit union service organizations. Mrs. Bayles seconded the motion and the motion was unanimously adopted.

(e) Discussion, Consideration, and Possible Action to Approve the for Publication and Comment the Proposed Amendments to 7 TAC Section 91.803 Concerning Investment Limits and Prohibitions. Commissioner Kolhoff explained that the proposed amendment would clarify that the limits in Section 91.803 apply to loan participation investments and differ from the member loan participation lending limits found in Section 91.711 and in the Texas Finance Code, Title 3, Subtitle D, Section 124.003.

Mrs. Merket moved that the Commission approve for publication and comment the proposed amendments to **7 TAC Section 91.803** concerning investment limits and prohibitions. Mr. Gilman seconded the motion and the motion was unanimously adopted.

(f) Discussion, Consideration, and Possible Vote to Take Action on the Completed Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter I (Relating

to Reserves and Dividends). Commissioner Kolhoff indicated that under Section 2001.039, Government Code, requires that a state agency review and consider for re-adoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years after that date. At its July 2016 meeting, the Commission approved a plan which establishes a date for the required review for each of the affected rules. In accordance with that plan, staff has reviewed 7 TAC, Part 6, Chapter 91, Subchapter I (Reserves and Dividends) and believes certain revisions are appropriate and necessary. Amendments to the noted subchapter are being separately presented for proposal.

Mrs. Bayless moved that the Commission finds that the reasons for adopting the rules in Subchapter I (Reserves and Dividends) continue to exist and that subject to the separately proposed amendments, the Commission readopt the rules in this subchapter. Mr. Gilman seconded the motion and the motion was unanimously adopted.

(g) Discussion, Consideration, and Possible Action to Approve the for Publication and Comment the Proposed Amendments to 7 TAC Section 91.901 Concerning Reserve Requirements. Commissioner Kolhoff noted that the proposed amendment would match deadlines for waiver applications contained in NCUA 12 C.F.R. Part 702.201 relating to Prompt Corrective Action (PCA) requirements for waiver applications. The language is presented to ensure deadline uniformity between the state and federal regulatory agencies in a waiver process.

Mrs. Merket moved that the Commission approve for publication and comment the proposed amendments to **7 TAC Section 91.901** concerning reserve requirements. Mrs. Cobb seconded the motion and the motion was unanimously adopted.

(h) Discussion, Consideration, and Possible Action to Approve the for Publication and Comment the Proposed Amendments to 7 TAC Section 91.1003 Concerning Mergers/Consolidations. Commissioner Kolhoff indicated that the proposed amendments would reference the Hart-Scott Rodino Act (HSRA) requirements of proposed mergers instead of repeating specific thresholds within the HSRA that change over time. The language is presented to refer institutions directly to the federal HSRA language and its specific requirements and thresholds instead of duplicating all or part of the federal provision within the state rule. Currently the rule refers to an outdated dollar threshold for measurement of HSRA applicability. This amendment improves the current rule, which currently does not refer to all the tests used to determine if HSRA applies to a merger transaction.

Mr. Minge moved that the Commission approve for publication and comment the proposed amendments to **7 TAC Section 91.1003** concerning mergers/consolidations. Mrs. Bayless seconded the motion and the motion was unanimously adopted.

(i) Legislative Issues and Activities to the 86th Regular Session (2019) that may Impact the Department. Commissioner Kolhoff expressed that very little of the legislation that was enacted this session dealt directly with the Department or the industry. He indicated there were some issues that would affect our agency especially SDSI agencies that would require approvals and reviews by other agencies if we were going to build a new building. Mr. Kolhoff indicated he has been keeping his focus on the sunset review and some of the other agencies that were going through the process. In addition, Mr. Kolhoff reported that he has been in constant contact with the League and the Coalition and their staff on many of the different issues.

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

(j) Resolution of Appreciation for Retiring Field Supervisor Cary L. Cabe. Commissioner Kolhoff noted that Mr. Cabe will be retiring on September 30, 2019 after a long and distinguished career with the Department.

After a short discussion, Mr. Gilman moved that the Commission adopt the Resolution acknowledging Cary L. Cabe's retirement and that a copy of the resolution be given to him as a token of our appreciation for his many years of service to Texas credit unions. Mr. Farran seconded the motion and the motion was unanimously adopted.

(k) Status of the Department's Sunset Review. Commissioner Kolhoff reported that the Sunset Commission provided us with the self-evaluation questionnaire on May 9. We have begun preparing our response which is due to the Sunset Commission by September 1. On June 3 Deputy Commissioner Robert Etheridge and Director of Information and Technology Joel Arevalo attended an orientation.

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

(l) Cybernance Request to Commission Study. Commissioner Kolhoff reported that this was the result of Cybernance reaching out through a Commission member. Cybernance is an Austin startup that is seeking to collect cybersecurity related risk profile assessments of Texas credit unions and consolidate that data with the intent of reviewing the level of aggregate risk statewide and providing peer assessments to institutions on how they perform relative to similar institutions. According to Cybernance staffers the Texas Bankers Association has initiated a similar study for Texas banks and they wanted to talk to the Department about doing the same for the Texas credit unions.

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

ADJOURNMENT – There being no further business for the Credit Union Commission, Chairwoman Morrow adjourned the meeting at 10:21 a.m.

Allyson “Missy” Morrow
Chairman

Isabel Velasquez
Recording Secretary

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