

CREDIT UNION COMMISSION MEETING MINUTES
Credit Union Department Building
914 East Anderson Lane, Austin, Texas
and via videoconference
June 4, 2021

A. CALL TO ORDER -- Chair Yusuf Farran 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, Liz Bayless, 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 via videoconference 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 with the Secretary of State (**May 21, 2021 TRD#2021003037**).

❖ **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 (March 5, 2021) -- 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 March 5, 2021 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 provided the information included in the packet to the legislature, both the house and the senate committees. We are basically out of the COVID scenario from our aspect, and from an operational standpoint, our office is manned with all staff back in the office at the same time. Our examiners are starting to phase in field work and at the same time moving towards some more remote examination presence so that we take up the least amount of space at the institutions as possible while doing our jobs. Mr. Kolhoff applauded both the examiners and institutions for doing such a great job together during these trying times.

After a brief discussion, Commission took no action.

D. DEPARTMENT'S FY 2021 BUDGET & FINANCIAL

PERFORMANCE – Commissioner Kolhoff reported that in 2020 the Commission adopted a strategic plan for Fiscal Years 2021-2025. The \$4.3 million FY 2021 budget approved by the Commission in August 2020 includes the maintenance and operating and capital improvement budget in support of the Strategic Plan. At the end of the eight months, total expenditures were \$2.298 million or approximately 17% less than budgeted projections of \$2.781 million. Almost all lines performed below budgeted levels apart from additional technology upgrades costs for FY 2021. Mr. Kolhoff further reported that the remediation of the water intrusion issue on the west side of the building has been addressed on the external wall of the building and that final finish work on the interior is complete. The full costs associated with this remediation project approximated \$20,000 and are now reflected in the financial information. Mr. Kolhoff indicated that the second operating fee billing was completed February 25, 2021, and all payments have been received. The 2021 second billing was adjusted 45% with \$1.125 million returned to the industry. The adjustment represents \$465,000 of unspent appropriated funds from the FY 2020 budget and \$660,000 excess funding provided by TAC 97.113 over the FY 2021 approved budget. The unspent funds from the FY 2020 budget predominately

represent travel related savings as a result of the pandemic and personnel savings due to vacancies, retirements, and a request from the Governor's Office to reduce operating costs. Furthermore, the funding provided in excess of the approved 2021 budget represents the fixed nature of the schedule provided by 7 TAC 97.113 and the inflated June 30, 2020 asset position of the industry due to COVID-related economic measures and a flight to safety.

After a brief discussion, the Commission took no action.

E. DEPARTMENT'S OPERATING PLAN AND BUDGET FOR FISCAL YEAR 2022 – Commissioner Kolhoff explained that consistent with the Budget Assumptions approved by the Commission, the following pages detail a proposed budget for FY 2022 of \$4,894, 832, which represents a 13.63% increase from the FY 2021 budget. The proposed budget includes strategic-initiative funding for the costs related to establishing an internal audit function (\$62,000); compensation program performance and equity-based amendments (\$126,267); establishing a General Counsel position (\$161,622); and enhancing the examiner training program (\$15,000). The budget also includes capital improvement funding of \$271,000 to replace the roof and \$30,000 to maintain our internal network infrastructure. Furthermore, removing the impact of funding the new roof, the internal audit function, and the general counsel position, the FY 2022 proposed budget represents only a 2.1% increase over the FY 2021 budget. Mr. Kolhoff reminded the Commission that last year's approved budget represented a 3.1% decrease from the prior year to respond to Governor Abbott's requested budget reviews during the pandemic.

❖ **A member of the public, Melodie Durst, Executive Director, Credit Union Coalition of Texas** shared that the Coalition has received overwhelming positive feedback from credit unions regarding conducting remote examinations and that the Coalition supports the capital improvements and budget as presented today.

After a lengthy discussion, Mr. Minge moved that the Commission approve the proposed FY 2022 Operating Plan and Budget, with a total budget of \$4,894,832 and 31 FTEs. Mrs. Brownlee seconded the motion, and the commission carried the motion unanimously.

F. PROPOSED REVISIONS TO COMMISSION POLICIES MANUAL — Commissioner Kolhoff reported that the following amendments to the Commission’s Policy Manual are recommendations by the Department to address the recommendations from the Sunset Review Commission staff as outlined in SB707. These changes include the addition of a standing Audit Committee under Section X, Subsection C and the amendments to Section VIII with Appendix B related to the implementation of a training manual with annual acknowledgement by the Commission members.

After a short discussion, Mrs. Cobb moved that the record reflect that the Commission reviewed its policies manual and approved the proposed changes as recommended by staff. Mrs. Bayless seconded the motion, and the commission carried the motion unanimously.

G. NEW COMMISSION MEMBER ORIENTATION AND TRAINING MANUAL – As recommended by the Sunset Review Commission staff members, SB707 includes changes to the Texas Finance Code which requires the development of a commission member training manual. The statutory changes require commission members to annually review and acknowledge receipt of the training manual. At the end of the meeting, signed acknowledgement forms were filed in each commission member personal file.

After a brief discussion, the Commission took no action.

H. STATE CREDIT UNION SYSTEM – Commissioner Kolhoff indicated the information presented in the meeting 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 the unemployment levels in the United States and Texas have consistently declined since April 2020 but remain 1.5 to 2.0 times pre-pandemic levels. At the state level, Texas has experienced similar reductions with unemployment rates declining from a high of 13.5% in April 2020 to a September level of 8.3% to 6.9% as of March 2021. Through the eight-month period ending March 2021, the number of unemployed in the U.S. has declined 58% to 9.7 million from April 2020 high of 23.1 million. Overall, Texas credit unions have performed consistently during the pandemic, and the industry remains safe and sound. While some credit unions have experienced a decline in financial performance, most have continued to recognize strong trends throughout the pandemic. The first quarter earnings performance data for Texas credit unions is strong and reflects higher net income levels when compared to the last three quarters. Most credit unions are generating enough earnings to cover operating costs and maintain capital strength despite extreme deposit and asset growth tied to an influx of stimulus deposits and members' flight to safety. The rapid asset growth has significantly impacted net worth ratios for Texas charters, as evidenced by an 82-basis-points decline in average net-worth ratios during the last twelve months to 10.04%. The Department will continue to monitor credit union asset quality, liquidity, and interest-rate risk trends, and will continue to monitor the longer-term impact of the February storm, as well as the COVID-19 pandemic.

After a brief discussion, the commission took no action.

I. SUNSET REVIEW – Commissioner Kolhoff reported that after the background included in the meeting packet went out, he was notified that bill, SB 707, has passed and is awaiting the Governor's signature.

After a short discussion, the commission took no action.

J. COMMISSIONER SUCCESSION PLAN – Commissioner Kolhoff reported that annually the Commission reviews and approves the Commissioner Succession Plan found within the Commission Policy Manual. The plan provides the process under which the Commissioner Evaluation Committee and Commission will move forward if the Commissioner becomes incapacitated or unavailable.

After a brief discussion, with no changes, the commission took no action.

K RESTROOM REMODEL – Commissioner Kolhoff pointed out that the Department contracted Texas Facilities Commission (TFC) to perform an ADA inspection relating to the restrooms. Most deficiencies identified included changing the height of fixtures/mirrors/signage and stalls height and wide as well as completely moving the men’s restroom door 10’ or moving the south wall 10’ into the breakroom. Either would be a substantial construction project. Given the continuing development of the roof construction project it has been decided to wait completion of the roof project before moving forward with this project.

After a short discussion, it was the consensus of the Commission to just wait on moving forward with this project, and the Commission took no action.

L. FRONT ENTRANCE EXTERIOR REPAIR – Commissioner Kolhoff explained that the landscaping and earthworks at the front of the building have deteriorated with several posts breaking loose and becoming unanchored. This creates a potential for injury if the earth wall breaks away further. The February winter storm permanently destroyed a significant portion of the plants within the landscaping. The Department is seeking approval to redistribute \$11,000 of the FY 2021 budget savings from travel-related costs to address these repairs, using current-year allocated funds.

After a short discussion, Mrs. Bayless moved that the Commission approve \$11,000 of funds appropriated to cover FY 2021 travel costs be allocated toward

repairs and maintenance to address the landscaping repairs at the front of the building. Mrs. Cobb seconded the motion, and the commission carried the motion unanimously

M. RULEMAKING MATTERS – Chair Farran reported that there were numerous formal rule recommendations to the Commission and suggested grouping the first four items into one motion. The Department received no comments on the notice of intention to review. There being no objection, the Commission considered the following:

(a) **Adoption of the Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter A (General Rules), Sections 91.101, 91.103, 91.104, 91.105, 91.110, 91.115, 91.120, 91.121 and 91.125, and readoption of rules.**

(b) **Adoption of the Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter B (Organization Procedures), Sections 91.201, 91.202, 91.203, 91.205, 91.206, 91.208, 91.209 and 91.210, and readoption of rules.**

(c) **Adoption of the Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter J (Changes in Corporate Status), Sections 91.1003, 91.1005, 91.1006, 91.1007, 91.1008 and 91.1010, and readoption of rules.**

(d) **Adoption of the Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter L (Submission of Comments by Interested Parties), Sections 91.3001 and 91.3002, and readoption of rules.**

After a short discussion, Mrs. Merket moved that the Commission find that the reasons for adopting **7 TAC, Part 6, Chapter 91, Subchapters A, B, J, and L** continue to exist and that the Commission readopt these rules. Mr. Minge seconded the motion, and the Commission carried the motion unanimously.

(e) **Adoption of New Rule 7 TAC, Part 6, Chapter 91, Subchapter H (Purchase of Assets and Assumption of Liabilities), Section 91.809.** Commissioner Kolhoff indicated that the Commission had previously approved for publication and comment in the *Texas Register* the proposed new Rule 91.809. No

comments were received on the proposed amendments to the rule. He further explained the proposed new rule will outline the authority of credit unions to initiate programs of purchasing loans or assuming an assignment of deposits, shares, or liabilities from any credit union, another financial-type institution, or any successor in interest to such an entity. The rule further outlines the requirement to seek Commissioner approval on certain transactions of this type and clarifies the approval application process.

After a brief discussion, Mrs. Brownlee moved that the Commission adopt new 7 TAC, Part 6, Section 91.809 without changes to the proposed text as published in the *Texas Register*. Mrs. Cobb seconded the motion, and the Commission carried the motion unanimously.

N. Designation of a Vice Chair and Appointments to the Commission's three Standing Committees (Rules, Commissioner Evaluation and Audit). Chair Farran noted that as stipulated in Commission Policy, the Chair was reappointing Sherri Merket as Vice Chair of the Commission. Mr. Farran also designated members to serve on the three standing committees. He noted that the minutes should reflect the following appointments:

Commissioner Evaluation Committee

Karyn Brownlee, Chair
Sherri Merket, Vice Chair
Kay Swan
David Shurtz

Rules Committee

David Shurtz, Chair
Liz Bayless, Vice Chair
Beckie Stockstill Cobb
Steve Gilman

Audit Committee

Jim Minge, Chair

Kay Swan, Vice Chair
Liz Bayless
Karyn Brownlee

After a short discussion, the Commission took no action.

O. Future Commission Meetings: Agenda Items, Arrangements, and Dates.

Chair Farran reminded everyone that the next regular meeting of the Commission has been tentatively scheduled for August 27, 2021 at 9:00 a.m., in Austin.

ADJOURNMENT – There being no further business for the Credit Union Commission, Chair Farran adjourned the meeting at 12:03 p.m.

Yusuf E. Farran
Chairman

Isabel Velasquez
Recording Secretary

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