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SOUTH CAROLINA
STATE BOARD OF FINANCIAL INSTITUTIONS

Budget and Operations Committee

MINUTES

Thursday, July 22, 2021

10:00 A.M.

via Webex Virtual Conference

The Budget and Operations Committee of the State Board of Financial Institutions met on July 22, 2021.

Members present (via virtual conference): Messrs. Wicker (Chairman) and Wright.

Others in attendance: Commissioner Ron Bodvake, Commissioner Rick Green, Deputy Commissioner Kathy Bickham, Deputy Commissioner Phyllis Wicker, Senior Review Examiner Janeen Hughes, Deputy General Counsel Bill Condon, Procurement Specialist Cameron Larkin, and Board Administrator Alicia Sharpe.

The July 22, 2021 Agenda was approved by General Consent.

The April 15, 2021 Committee Meeting Minutes were approved by General Consent.

There were no member **recusals or conflicts of interest** disclosed or identified.

Commissioner Bodvake provided an IT update. The Consumer Finance Division has been working on a new database for examinations, alpha testing is complete and beta testing will begin in July.

Commissioner Bodvake provided an update on the Consumer Finance Division's Business Continuity Plan. Go bags have been put together with pertinent documents for Commissioner Bodvake and his office staff. The Division is developing a CFD risk analysis and a risk matrix. Meetings are being held with each business unit to make sure the Business Continuity Plan is completed in a timely manner.

Commissioner Bodvake addressed the 2021 Expenditure Analysis provided to committee members prior to this meeting. There is a positive variance in personnel services due to delayed hiring because of an uncertain number of regulated entities. There was also a positive variance in other operating expenses due to travel expenditures decreasing during the pandemic. Because of the pandemic, the Examiners could not travel and staff could not attend any meetings. Revenue was also higher than projected. Applications for mortgage loan originators drove most of this revenue increase due to the refinance and origination market. The Division currently has licensed over 13,000 mortgage loan originators. This is the most South Carolina has ever had licensed.

Commissioner Bodvake discussed the FY22 Budget. The budget was approved by the General Assembly. The General Assembly approved an increase to Employer Contributions to fully fund health insurance and retirement plans. An increase in Personnel Services was also approved to fully fund the 2% increase given to state employees back in fiscal year 2020.

Commissioner Bodvake discussed the Proposed Fee Schedule document included in the meeting materials packet. After discussing the fees with The Treasurer, the decision was made not to increase or decrease fees on any of the items that are adjustable.

Mr. Wicker asked if the budget hearing with the General Assembly went smoothly. Commissioner Bodvake said it went very smoothly and that the Consumer Finance Division was not asking for much. The Consumer Finance Division asked for a \$140,000 increase in Employer Contributions to fully fund healthcare and retirement plans, and \$33,000 to fund the 2% state employee increase from 2020.

Commissioner Green provided an update on personnel changes in the Banking Division. One of the Associate Examiners, Elizabeth Johnson resigned effective June 22nd and an Examiner II, John Hammond resigned July 3rd. With the resignation earlier in the year, this brings staffing numbers down to an uncomfortable level. This past year, the Banking Division has experienced struggles with recruiting due to a lot of transitioning going on around the country. Historically, the Banking Division has tried to hire young people directly out of college but it takes a significant amount of time to train someone to be a full Examiner. Commissioner Green and his staff have been trying to redesign their approach to recruiting more experienced employees. Two offers have been accepted and are expected to start August 2nd. One is a young Assistant Examiner and the other is an experienced full Examiner.

Mr. Wicker asked Commissioner Green to explain the reasons for the two recent resignations. Commissioner Green confirmed that one is going to graduate school and there were no significant criticisms of the Banking Division. This person joined the Banking Division during the pandemic which made it hard to adopt them into the agency culture. The other person that resigned accepted a position at a bank in Greenville to be closer to his family. Commissioner Green commented that he and Commissioner Bodvake have been working on a joint telecommuting plan to add flexibility and make the jobs more attractive. They are looking to implement this within a month. Ms. Sharpe commented that the recruiting and retention issues are not specific to BOFI and have been happening at the Treasurer's Office and statewide.

Commissioner Green provided an IT update. The Banking Division has completed out their Collaboration Room for Examiners that were going to be working in the office more. When the pandemic happened, this project was put on hold. Now that everyone is back in the office, they have moved forward and completed the project. The finished room has been well-received and heavily used so far. In addition, Commissioner Green spoke on the current process of developing a hybrid examination program. Commissioner Green conducted an industry survey to give the industry the opportunity to give feedback and input on how their experiences have been with remote examinations as well as gauge their appetite for remote examinations post-pandemic. The responses were overwhelmingly positive. 97% of industry respondents found it to be a positive experience. Commissioner Green is expecting the new plan to be rolled out late third quarter or early fourth quarter.

Commissioner Green discussed the Expenditure Analysis for Fiscal Year 2021. The Banking Division is in a significantly different position than they were this time last year. This time last year, they had just lost their two largest banks and dealing with the pandemic uncertainty. When comparing operating results to the budget that was approved by The Board and General Assembly, there was a positive operating variance of \$591,000. Most of that was a result of personnel expenses due to delayed hiring process following resignations. Travel also contributed to the variance as travel was not permitted during the pandemic.

Commissioner Green presented the Supervisory Fee Proposal to the Committee (document included in meeting packet). There was an increase in appropriations for Fiscal Year 2022. This is the budget needed to operate and fund the Banking Division. The Banking Division does not receive General Funds and are funded by Other Funds from the regulated institutions. The fees discussed today are different than the application fees discussed a few months ago. The law says that the Board has the authority to assess these fees. Commissioner Green provided a 3-year summary of Supervisory Fee's. Last year, when setting these fees, there were a significant number of fee increases. This year is a different situation as there is now a new, large bank and assets have more than doubled. Almost all institutions that the Banking Division supervises will see a reduction in the amount of fees this year. Nothing has changed regarding asset tiers. The addition of the large bank has allowed the Banking Division to reduce the base fee. Commissioner Green explained the proposal he recommends that the Committee approve to take to the Board for approval. Almost all institutions are seeing a decrease in fees except for those that have experienced significant growth. Commissioner Green then provided an alternate proposal (not the one he is recommending) that removes PPP loans from Total Assets. Commissioner Green was concerned that institutions that did not have PPP loans on their books would be penalized. Commissioner Green included in the Distribution Document (included in meeting packet) an OCC column which shows what each institution would pay if they were a national bank showing a large increase in fees in that scenario.

Mr. Wright asked if Commissioner Green had shared the new fee calculations with the banks which he had not. He explained that the process has typically been that the Banking Division works on the proposal, Commissioner Green discusses with the Treasurer, brings the proposal to the Budget and Operations Committee, and if approved, takes the proposal to the Full Board for approval in the next board meeting. Commissioner Green and his team would then share the information with the institutions after sending out the fee invoices. Mr. Wicker pointed out that for his institution, there is 0% change in fee for the first model. In the model with the PPP removed, there was a less than \$500 difference compared to the recommended proposal. Commissioner Green explained that while the impact on Mr. Wicker's institution and others would be minimal, removing the PPP loans creates some added complexity and penalizes institutions that did not make PPP loans, sold their PPP loans, or have been more effective at getting forgiveness for their PPP loans. Mr. Wicker stated that he understands the calculations but cautioned Commissioner Green that he may receive some pushback from other institutions. Commissioner Green explained that he is simply making a recommendation and that if the Committee or the Board wanted to go another direction, he would go with that decision. Commissioner Green agreed he would explain further if an institution requests for him to do so. Mr. Wright pointed out that a decrease over the prior year is a positive thing and that Commissioner Green should not get much feedback about it.

Commissioner Green continued his presentation by discussing the Proposed Credit Union Formula. Commissioner Green mentioned that most credit unions would see a minimal change in fees in Fiscal Year 2022. The fees for Trust Companies and Business Development Corporations remain the same as they did in 2021.

On motion of Mr. Wicker and duly seconded by Mr. Wright, the Committee approved the Proposed Fee Schedule as presented by Commissioner Green.

Executive Session

The Committee voted unanimously to adjourn into Executive Session.

Deputy General Counsel Bill Condon stated the reasons the Board entered Executive Session: to discuss progression plans and salary adjustments for Licensing and Mortgage Examiners and to receive legal advice as needed.

The Committee voted unanimously to end Executive Session.

There were no votes taken in the Executive Session except to exit Executive Session.

The next Committee meeting is scheduled for Thursday, August 19, 2021.

There being no further business, the meeting was adjourned by acclamation at **11:07 AM**.