

**TESTIMONY
PROVIDED BY THE
OFFICE OF THE LIEUTENANT GOVERNOR
DIVISION OF BANKING, INSURANCE AND FINANCIAL REGULATION
BEFORE THE
THIRTY-FIFTH LEGISLATURE OF THE VIRGIN ISLANDS
COMMITTEE ON HOUSING, TRANSPORTATION & TELECOMMUNICATIONS
Thursday, March 9, 2023**

Good day, Committee Chairman Honorable Marvin A. Blyden and Honorable Members of the Thirty-Fifth Legislature of the Virgin Islands Committee on Housing, Transportation & Telecommunications, other Senators present today, as well as the viewing and listening audience. I am Attorney Glendina P. Matthew, Interim Director of the Division of Banking, Insurance and Financial Regulation (hereinafter "Division") within the Office of the Lieutenant Governor.

I most respectfully appear before you today in response to your invitation to provide "[u]pdates on the residential market, financing, and the newly established VI Slice Program." I note that the Economic Development Authority, the entity that is responsible for administering the program, has already appeared before you and provided testimony regarding the specific requirements of the program and how it will be implemented. However, we do recognize that the banks doing business in the Territory will play an integral role in the success of the program as they will be providing referrals, to the Economic Development Authority (EDA), of persons who may qualify for the program. For this reason, the Division now appears before you to provide an update regarding the status of the banks and their readiness to play their role in the VI Slice Program. I am accompanied by Attorney Suzette Richards (the Division's Legal Counsel) and Ms. Cheryl Charleswell (Interim Assistant Director and Chief Examiner Insurance).

**Authority of the Division to Regulate
the Banking and Mortgage Industries**

As stated above, the Division appears before this legislative body because of its regulatory authority over the banking industry in the Territory and the role that the banks will play in the VI Slice Program. I begin my testimony by citing the applicable statutory provisions governing the regulation of the banking industry in the Territory. Section 61(a) of Title 9, VI Code provides in pertinent part that, “[a]ll banks and, to the extent of and with respect to business done at any branches established in the United States Virgin Islands, all foreign banks doing business in the United States Virgin Islands shall be regulated and supervised by the Banking Board. . . .” However, pursuant to Section 2 of Title 9, VI Code, this authority to regulate and supervise does not extend to National Banks. Section 62(a) of Title 9, VI Code authorizes the Banking Board to inspect and supervise entities engaged in the business of banking in the Territory as provided in Title 9, VI Code. This section further authorizes the Banking Board, “either personally or through some competent person or persons, appointed or approved by it,” to visit and examine these entities. Section 35(b) of Title 3, VI Code grants to the Division the general authority and jurisdiction to regulate and supervise banks in the Territory subject to Title 9 of the VI Code, thereby enabling the Division to function as the administrative and enforcement arm of the Banking Board.

Please note that the authority to license and regulate banks doing business in the Territory extends beyond the Division. These banks, namely; Banco Popular de Puerto Rico, Firstbank Virgin Islands, Merchant Commercial Bank, Oriental Bank, and a division of United Fidelity, Bank of St. Croix, are also licensed and regulated on the federal level by at least one of the following regulators: Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Federal Reserve System (FRS) or Office of Thrift Supervision (OTS).

Please also note that, in addition to its authority to regulate banks, Section 35(b) of Title 9 VI Code also grants the Division general authority to license and regulate mortgage lenders. A mortgage lender is an entity that offers and underwrites home loans but is not required to have a physical presence in the state or territory where it conducts business. There are thirty-six (36) mortgage lenders and sixty-one (61) mortgage branches doing business in the Territory.

Update on Factors Affecting Homeownership

At the onset, I must state that homeownership in the Virgin Islands is being affected by several external factors: supply and demand; market prices of homes; inflation; insurance and construction costs. Interest rates have a direct affect on these factors. On June 21, 2022, I came before Members of the Thirty-Fourth Legislature, Committee on Economic Development and Agriculture, to discuss the Division's operations, capital projects and initiatives regarding banking. Testimony was provided about Global Economic trends and how it has resulted in rising interest rates. At the time of my testimony, the Board of Governors of the Federal Reserve System (hereinafter "Federal Reserve System"), the central bank and monetary authority of the United States, increased interest rates by seventy-five (75) base points (.75 percentage points). This was the third increase in Year 2022 and totalled about 1.5 percentage points. Since then, the Federal Reserve System approved five additional rate increases, raising the interest rate to 4.75 percentage points.

Higher interest rates are the Federal Reserve System's approach to lowering inflation and moderating economic activity. Higher interest rates push businesses and consumers to cut back on spending. With the reduction of economic activity, the Federal Reserve System reduces the supply of money in circulation, which tends to lower inflation. You may ask, what is

inflation and, how does inflation affect Virgin Islanders? Inflation in simple terms is an increase in the level of prices for goods and services that households purchase, which can be translated to the decline of purchasing power over time. This means it costs more to purchase essential goods and services such as food, gas, housing, vehicles, insurance and healthcare, etc., over a period of time.

Unfortunately, high interest rates coupled with increasing market values and reconstruction costs for homes, a limited housing supply or shortage of affordable housing in the market, and rising insurance costs, have all contributed to a decline in the number of persons attaining homeownership. This is a Global issue affecting, not only the United States and its Territories, but has affected many countries around the world. As I discussed in my June 2022 testimony, at least forty-five (45) countries raised interest rates in 2022. The increase in interest rates by the Federal Reserve System and other countries, as I stated before, is an attempt to slow the amount of money circulating through the economy and drive down aggregate demand (slow down the rate of growth).

I must note that, like other service industries, the business of insurance, which is also regulated by the Division, is also being negatively impacted by inflation. Insurers and insurance industry leaders continue to meet with us to discuss the hardening of the insurance market due to reinsurance constraints on capacity and the demand for higher rates. Unfortunately, at present, inflation is not the only issue the insurance industry is faced with. Climate change and the increasing frequency and severity of natural catastrophes have also proven to be a challenge as reinsurers are forced to pay out on insurance claims at higher levels. As a result, many reinsurers are demanding higher premiums from insurers, and their respective insureds to increase the profit margin gained from engaging in insurance business. In an effort to keep

rates at a reasonable cost, we continue to meet with affected industry stakeholders to discuss possible solutions to offset the impact on Virgin Islands consumers. Further, prior to approving any rate increases, a due diligence review is conducted by an examiner to ensure insurers have an actuarial basis for a rate request, and it is supported by actual and credible loss and expense statistics in accordance with Section 53a of Title 22, VI Code. The Division, however, understands there must be a delicate balance to ensure there continues to be capacity in the insurance market for Virgin Islanders; meaning that due consideration must be given to the fact that we are a Territory of the United States and as such are part of a free enterprise system in which insurers, and any other business entity, can chose to abstain from doing business in the Territory because it is not profitable for them to do so.

**Status of the Banks in the Implementation
of the “VI Slice” Homeownership Program**

We believe that the “VI Slice” Homeownership Program will be a welcomed benefit to persons who meet the required qualifications and are in need of financial assistance for:

- Home purchase with Rehabilitation
- New Home Construction
- Down Payment & Closing Costs Assistance
- Secondary (Gap) Financing Assistance

In performing its duties and obligations as the regulator of the banks doing business in the Territory, the Division has made contact with the banks to determine their readiness to carry out the role they will play in the administration of the program. We are pleased to inform you that we were advised by President Valdamier Collens of Merchant Commercial Bank, that on March 3, 2023, the bank fully executed a Memorandum of Agreement (MOA) with the EDA, and that Merchant Commercial Bank’s Lender Portal should be turned on shortly. Further,

the other banks doing business in the Territory continue to express their commitment and/or interest in this program and continue to collaborate with the EDA to finalize and fully execute MOA's that are amenable to all parties.

Chairman Blyden, Members of the Thirty-Fifth Legislature of the Virgin Islands Committee on Housing, Transportation and Telecommunications, other Senators present today, and the listening and viewing audience, I would like to thank you for reconvening the hearing on this important topic as there was a miscommunication regarding the earlier hearing, with the initial invitation for the February 27th hearing being sent to the Former Director, and the second invitation being sent to an old email, neither of which I received, and upon becoming aware of the hearing, there was not a sufficient opportunity to prepare meaningful testimony. I must also express my appreciation to the Division's hardworking Staff. The staff continue to carry out our dual purpose of regulating the banking sector in the Territory and protecting the interests of Virgin Islands residents. This concludes the Division's testimony. We are prepared to respond to your questions.