



KANSAS CREDIT UNION ASSOCIATION

To: Senate Financial Institutions & Insurance Committee

From: Haley DaVee, Vice President of Governmental & Public Affairs

Date: Wednesday, January 16, 2013

Re: Kansas Credit Union Industry Update

The Kansas Credit Union Association appreciates the opportunity to comment today about the state of the credit union industry in Kansas.

The Credit Union Difference

Credit unions have a long history in Kansas of working to serve the financial needs of their members. The Kansas Credit Union Act was passed in 1929—five years before Congress passed the Federal Credit Union Act. The first Kansas credit union was chartered in 1929, on the eve of the greatest economic depression faced by our country. The number of credit unions continued to grow throughout the 1930s as consumers pooled their money together to create opportunities for savings and lending by putting people ahead of profits.

Then, as today, credit unions operate with a not-for-profit cooperative structure and are governed by a volunteer board of directors elected by and from the membership of the credit union. Though some of the products and services offered have changed throughout the years, the cooperative structure remains and credit unions serve as a needed and valued alternative in the financial services marketplace.

Today there are 99 Kansas credit unions whose purpose is to serve the financial needs of their 626,000+ member/owners. Kansas credit unions make up 7.6% of the marketplace by assets in Kansas. Though credit unions are only a small portion of the overall marketplace, there is an ever-greater need today for safe and sound options in the financial services industry.

Kansas Credit Unions Today

Kansas credit unions today are generally healthy and well capitalized. According to the September 2012 call report data, Kansas credit unions have an average capital ratio of 11.5% of assets, which is a higher level than credit unions nationwide. Kansas credit unions continued to outpace national trends in capital growth, loan growth, asset growth, and share growth. In addition, delinquency rates have continued their downward trend and at .87% remain well below the national average of 1.18%.

The positive position of credit unions stems in large part from the fact that every decision made at a credit union is driven by bettering the members and the financial institution they co-own. The focus at credit unions is on working with members in the interest of maintaining a strong

and secure financial institution for all. The cooperative structure also lends itself to conservatism as credit unions must maintain similar capital levels as other financial institutions for safety and soundness. However, as cooperatives, credit unions cannot raise capital from outside sources when they face a shortage of capital. The only way for credit unions to maintain or grow their capital levels is through retained earnings.

Though credit unions are generally healthy and well capitalized, we are growing increasingly concerned about the growing regulatory burden and the rising costs of compliance with federal rules and regulations.

Increased Regulatory Scrutiny and Compliance Costs

Credit unions are facing a regulatory environment that is frequently changing and increasing in complexity. Coming into compliance with new rules and regulations can be costly as credit unions must read/understand the rules, develop new forms and disclosures, update policies and procedures, and hire/train staff and boards on the changes. These costs make it increasingly difficult for small to mid-size institutions to compete in this economy. The average size of credit unions in Kansas is \$51 million.

Many of these regulatory changes stem from the reaction by policymakers and regulators to prevent the type of abuses in the financial marketplace that led to the economic recession. The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 and subsequent creation of the Consumer Financial Protect Bureau has resulted in many new regulations for credit unions. Attached you will find a spreadsheet outlining the various regulations that were implemented throughout 2012 and the list of regulations that we anticipate during 2013.

We are working with Congress and federal regulators to identify and address outdated, unnecessary, burdensome, and duplicative regulation with an eye toward reducing regulatory burden on credit unions. There were provisions in the Dodd-Frank Act giving the CFPB considerable authority to exempt entities from all or parts of its regulations. We and our national trade association will continue to urge the Bureau to use these provisions to the greatest extent possible.

While credit unions certainly understand and support efforts to make the financial services industry more transparent, at the end of the day, every minute and every dollar a credit union spends complying with regulations is time and money that is not going towards the primary mission of the credit union—serving their members.

In conclusion, despite the increasing regulatory burden that Kansas credit unions are carrying, the Kansas credit union industry is doing well and continuing to meet the needs of their members. Thank you again for the opportunity to give you an update on the credit union industry.

**MAJOR FEDERAL REGULATORY DEVELOPMENTS
IMPACTING CREDIT UNION COMPLIANCE REQUIREMENTS
2012 through 2013**

Prepared January 14, 2012

DATE	REGULATION	DESCRIPTION
Final Rule Issued: February 2012; August 2012	This rule implements changes to the EFTA made by Dodd-Frank. The rule broadly defines “remittance transfer” to include virtually all cross-border funds transfers initiated by U.S. consumers. It also requires remittance transfer providers to give to a consumer-sender certain disclosures, specifies error resolution rights, promulgates standards for resolving errors, and establishes recordkeeping rules. In a related rule, remittance providers that make 100 or fewer transfers a year qualify for a “safe harbor” from the rule’s requirements.	Remittance Transactions (Regulation E)
Final Rule Issued: January 1, 2012	NCUA has adopted a final rule to amend certain provisions of its official advertising statement rule, Part 740, as it applies to radio and television advertisements and certain credit union reports.	Accuracy of Advertising and Notice of Insured Status
Final Rule Issued: March 15, 2012	Imposes new Accessibility Standards in the Department of Justice’s ADA regulations, effective on March 15, 2011. The 2010 Accessibility Standards are effective on March 15, 2012. For credit unions with ATMs, the machines must meet accessibility standards for the Visually Impaired.	ADA Accessibility Standards
Final Rule Issued: April 1, 2012	Requires all credit unions with debit cards to allow the use of the card on at least two different card networks that are independent of each other. Must provide a debit card that can be processed on at least two unaffiliated card networks, such as one signature network and one PIN network OR a signature-only debit card that can be processed on two or more unaffiliated signature networks, or a PIN-only debit card that can be processed on two or more unaffiliated PIN networks	Dodd-Frank Act – Debit Interchange: Exclusivity and Routing Rules
Final Rule Issued: April 30, 2012	Requires credit unions to post the National Labor Relations Board’s (NLRB) employee rights notice. Most private-sector employers (including credit unions) will be required to notify employees of their rights under the National Labor Relations Act (NLRA) by posting a notice in the workplace. The notice is similar to the one required by the U.S. Department of Labor (DOL) for federal contractors.	Employees’ Rights Notice
Final Rule Issued: June 2012	The CFPB adopted rules implementing section 1053 of the Dodd-Frank Act, which authorizes the CFPB to conduct adjudication proceedings to ensure compliance with federal consumer protection rules administered by the CFPB.	Rules of Practice for Adjudication Proceedings

Final Rule Issued: June 2012	The CFPB adopted rules regarding procedures for investigating violations of federal consumer financial protection laws.	Rules Relating to Investigations
Final Rule Issued: July 2012	The CFPB issued a final rule providing that the submission of information to the CFPB in its supervisory or regulatory process will not waive or affect any privilege under federal or state law. The CFPB's provision of such information to another federal or state agency also does not waive or affect any applicable privilege.	Confidential Treatment of Privileged Information
Proposed Rule Issued: December 2012	CFPB plans to issue a proposal to improve certain aspects of the remittances final rule. We expect the proposal to address: (1) errors resulting from incorrect account numbers provided by the consumer-sender; (2) disclosure of certain foreign taxes and third-party fees; and (3) disclosure of regional and local taxes. In addition, the CFPB will extend the effective date of the final rule until 90 days after the agency finalizes the new proposal; the new effective date is expected sometime during the spring of 2013.	Remittance Transactions – Follow-up Rule (Regulation E)
Final Rule Anticipated: January 2013	The CFPB jointly with other financial regulators issued a proposal to implement amendments made by Dodd-Frank to TILA concerning appraisals. The amendments to TILA require creditors to obtain an appraisal, including a physical property visit by a certified appraiser, before extending higher-risk mortgage credit. They also impose various new requirements for appraisal independence, the portability of appraisal reports, and charging of customary and reasonable fees. The proposal would apply to any first-lien or subordinate-lien mortgage loan including loans on a dwelling or real property that includes a dwelling.	Appraisals for Higher-Risk Mortgages
Final Rule Issued: January 2013	The rule applies to any first-lien or subordinate-lien mortgage loan secured by a dwelling (including primary residence or second home).	Ability to Repay (Regulation Z)
Final Rule Anticipated: January 2013	The CFPB issued a proposal to implement Dodd-Frank amendments to ECOA to require creditors to furnish copies of appraisal and valuations. Currently, Reg B requires creditors to provide applicants with a copy of appraisal reports upon request. Amended ECOA requires creditors to automatically provide applicants a copy of all appraisals and valuations. The proposal would apply to first-lien mortgage loans.	Copies of Appraisals & Valuations Provided by Creditor (Regulation B)
Final Rule Issued: January 2013	The Fed issued a proposal in 2011 to implement amendments to TILA under the Dodd-Frank Act to lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained. Additionally, the final rule implements the disclosure requirements regarding escrow accounts, as well as exempt certain loans from the escrow requirement (primarily mortgage loans extended by creditors in rural or underserved areas). The rule applies to any closed-end mortgage loans secured by a first-lien on real property or a dwelling (including principal dwelling and second home, mobile homes, boats and trailers used as residences).	Escrow Accounts (Regulation Z)

<p>Final Rule Issued: January 2013</p>	<p>The rule implements the high-cost mortgage provisions added to the Home Ownership and Equity Protection Act (HOEPA) by Dodd-Frank regarding certain high-cost mortgage loans. The amendments expand the scope of HOEPA coverage by: (1) including home-purchase loans and open-end credit plans; (2) revising the thresholds that trigger HOEPA coverage; and (3) covering loans with prepayment penalties that exceed certain thresholds or extend beyond 36 months after the closing of the loan. The rule applies to most types of mortgage loans secured by the consumer's principal dwelling, including first-lien home purchase mortgage loans, subordinate-lien loans including closed-end home equity loans and HELOCs</p>	<p>HOEPA / High-Cost Mortgage Loans (Regulation X; Regulation Z)</p>
<p>Final Rule Anticipated: January 2013</p>	<p>This proposal implements Dodd-Frank amendments to TILA and Reg Z's loan originator compensation standards. Previously, the Fed proposed prohibiting certain compensation to loan originators and steering consumers to loans that would yield greater compensation for the originator but were not in consumers' best interest. The Fed published a final loan originator compensation rule in September 2010. Under Dodd-Frank, many of the provisions in new TILA section 129B(c) have codified the approach taken in the Fed's rules on loan originator compensation, as well as other provisions not previously addressed. The proposal would apply to all closed-end mortgage transactions (first-lien and subordinate-lien and refinancings).</p>	<p>Mortgage Originator Standards (Regulation Z)</p>
<p>Final Rule Anticipated: January 2013</p>	<p>This proposal implements Dodd-Frank amendments to TILA and RESPA to require consumers to receive periodic statement disclosures for their mortgage loans and impose various requirements regarding force-placed hazard insurance, handling of payoff amount requests, and other mortgage servicing issues. The CFPB is working with the other federal financial regulators to consider broader issues regarding national servicing standards. This would apply to closed-end mortgage loans, including first and subordinate-lien loans. It would not apply to HELOCs, construction loans, and business purpose loans.</p>	<p>Mortgage Servicing (Regulation X; Regulation Z)</p>
<p>Further Action Anticipated: January 2013</p>	<p>Proposal to Delay the Effective Date of the Remittance Transfers Final Rule</p>	<p>Consumer Financial Protection Bureau</p>
<p>Further Action Anticipated: January 2013</p>	<p>Proposed Amendments to Definitions of "Funds Transfer" and "Transmittal of Funds" under the Bank Secrecy Act.</p>	<p>Financial Crimes Enforcement Network (FinCEN)</p>
<p>Further Action Anticipated: January 2013</p>	<p>Proposal on Three Elements of Remittance Transfers Final Rule</p>	<p>Consumer Financial Protection Bureau</p>

<p>Further Action Anticipated: February 2013</p>	<p>Proposed Policy to Encourage Trial Disclosure Programs & Information Collection</p>	<p>Consumer Financial Protection Bureau</p>
<p>Further Action Anticipated: February 2013</p>	<p>Request for Information on Effectiveness of the CARD Act</p>	<p>Consumer Financial Protection Bureau</p>
<p>Final Rule Anticipated: April 2013</p>	<p>The CFPB has issued a proposal to amend Reg Z regarding credit card accounts to remove the current requirement for consumers who are 21 and older that issuers consider a consumer's independent ability to pay, and to permit issuers to consider income to which such consumers have a reasonable expectation of access.</p>	<p>Independent Ability to Repay (Regulation Z)</p>
<p>Further Action Anticipated: June 2013</p>	<p>Dodd-Frank amended the Equal Credit Opportunity Act (ECOA) to require financial institutions to report information regarding credit applications made by women- or minority-owned businesses. The amendments require certain data to be collected and maintained regarding the loan and business applying for the loan.</p>	<p>Business Lending Data (Regulation B)</p>
<p>Final Rule Anticipated: August 2013</p>	<p>The Fed proposed amendments to Reg CC in March 2011, to facilitate the banking industry's ongoing transition to fully-electronic interbank check collection and return. The Fed's proposal includes some provisions that are subject to the CFPB's joint rulemaking authority, including the period for funds availability and revising model form disclosures. The CFPB will work with the Fed to jointly issue a final rule that includes provisions within the CFPB's authority.</p>	<p>Expedited Funds Availability Act (Regulation CC)</p>
<p>Further Action Anticipated: August 2013</p>	<p>The Dodd-Frank Act amended the Housing Mortgage Disclosure Act (HMDA), which requires certain lenders to report information in connection with housing loan applications. Dodd-Frank expands the scope of information that must be collected under HMDA to include information about points and fees, the difference between the annual percentage rate and the benchmark rates, the term of any prepayment penalty, the value of any real property pledged, the actual or proposed term in months, and the age of the applicant.</p>	<p>Home Mortgage Disclosure Act (Regulation C)</p>

<p>Final Rule Anticipated: September 2013</p>	<p>This proposal integrates the disclosure requirements of RESPA and TILA, as required by Dodd-Frank. The proposal would amend and integrate portions of Reg Z and Reg X, which currently require mortgage lenders/brokers to provide separate sets of disclosures. The proposed model forms are intended to enhance consumer understanding and provide compliance guidance to lenders and brokers. The proposal would apply to most closed-end mortgage loans (first-lien and subordinate-lien). It would not apply to HELOCs, reverse mortgages, mortgage loans secured by a mobile home or by a dwelling that is not attached to real property.</p>	<p>Mortgage Disclosure Integration (Regulation X; Regulation Z)</p>
<p>Proposed Rule Anticipated: October 2013</p>	<p>The CFPB published an Advance Notice of Proposed Rulemaking regarding the possible regulation of consumer-purchased general purpose reloadable prepaid cards, including the possibility of extending the protections of Reg E to such products, product fees and disclosure information, and product features.</p>	<p>Requirements for Prepaid Cards (Regulation Z)</p>
<p>Further Action Anticipated: 2013</p>	<p>Dodd-Frank authorizes the CFPB to supervise insured depository institutions with assets over \$10 billion and certain service providers for compliance with federal consumer financial laws and other purposes. The statute calls for coordination between the CFPB and prudential regulators in the exercise of supervisory authority. For smaller insured depository institutions, section 1026 of Dodd-Frank authorizes the CFPB to include its examiners in examinations conducted by prudential regulators.</p>	<p>Supervision of Larger Depository Institutions and Affiliates</p>
<p>Further Action Anticipated: To Be Determined</p>	<p>In August 2009, the Fed issued two proposals to amend Reg Z regarding (1) disclosure requirements for closed-end mortgages, and (2) open-end HELOCs. In September 2010, the Board issued an additional proposal to amend the rules on the consumer's right to rescind certain open-end and closed-end mortgages, the rules for determining when modification of a closed-end mortgage requires new disclosures, and the disclosure rules for open- and closed-end reverse mortgages.</p>	<p>TILA Mortgage Amendments (Regulation Z)</p>

