

OVERVIEW OF THE KANSAS DEPARTMENT OF CREDIT UNIONS

House Financial Institutions Committee

January 17, 2013

Kansas Department of Credit Unions

- The Kansas Department of Credit Unions is the state credit union financial regulatory agency authorized by the 1968 Kansas Legislature to provide for management, control, regulation and general supervision of state-chartered Kansas credit unions.

- The Department is a fee fund agency operating solely on the revenue produced through fees collected from state-chartered credit unions examined and regulated by the agency.

- 12 employees, 10 financial examiners, 1 administrative officer, 1 administrator

- Credit Union Council, seven-members appointed by governor, five credit union officials, two public members, meets quarterly, advisor to the administrator.

- FY 2013 Budget \$1,036,245.

- All member accounts in Kansas credit unions are insured by the National Credit Union Share Insurance Fund. The National Credit Union Share Insurance Fund (NCUSIF) is the federal fund created by Congress in 1970 to insure member's deposits in federally insured credit unions. The insurance limit was permanently increased to \$250,000 per individual depositor on September 17, 2010. Administered by the National Credit Union Administration, the NCUSIF is backed by the "full faith and credit" of the U.S. Government.

Credit union information

- **Natural person credit unions are non-profit member owned cooperatives that provide a variety of financial services to their members.**
- **Credit union board and committees members are non-paid volunteers.**
- **The size and complexity of the credit union determines the number of services offered. These services may include checking accounts, consumer loans, business loans, debit cards, credit cards, first mortgages, and home equity mortgages.**

➤ **As of September 30, 2012 there were 79 Kansas chartered natural person credit unions with assets of \$4.6 billion dollars.**

➤ **21 federal credit unions with assets of \$481,057,369.**

➤ **One Kansas chartered corporate credit union. Corporate credit unions provide natural person credit unions with investment, liquidity, and cash-management products and services.**

➤ **Total Members in Kansas: 573,125.**

Being ➤ **Meritrust Credit Union, Wichita is the largest credit union in assets with \$834,677,706.**

➤ **Catholics United, Hutchinson is the smallest credit union in assets with \$171,579.**

➤ **The 5 largest credit unions make up 49.67% of the total assets or \$2,310,238,325.**

- The 10 largest credit unions make up 71.39% of the total assets or \$3,320,541,348.

Home mortgage lending as of the September 30, 2012 call report:

- 40 of 79 or 51% of Kansas chartered credit unions reported first mortgage loans on their September 30, 2012 call report. The balance of these first mortgages totaled \$647,640,205 or 21.35% of total loans outstanding. 28 credit unions offered no mortgage products.
- 49 of 79 or 59% of Kansas chartered credit unions reported second mortgage loans on the September 30, 2012 call report. The balance of these second mortgage loans totaled \$220,728,712 or 7.28% of total loans outstanding.
- All mortgages, (first and second) totaled \$868,368,917 or 28.63% of total loans outstanding.
- There were \$6,790,281 mortgage loans that were more than 60 days delinquent for a mortgage loan delinquency ratio of 0.78%.

Member Business Loans as of the September 30, 2012 call report.

- By federal credit union statute credit unions are limited in the amount of business loans they can make to 12.25% of total assets or 1.75% of net worth.
- 23 of 79 or 29% of Kansas chartered credit unions reported member business loans on their September 30, 2012 call report.
- Total member business loans as of September 30, 2012 were \$144,346,347. This is 4.76% of total loans outstanding as of September 30, 2012.
- There were \$2,187,801 member business loans reported 60 days delinquent as of September 30, 2012 for a member business loan delinquency ratio of 1.52%.

- **Member business loans are classified as loans made for business purposes with aggregate balances greater than \$50,000.**

Credit Union Financial Performance

Third quarter (September 30, 2012) call report statistics indicate Kansas credit unions are faring better than federally insured credit unions nationwide.

- **Assets for Kansas chartered credit unions totaled \$4,651,538,437 as of September 30, 2012.**
- **The annualized asset growth rate for all Kansas chartered credit unions for the first three quarters of 2012 was 9.36%. The annualized asset growth rate for all federally insured credit unions for the first three quarters of 2012 was 7.10%.**
- **The annualized loan growth rate for Kansas chartered credit unions for the three quarters of 2012 was 7.09%. The annualized loan growth rate for all federally insured credit unions for the first three quarters of 2012 was 4.58%.**
- **Kansas chartered credit union's average delinquency ratio was 0.89% as of September 30, 2012. The average delinquency ratio for all federally insured credit unions was 1.17%.**
- **Return on average assets (ROAA) for all Kansas chartered credit unions combined was 0.90%. The September 30, 2012 ROAA for all federally insured credit unions combined were 0.86%.**
- **The average net worth to total assets ratio for Kansas chartered credit unions was 10.72% as of September 30, 2012. The average net worth to total assets ratio for all federally insured credit unions was 10.31% as of September 30, 2012.**

- Annualized membership growth for Kansas chartered credit unions as of September 30, 2012 was 1.44% compared to annualized membership growth of 2.98% for all federally insured credit unions.
- The Kansas top 5 credit unions by asset size hold 49.67% of the assets; they generated 53.90% of the aggregate net income.
- The Kansas top 10 credit unions by asset size hold 71.39% of the assets and generate 83.08% of the aggregate net income.
- This demonstrates the largest credit unions, primarily through economies of scale, continue to outperform the smaller credit unions.

Mergers

- Number of credit union mergers has averaged one to two each year. Recent mergers have been credit union originated, not driven by regulatory concerns. Goal of the Department is that members of the merging credit union continue to receive services as the same or increased level from the continuing credit union.

- Current mergers:

Bonner Springs Federal Credit Union into Mainstreet Credit Union
 Argentine Santa Fe Industries Credit Union into Unity One Credit Union (a Texas chartered credit union)

Foreign Credit Unions

- Three credit unions chartered in other states currently operate branches in Kansas

CommunityAmerica Credit Union
 United Consumers Credit Union
 Corporate America Family Credit Union *Sprint*

- Kansas statute provides authority for the Department to access foreign credit unions a fee for their assets in a Kansas branch and to examine the credit union.

- The Department has entered into a national agreement through the National Association of State Credit Union Supervisors defining host and home state responsibilities.
- The Department also has MOUs with the home states that enable our review of the home state's examination report.

Credit Union Examination Results

- The Department is required by statute to examine every Kansas state-chartered credit union at least every 18-months to ensure financial stability and compliance with state and federal laws and regulations. Currently the average period between examinations is just under a 13-month cycle, a standard the Department has maintained since 2002. Code 3, 4, or 5 credit union receive on-site contacts every three to six months.
- Approximately 25% of examinations involve participation with federal financial examiners from the share insurer the National Credit Union Administration (NCUA). Kansas financial examiners are always in-charge.
- Credit unions >250 million in asset size are jointly examined annually.
- At the conclusion of each examination KDCU issues a CAMEL rating in Capital, Asset Quality, Management, Earnings, and Asset-Liability Management. From the individual ratings of 1 (least financial risk) to 5 (most financial risk) an overall composite rating of 1 to 5 is assigned. As of January 3, 2013 the ratings were
 - CAMEL 1 14 credit unions or 17.5%
 - CAMEL 2 50 or 62.5%
 - CAMEL 3 14 or 17.5%
 - CAMEL 4 2 or 2.5%
 - CAMEL 5 0

Complaints

- **During FY 2011 and FY 2012 the Department processed 21 complaints each year.**
- **Through the first six months of FY 2013 the Department has processed 20 complaints.**
- **The Department is required to process complaints within 30 days of being received. The Department is meeting this standard.**

Challenges

- **Earnings created by current economic conditions**
- **Regulatory burden, small credit unions must comply with same regulations**