

KANSAS HOUSE FINANCIAL INSTITUTIONS COMMITTEE

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Chairman DeGraaf and members of the House Financial Institutions Committee:

I am Jerel Wright, Administrator of the Kansas Department of Credit Unions (KDCU), a role which I have held since my appointment in September 2014.

I appreciate the opportunity to share information with you today about Kansas credit unions and about the role of the KDCU. My testimony today includes a short summary of the state credit union system along with information about Kansas credit unions.

Credit Unions

The Kansas credit union system began in 1929 with the chartering of a number of credit unions, one of which, the Topeka Post Office Credit Union, serves members today in much the same way as accomplished over 75 years ago. Credit unions are non-profit, member-owned financial cooperatives formed to provide member financial services. The services offered are determined by member needs as well as the size and complexity of the credit union. Member services may include checking, debit & credit cards, consumer & member business loans, first & home equity mortgages. Credit unions continue to honor their non-profit structure by electing Board and committees members who serve their respective credit unions as unpaid volunteers.

Kansas has 74 state-chartered credit unions with assets in excess of \$4,765,466,811, 19 federal-credit unions with assets of \$890,447,832. Kansas also has one state-chartered corporate credit union that serves credit unions with investment, liquidity, and cash-management products and services.

KDCU

The KDCU opened for business in 1968 when Kansas Legislature approved the plan to move the regulation and examination of credit unions from the Office of the State Bank Commissioner, formalizing the agency's mission to provide for management, control, regulation and general supervision of state-chartered Kansas credit unions.

The legislature requires all state-chartered credit unions to pay an annual examination fee to fund the agency thereby assuring the agency will be fully funded without any assistance of state general fund dollars.

- All fees are remitted to the state treasurer to be held in the credit union fee fund with the exception of 10% of fees credited to the state general fund.
- Department staff consists of 12 FTE's: one Administrative Officer, six Financial Examiners, three Financial Examiner Principals, a Financial Examiner Administrator and a Credit Union Administrator.
- All member accounts in Kansas credit unions are insured by the National Credit Union Share Insurance Fund created by Congress in 1970 to insure member deposits in federally insured credit unions. The insurance limit is \$250,000 per individual depositor. Administered by the National Credit Union Administration, the NCUSIF is backed by the "full faith and credit" of the U.S. Government.
- State credit union law requires the KDCU 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.

The KDCU operates and conducts examinations under examination standards equivalent to the standards established by the National Credit Union Administration (NCUA), the federal credit union regulator/insurer. These standards have qualified the KDCU to be continually accredited by the National Association of State Credit Union Supervisors (NASCUS) since 1995.

Credit Union Safety and Soundness Examination Process

KDCU conducts a risk-based examination which evaluates five key financial risk areas consisting of Capital, Asset Quality, Management, Earnings, and Asset-Liability Management

(CAMEL) each of which is assigned an individual rating of 1 (least financial risk) to 5 (most financial risk). More specifically, the rating is developed and assigned based on the examination team's assessment of credit union's credit, interest rate, liquidity, transaction, compliance, strategic and reputation risk, each of which receive a rating of low, moderate or high.

KDCU examination staff works with federal examination staff to completed joint examinations for an agreed upon number of examinations each year. This typically happens when a credit reaches a specified asset size, a credit union experience increased risk profiles or if a joint exam has not occurred recently.

Selected information about Kansas chartered credit unions as of September 30, 2014:

- Total members in Kansas chartered credit unions: 536,843.
- Meritrust Credit Union (Wichita) is the largest with total assets approaching \$1 billion
- Norwesco Credit Union (St. Francis) is the smallest with total assets just under \$150,000
- The newest credit union, Catholics United Credit Union, Hutchinson, was chartered in 2005.

Credit Union Lending

Credit unions focus on consumer lending although larger asset size credit unions have expanded loan products.

- Secured loans including new and used vehicles
- Unsecured loans including signature and credit card

- Mortgage loans including first, second and home equity
- Member business loans

Credit Union Financial Performance

Third quarter (September 30, 2014) call report statistics indicate Kansas credit unions are maintaining their ability to provide their members with desired services.

- Assets for Kansas chartered credit unions totaled \$4,765,466,811 as of September 30, 2014.
- Loans for Kansas chartered credit unions totaled \$3,366,646,628 as of September 30, 2014.
- Share deposits for Kansas chartered credit unions totaled \$4,085,848,710 as of September 30, 2014.
- Kansas chartered credit union's average delinquency ratio was 0.70% as of September 30, 2014.
- The return on assets for all Kansas chartered credit unions combined was 0.57% as of September 30, 2014.
- The average net worth to total assets ratio for Kansas chartered credit unions was 11.24% as of September 30, 2014.

Chairman DeGraaf this concludes my testimony. I stand for any questions.