

The Credit Union Industry

An overview and look ahead

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Hot Issues

- Protect the Credit Union Tax Exemption
- Curb Frivolous ADA Lawsuits
- Support NCUA's FOM Rule to Help Credit Unions Grow
- Push for Guidance and Relief on MLA Compliance
- Promote a National Data Security Standard for Retailers and Seek to Hold Them Liable for Costs Associated With a Breach
- Seek Regulatory Relief for Credit Unions and CFPB Reforms
- Support Fair Capital Reform Including All Credit Unions Being Eligible for Supplemental Capital
- Guarantee Credit Unions' Access to the Secondary Mortgage Market
- Seek Fairness Under FCC Rulemaking on Robocalls



Regulatory Landscape

Treasury

- The Treasury has taken the lead on planning and implementing President Trump's regulatory reform agenda – identifying laws, regulations, guidance, and other requirements that harm the financial system.
- These efforts include several reports related to Trump's executive order on “Core Principles for Regulating the United States Financial System.”

BCFP

- Acting Director Mulvaney's term expired on June 22, 2018. Leandra English, former Director Cordray's nomination resigned in July and officially dropped her lawsuit.
- President Trump nominated Katherine Kraninger, Associate Director of OMB, in May. A Senate Banking confirmation hearing was held on July 19, 2018. Mulvaney can continue until the nominee is confirmed. If nomination rejected, withdrawn, or returned by Senate, clock restarts again – another 210 days – potentially into 2019.

NCUA

- Chairman McWatters and Board Member Metsger are the only two on the board. Metsger's term has expired. President Trump nominated Rodney Hood to the Board, subject to Senate confirmation.



Treasury Focus on GSE Reform

- In his confirmation hearing, Treasury Secretary Mnuchin endorsed a bipartisan effort on housing finance reform. The Treasury has since taken the lead on finding administrative solutions to reforming the system.
- In December 2017, Treasury and the FHFA agreed to allow the GSEs to each retain \$3 billion in capital. The GSEs had to request draws from the Treasury, which drew more attention to the need for comprehensive reform.
- Craig Phillips, Counselor to the Treasury Secretary, has endorsed its proposed rule to establish a risk-based capital requirement for the GSEs. Administration may believe the GSEs need more capital.
- NAFCU released its **Housing Finance Reform Principles** in June 2017.
 - NAFCU supports reform efforts that guarantee credit unions unfettered access to the secondary mortgage market and pricing based on loan quality not volume of loans.
- NAFCU has been working with the administration to find solutions.
 - On January 29, 2018, NAFCU met with Craig Phillips to discuss legislative and administrative opportunities for housing finance reform. Craig Phillips will speak at NAFCU's 2018 Congressional Caucus.



Regulatory Landscape - BCFP

- Acting Director Mulvaney has turned the tide at the BCFP. He froze the Bureau's collection of personal information (which has since resumed), stepped back from several legal fights, reviewed numerous pending enforcement actions, and is reviewing the efficiency and effectiveness of the agency's processes and procedures through a series of 12 Requests for Information (RFI):

Civil Investigative Demands	Administrative Adjudications
Enforcement Processes	Supervision Program
External Engagements	Consumer Complaint Information
Rulemaking Processes	Adopted Regulations
Inherited Regulations	Guidance and Implementation
Financial Education	Consumer Inquiries

- NAFCU met with Acting Director Mulvaney in February and June 2018.



Regulatory Landscape - NCUA

- President Trump named NCUA Board Member J. Mark McWatters the agency's new Chairman.
- Since Chairman Matz's departure in April 2015, the NCUA Board has functioned with only two members.
 - Since there are only two members, in order for a rule or action to pass, the FCU Act requires the Board to be unanimous (i.e. both members have to agree on everything).
- Board Member Metsger's term ended on August 2, 2017.
- On June 18, 2018, President Trump nominated Rodney Hood to the Board (served previously from 2005-2009).





Americans with Disabilities Act (ADA)

NAFCU is fighting frivolous ADA litigation on all fronts.

To date, NAFCU has submitted sixteen amicus briefs in federal district and appeals courts to support credit unions' motions to dismiss these meritless ADA cases.

Federal courts have granted credit unions' motions to dismiss in five cases because the plaintiff was not a member or in the field of membership. The decisions have been cited by courts dismissing cases in Virginia, Ohio, and Georgia. NAFCU is awaiting decisions in cases in New Jersey, Pennsylvania, Texas, Florida, and the Fourth Circuit Court of Appeals.

Regulatory

- Urged the DOJ to proposed a rule to clarify the act's standards and protect credit unions from undue burdens. NAFCU has also met with DOJ.
- Sent a letter to the California law firm responsible for threatening credit unions, demanding that the law firm stop its meritless ADA lawsuits.

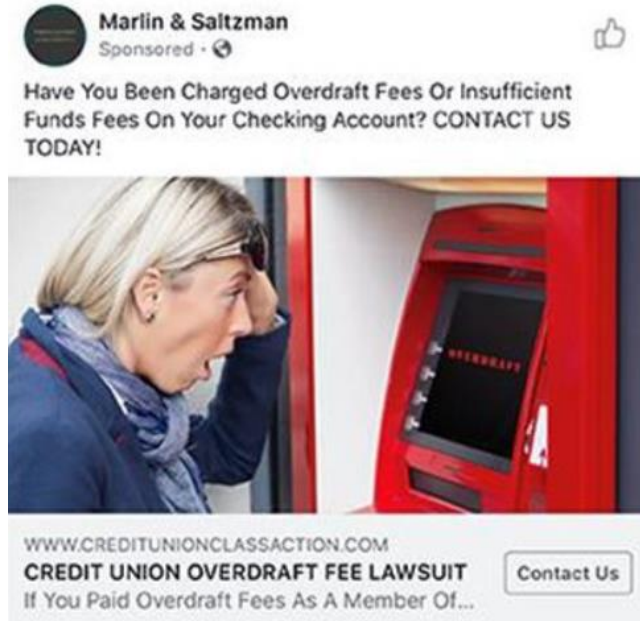
Legislative

- Supported the ADA Education and Reform Act of 2017 (H.R. 620) which passed the House by vote of 225-192 on Feb 15, 2018.
 - Gives businesses time to come into compliance before proceeding on a lawsuit.

Overdraft Litigation Risk


NAFCU is following reports of a law firm targeting the industry on overdraft and insufficient funds fees.

- These types of claims are not new – for several years firms have sued many financial institutions.
- Claim contract terms are vague, disclosures did not explain when a CU would charge overdraft & NSF fees.
- In February 2018, NAFCU joined an amicus brief in the Eleventh Circuit Court of Appeals in support of a CU
- Some banks and CUs have lost similar lawsuits even when using model forms issued by regulators.
- New firm is more aggressive, using social media to seek credit union plaintiffs and at one point had set up a website “www.creditunionclassaction.com” which has since been taken down.
- Many CUs are reviewing their contracts, disclosures and practices to manage and reduce risks.



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Have You Been Charged Overdraft Fees Or Insufficient Funds Fees On Your Checking Account? CONTACT US TODAY!

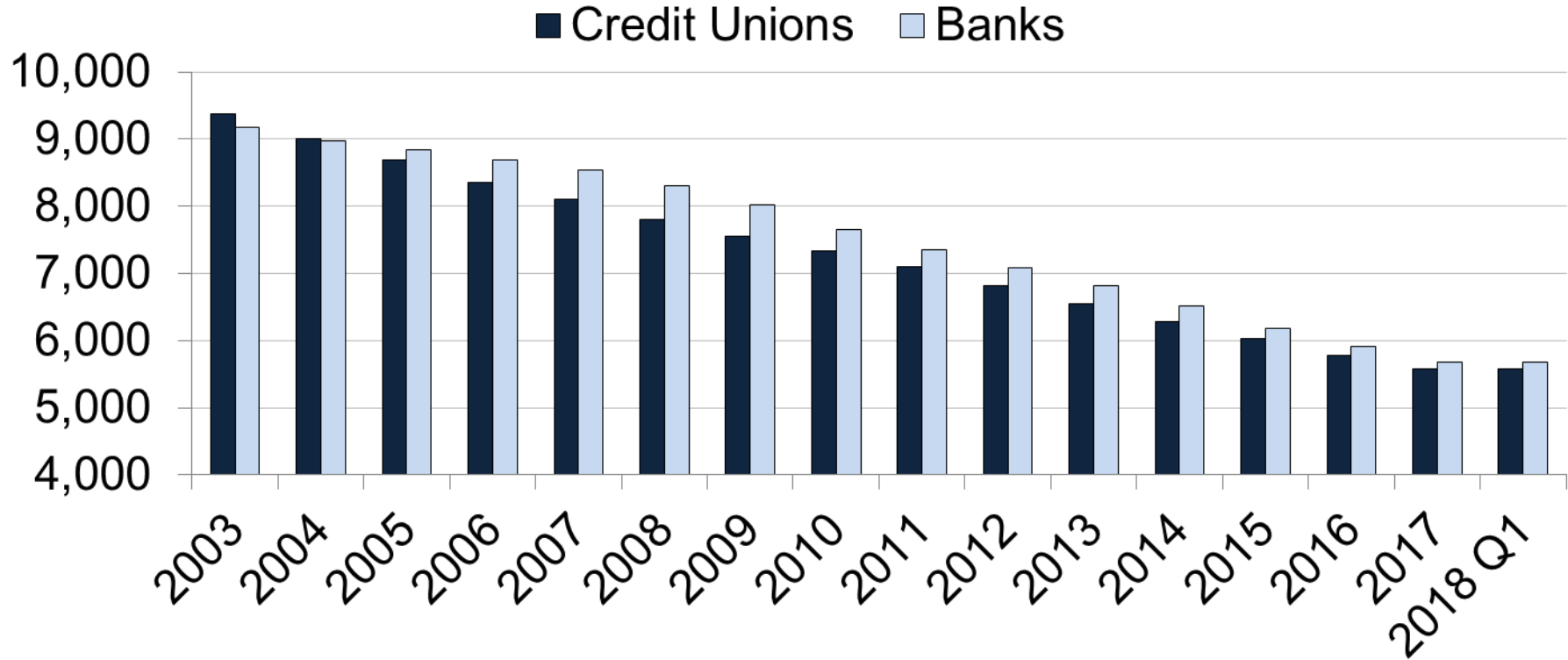


WWW.CREDITUNIONCLASSACTION.COM
CREDIT UNION OVERDRAFT FEE LAWSUIT
If You Paid Overdraft Fees As A Member Of... [Contact Us](#)

***A Social Media Ad
Targeting CU Members***



Number of Institutions

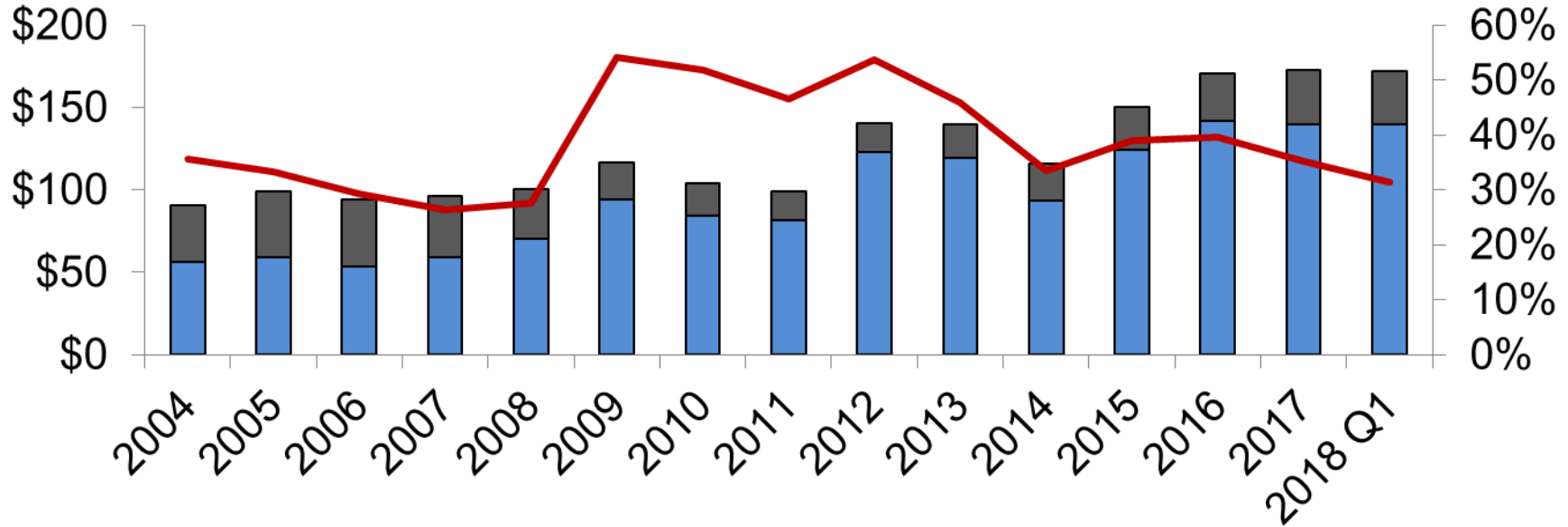


Source: NCUA, FDIC



FICU Mortgage Lending

\$Billions



■ Other R/E Originations (left scale)

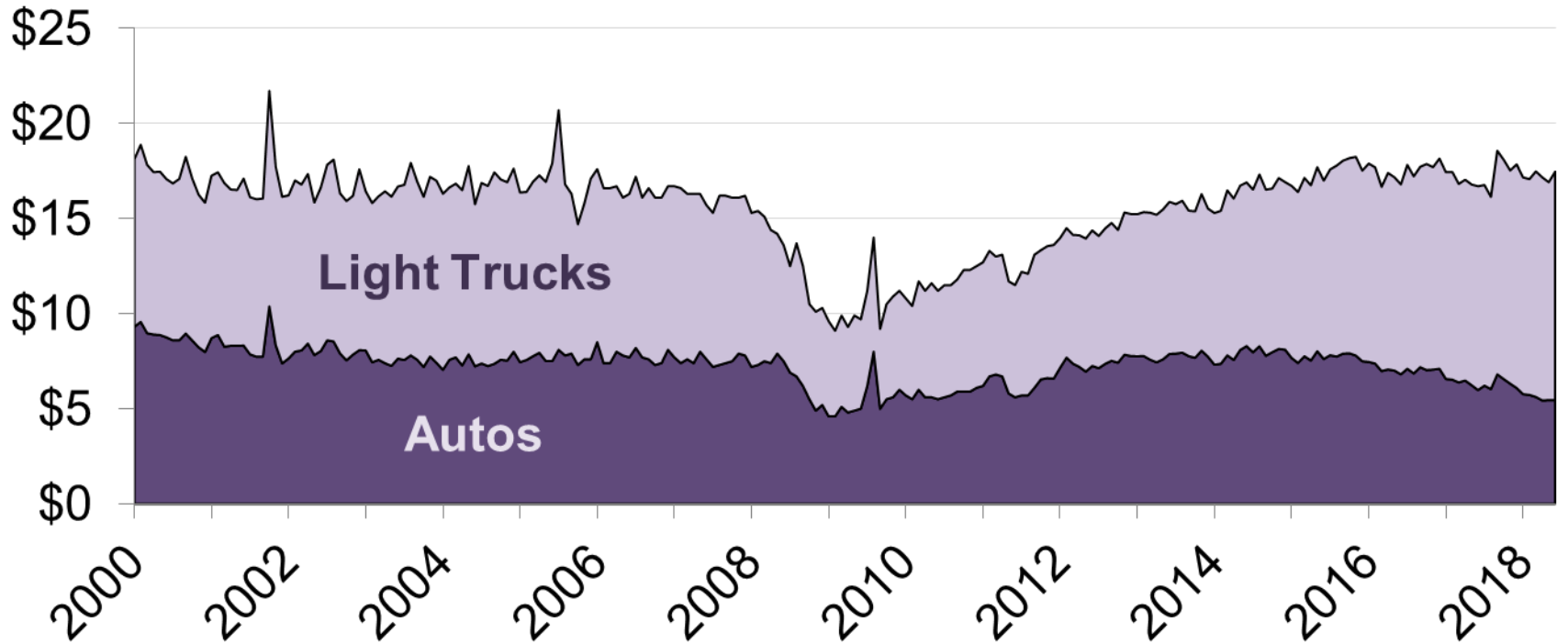
■ First Mortgage Originations (left)

— Percent of First Mortgages Sold in Secondary Market (right)

Auto Lending

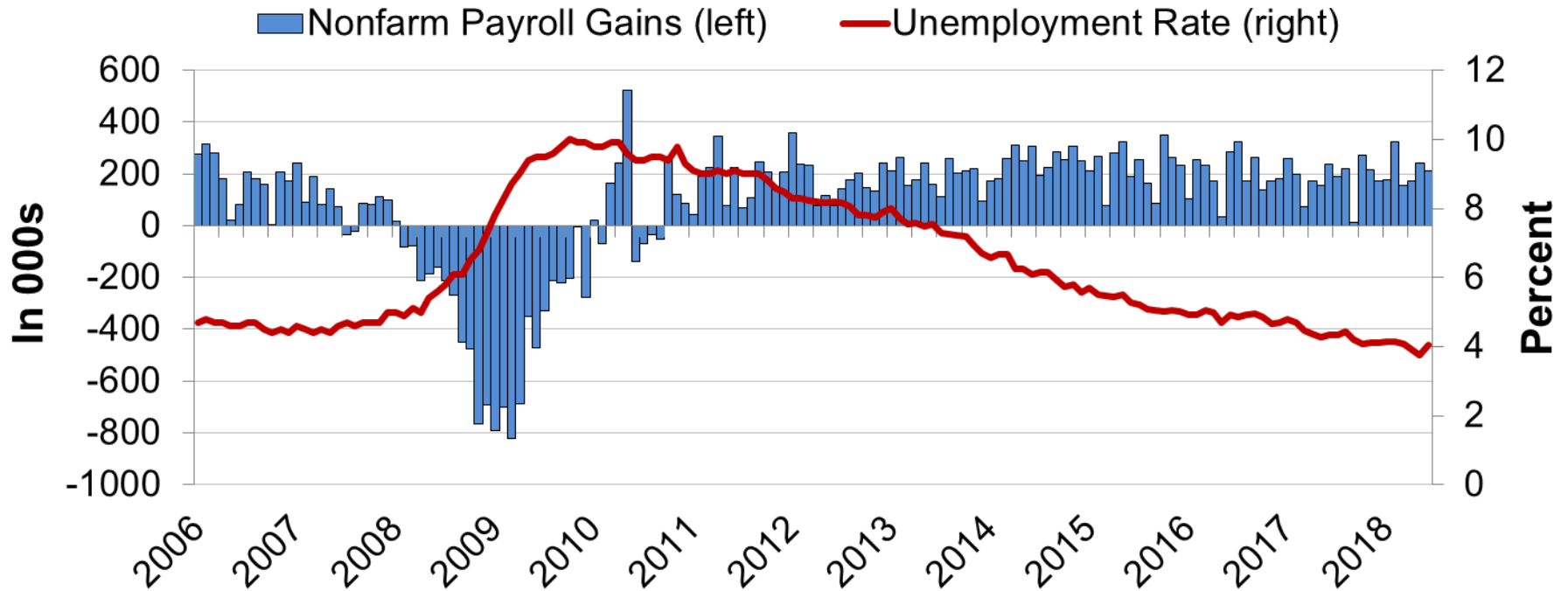
Millions,
SAAR

Vehicle Sales



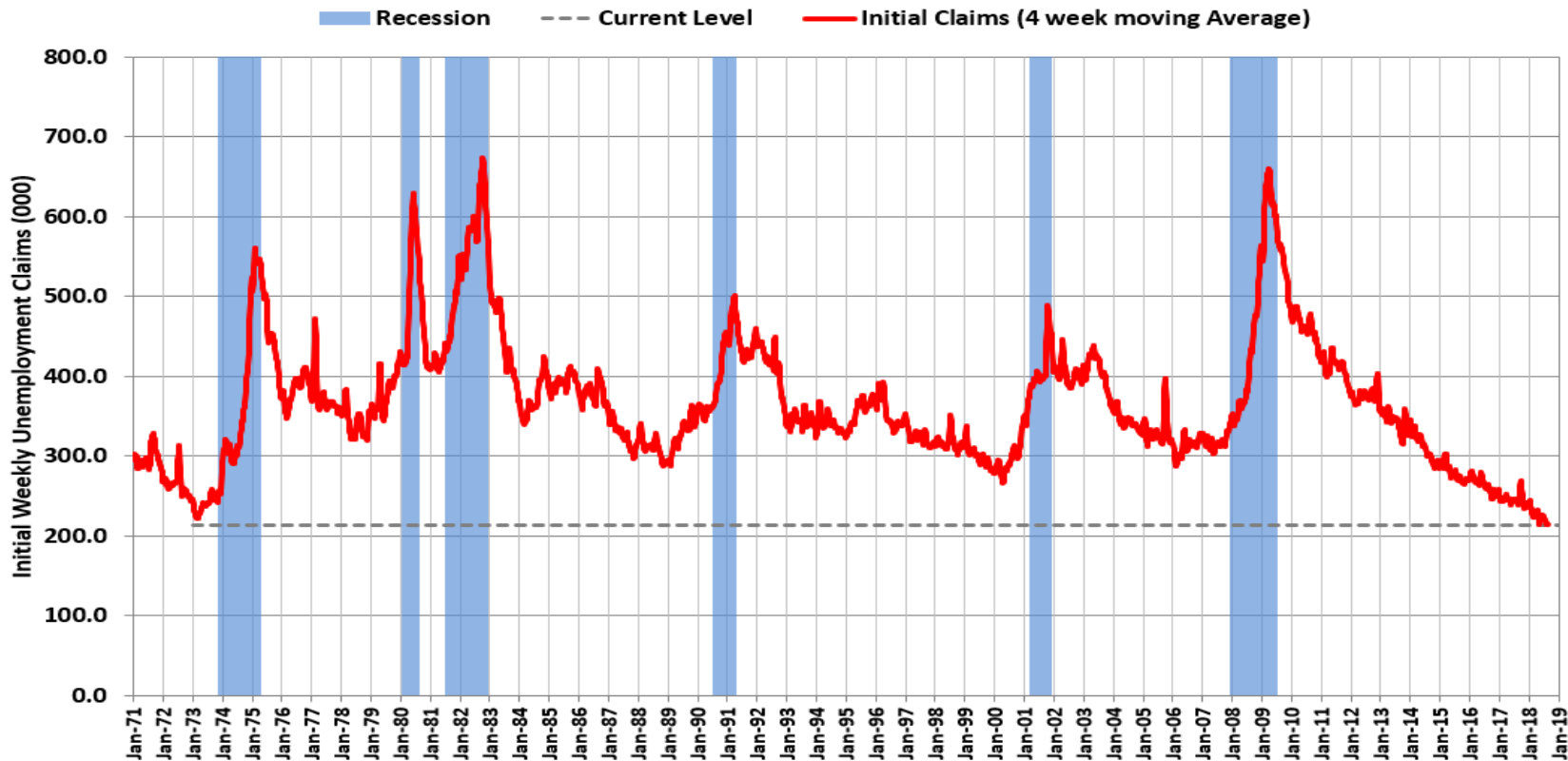
Labor Market

Job Gains



Unemployment Claims

Initial Weekly Unemployment Claims

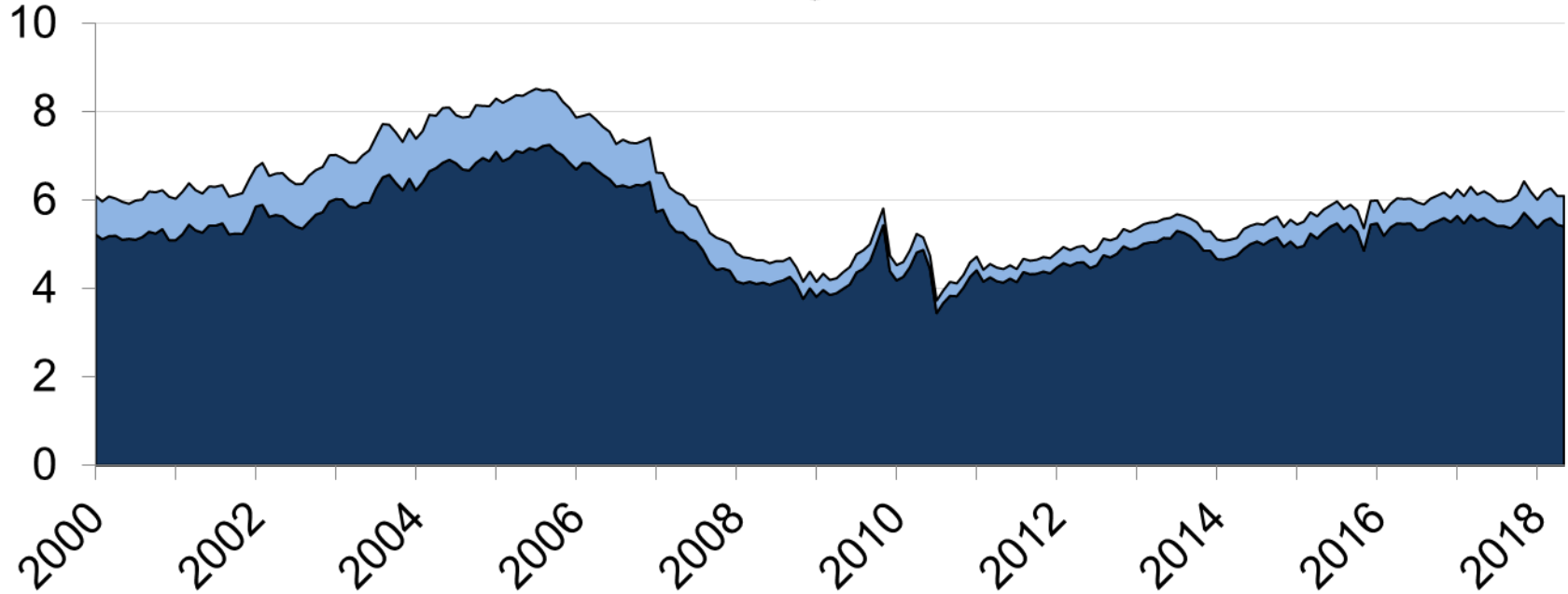


Housing

Millions,
SAAR

Home Sales

Existing New

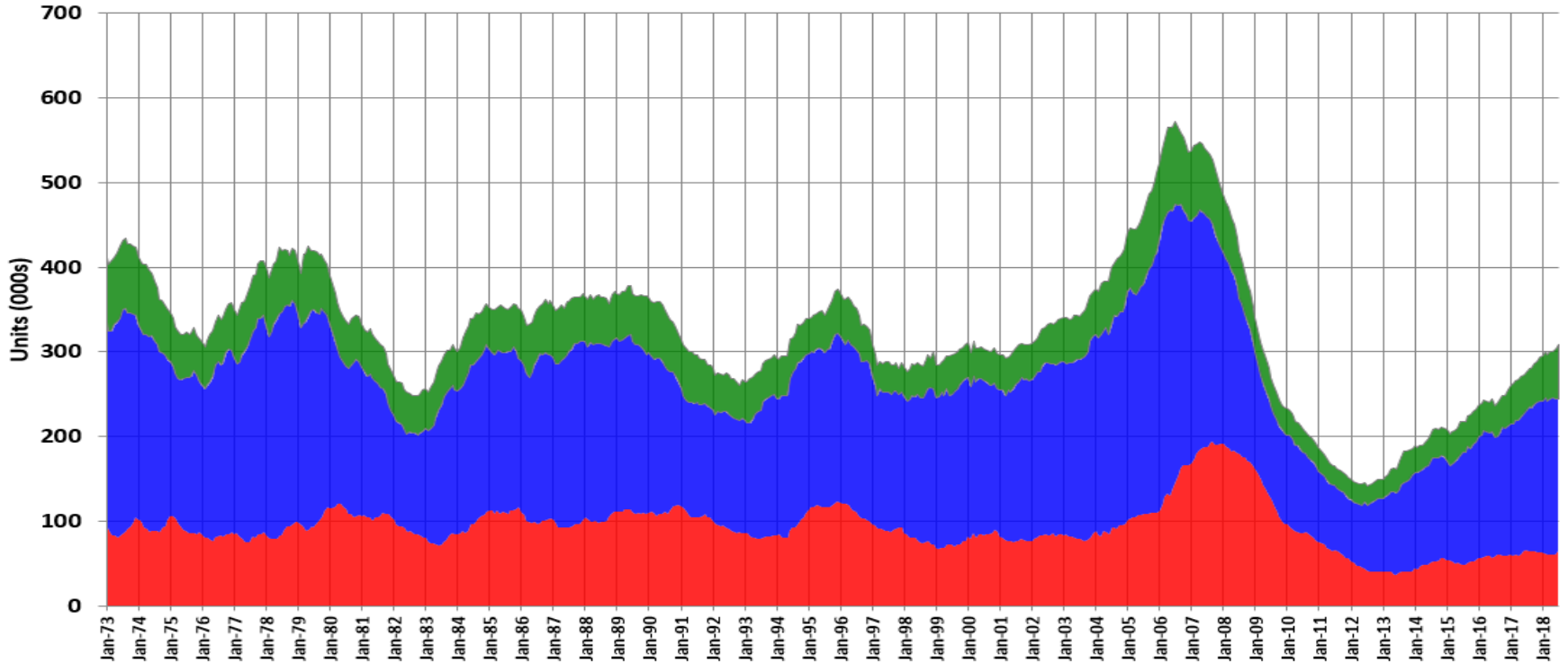


Sources: National Association of Realtors, U.S. Census Bureau

New Home Inventory

New Home Inventory

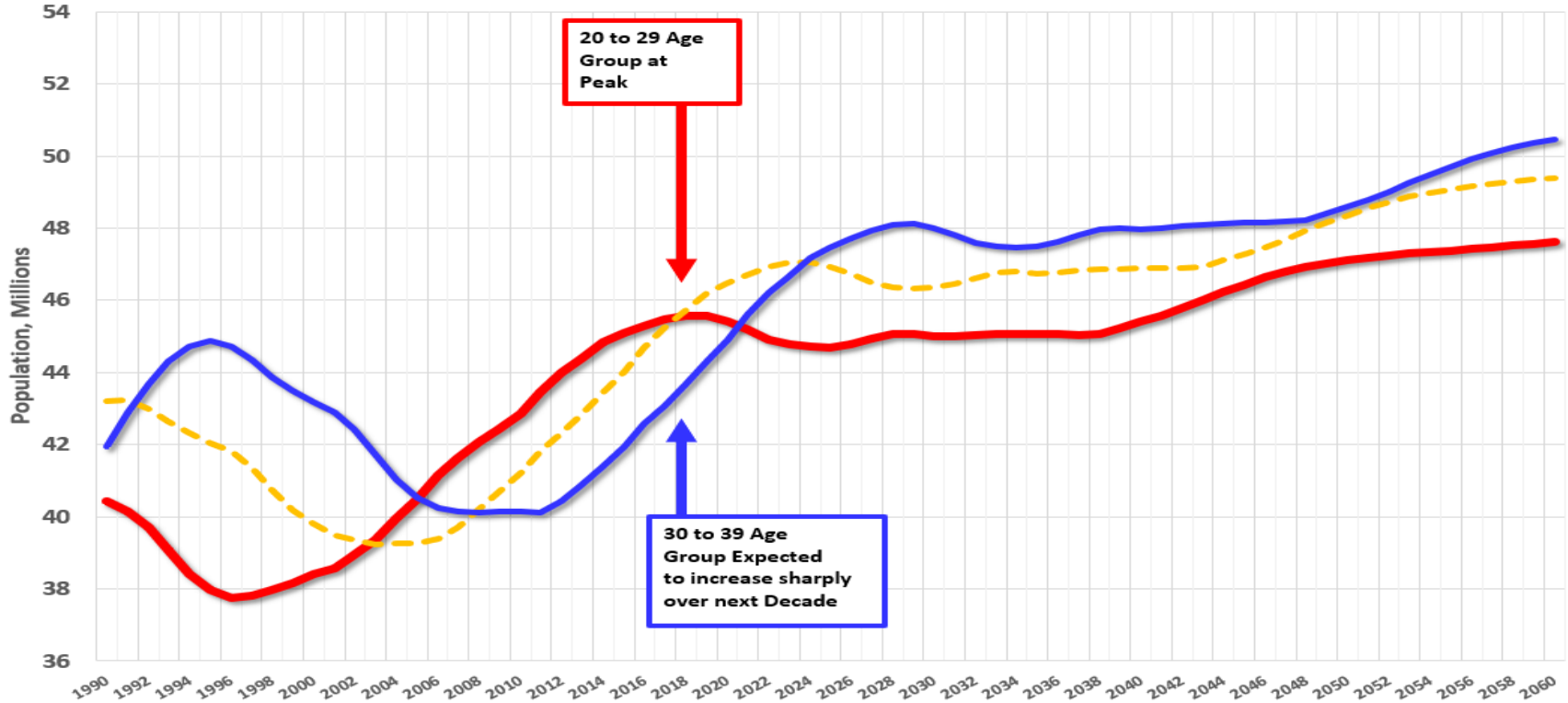
Completed Under Construction Not Started



Demographics

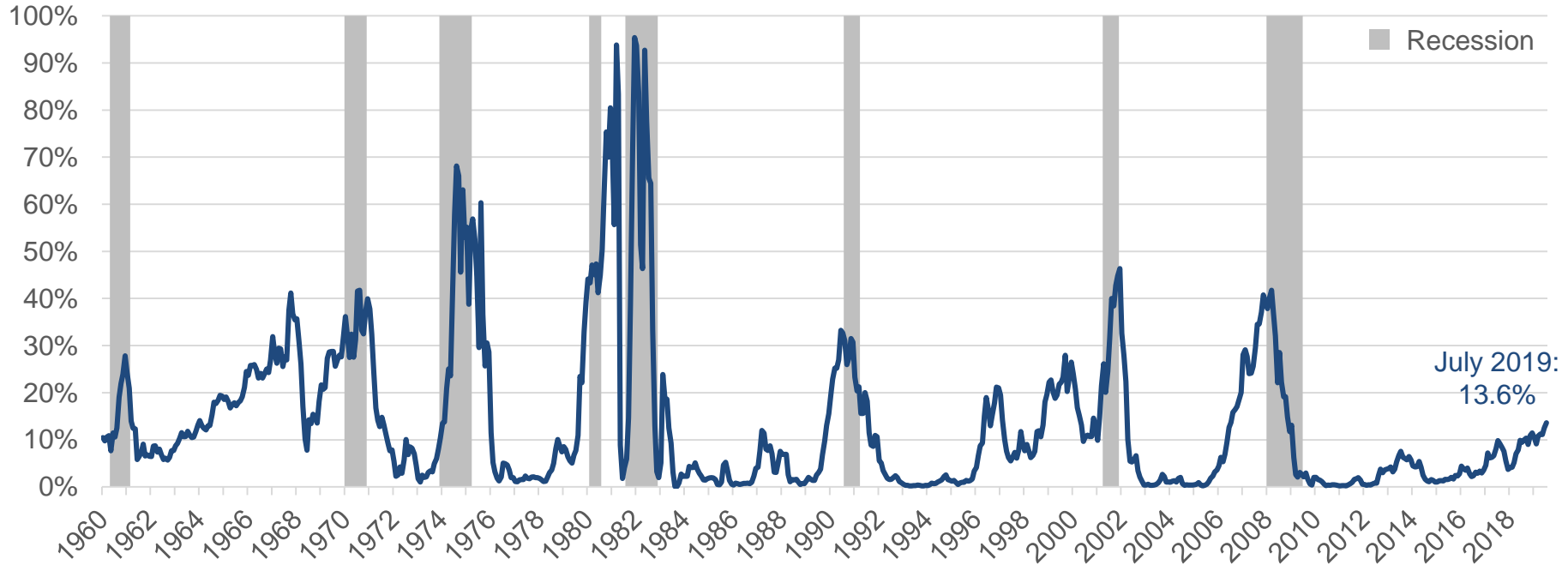
U.S. Population for Selected Age Groups, BLS Actual and Projections

— 20 to 29 Age - - 25 to 34 Age — 30 to 39 Age



Economic Risks

Probability of Recession Predicted by Treasury Spread Twelve Months Ahead



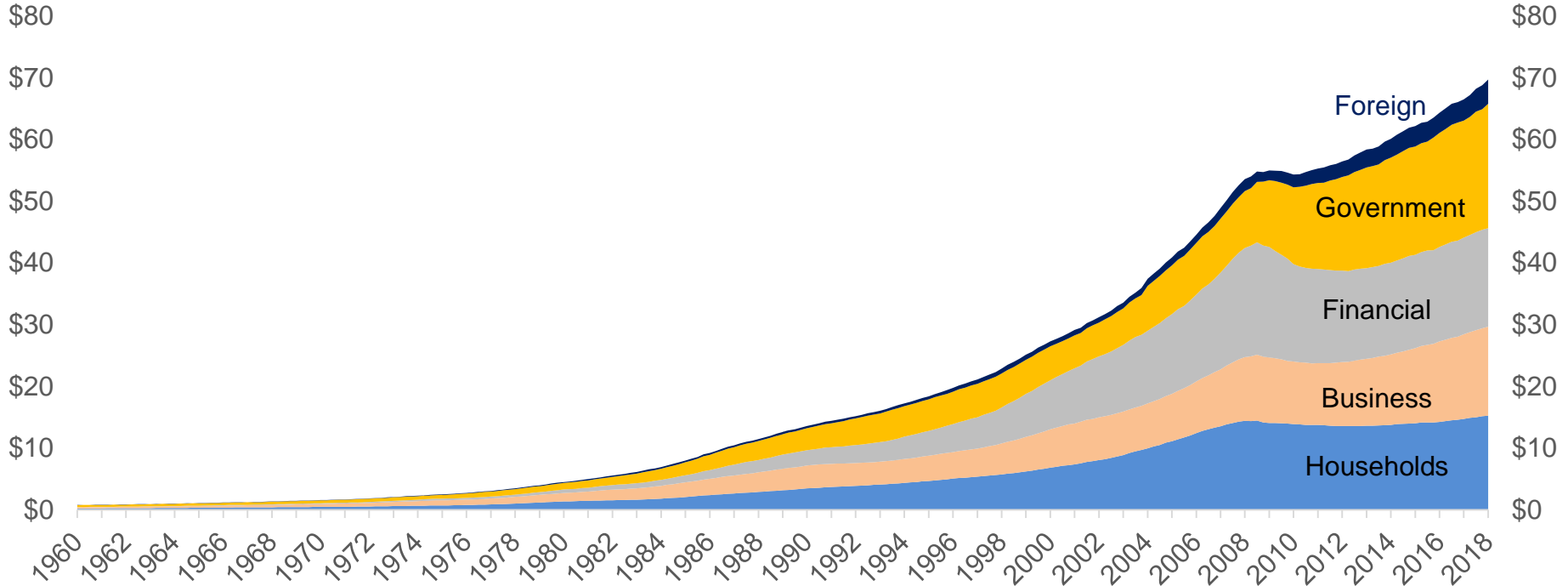


Rising Debt

U.S. Total Debt Outstanding by Sector

in Trillions

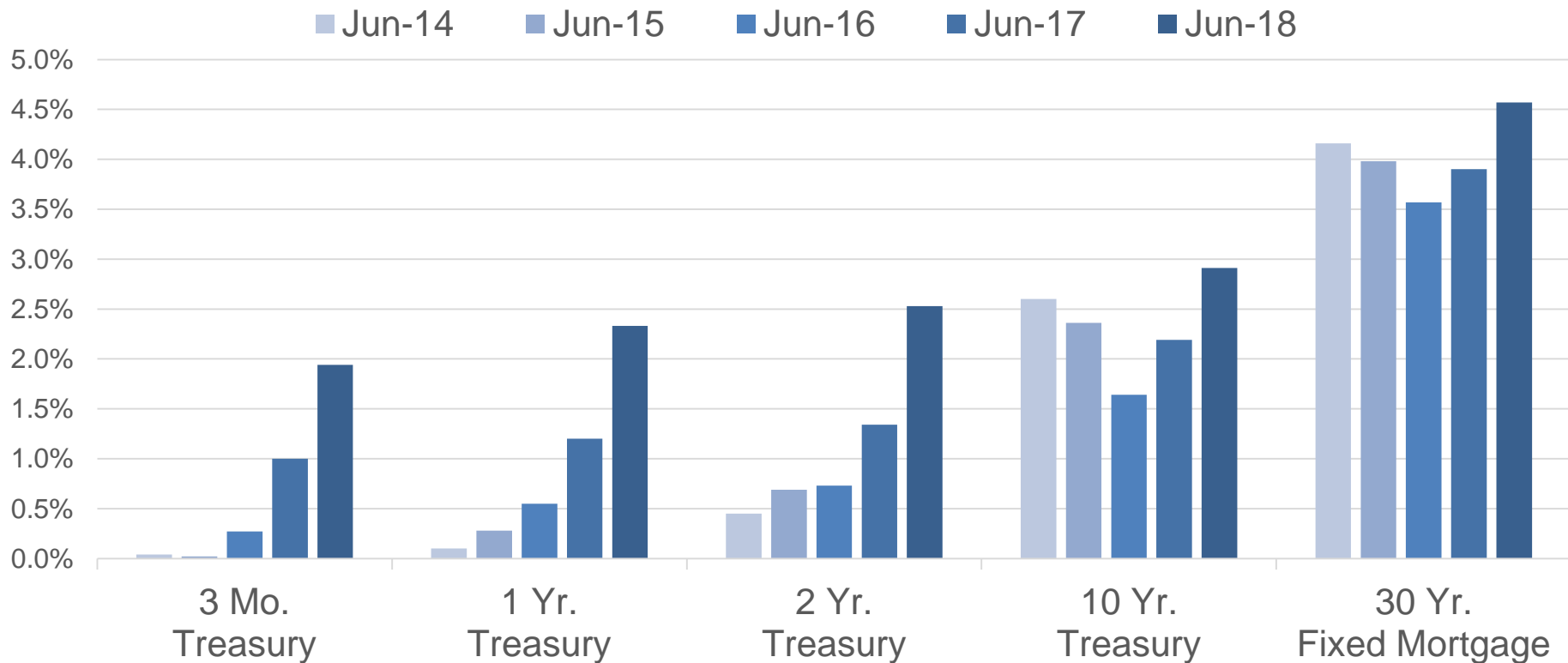
in Trillions



Source: Federal Reserve

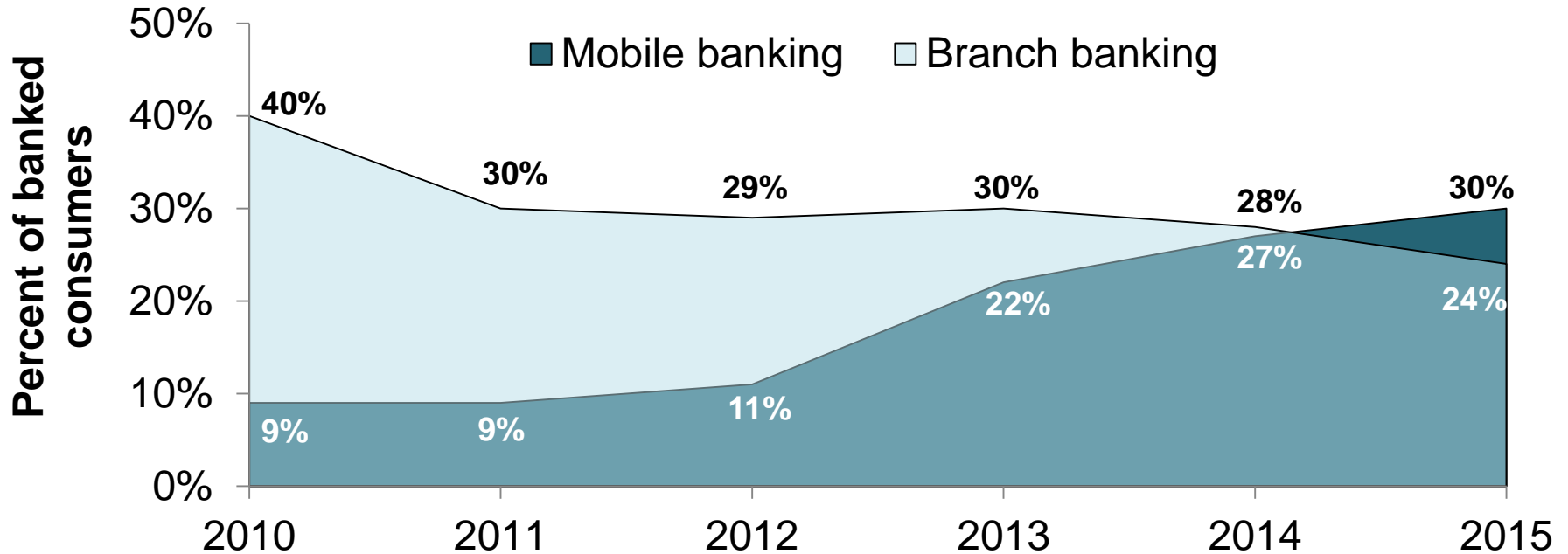


Rising Interest Rates



Source: Federal Reserve

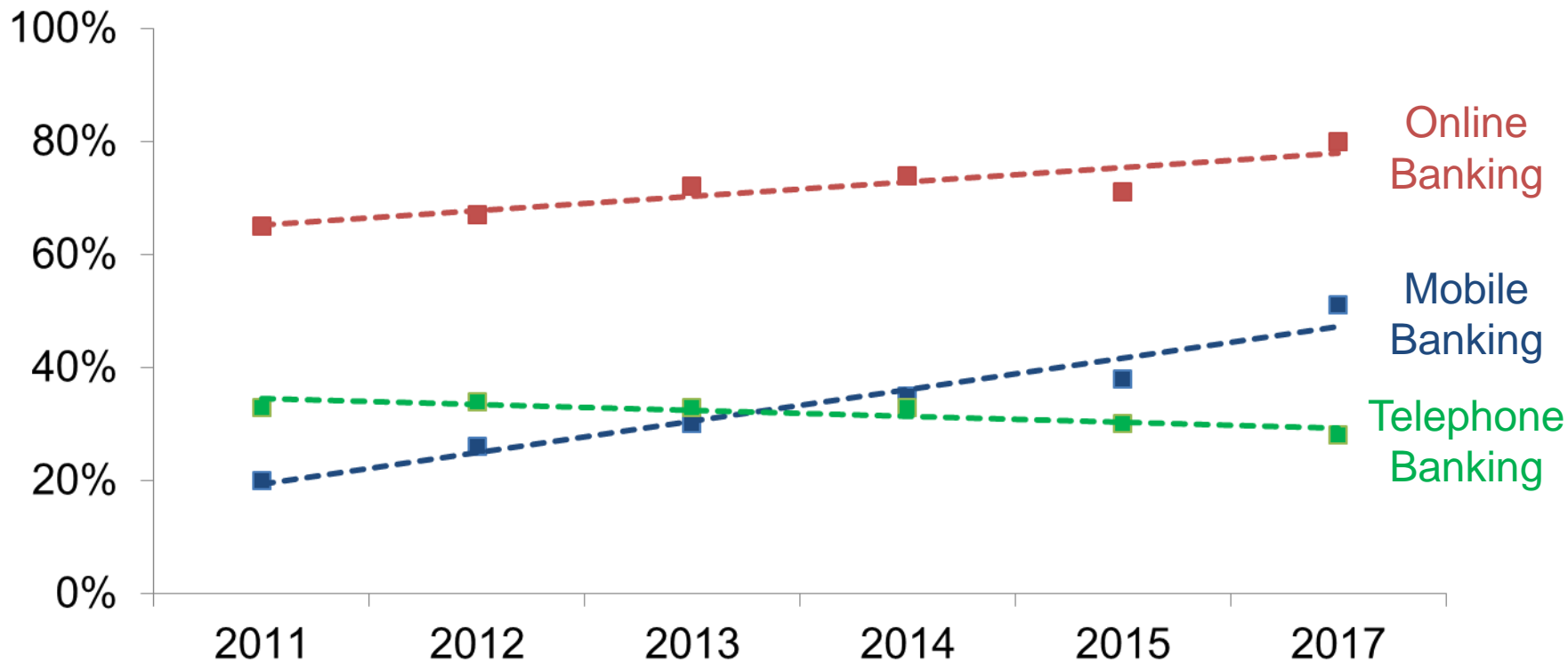
Mobile banking exceeds branch banking





Account Access

Usage of different means of accessing banking services

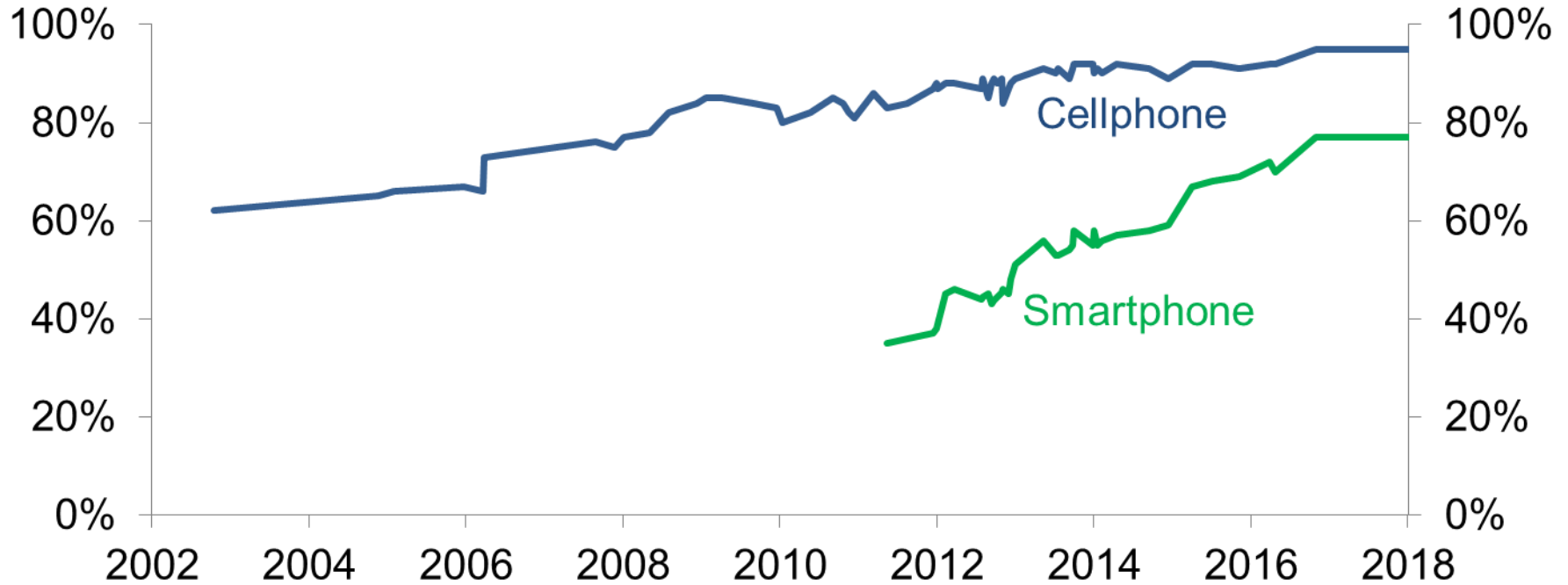


Source: Federal Reserve



Mobile Phone Ownership

% of U.S. adults who own the following devices

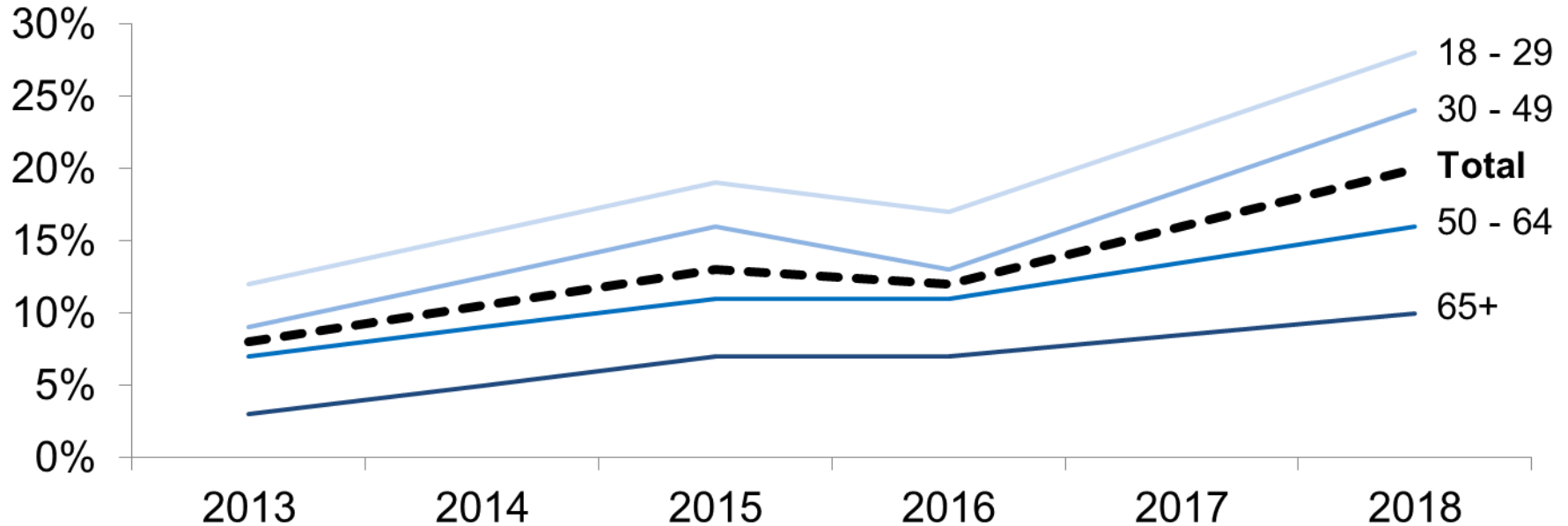


Source: PEW Research Center



Smartphone Dependency

% of U.S. adults who do not use broadband at home but own smartphones, by age

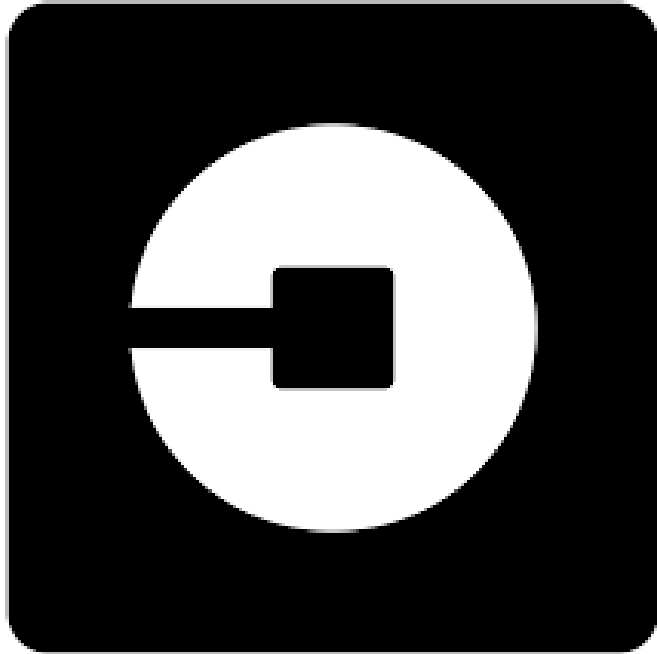


Source: PEW Research Center



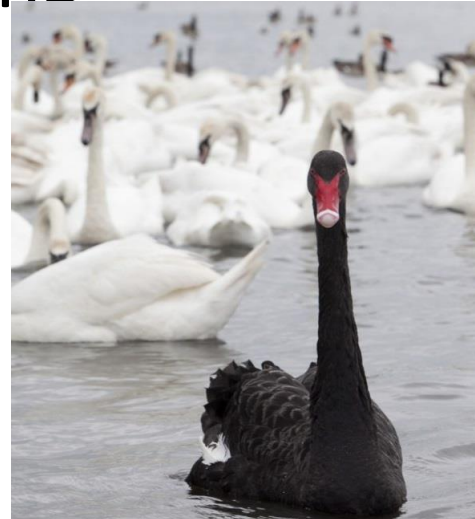
Question

- How do credit unions make loans?
- Mortgages? Auto loans?
- Or consumer behavior that leads to those loans?
- Case in point...



Other Issues?

- Driverless cars
- Artificial intelligence
- Voice-activated computing
- Another black swan?



What can we do?



1. Controlled Hustle

Aggressive, Urgent Work

- According to Strategy
- Completing Tasks
- Improving Technology & People

“We’re Everywhere”
“Our bus runs fast”
“You don’t get today back”



2. One with the Community

They know their community

- Relentless outreach and support
- Giving, without asking
- Board and staff

*“I’m not sure where our credit union stops
And the town starts. We’ve blurred that line.”*

*Ice Cream
Hugs
Seats at the table*

3. Risk Takers

- They understand risk
 - Alligators, Sharks, Black Swans, Cows and Heart Disease
- Standing still is a risk-affecting decision
- Not afraid of failure
- Board – CEO – Staff on the same page

“HR Director or ROA”

4. Efficient

- Efficient ≠ Cheap
- Squeeze vendors, not experience
- Know their data, transactions and trends
- Place scarce resources where they will do the most damage
- Every. Dollar. Counts.



Example of Efficiency

Debit Cards

- How many checking accounts do you have?
- With direct deposit?
- With debit cards?
- Do you know your P...A...U?



5. Diversified

- Loans
- FOM
- Experiments
- Marketing
- Board and Committees



6. Forward Thinking

- Decide, move on, execute
- Where do we need to be in 5 years, 10 years, 20 years?
- Sunk costs? What about sunk successes?
- Paranoia of falling behind and becoming irrelevant



7. Relentless Focus on ...

- Active membership growth
- Loan Growth
- Both short and long-term vision

“If you aren’t working on growing loans or members, you’re job is going to change.”

Live as if you were to die tomorrow. Learn as if you were to live forever.

- Mahatma Gandhi

I never learn anything talking. I only learn things when I ask questions.

-Lou Holtz

Leadership and learning are indispensable to each other.

-John F. Kennedy