



Kansas Credit Union Association

A Government Relations Division of Cornerstone

Date: March 8, 2023

To: Chairman Nick Hoheisel
House Committee on Financial Institutions and Pensions

From: Michael Murray, Executive Director
Kansas Credit Union Association

RE: Neutral Testimony HB 2436

Mr. Chairman and Members of the Committee,

Thank you for the opportunity to comment on this proposal that impacts our credit unions in Kansas. The Kansas Credit Union Association (KSCUA) represents credit unions throughout the state which together provide financial services to over 700,000 Kansans. Credit unions are not-for-profit financial cooperatives and along with other lending institutions, play a critical role in the Kansas economy. In addition to advocacy, KSCUA assists member credit unions with regulatory compliance and other administrative functions.

Environmental, Social and Governance (ESG) Legislation

Proponents of ESG legislation raise valid concerns of large out-of-state institutions attempting to influence the business decisions of other entities based on ideology. The act of dictating to others who they can and cannot lend to based on ideology goes against the free-market principles that we enjoy in this country and the state of Kansas. It is the legislature's prerogative to confront these efforts if it so chooses and Kansas credit unions are not trying to get in the way of that confrontation.

ESG legislation is not inherently anti-financial institution whether it be a credit union or otherwise. How the state attempts to reign in the use of ESG scores determines the impact on local financial institutions. This is a relatively new concept that has already begun to be addressed in other states by restraining their own state actions on ESG mandates and divesting state funds from ESG participating organizations.

As member-owned entities, Kansas credit unions are often operated by a broad group of voting members with diverse opinions. It is unlikely that a diverse group will allow one ideology to decide business or lending decisions however this does not prevent them from being accused of doing just that.

In this first attempt to address the use of ESG scores we ask the legislature to proceed cautiously and pursue proposals that do not increase the regulatory burden on local financial institutions or lead to any other unintended consequences.



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Focusing on State Actions

So far, most other states that have passed ESG legislation studied where their state dollars are invested, and state contracts are held to find potential solutions. They have also often placed restraints on their own state governments from mandating the use of ESG scores on private businesses.

Proposals such as HB 2436 seem to follow this trend as it touches on all of those items without saddling local financial institutions with more regulatory burden. Given that the underlying concern is an improper intervention in the free-market for ideological purposes it seems consistent that the solution not also interfere in the free-market. This bill does not place a mandate on private businesses to lend to a particular industry or individual. It does however disincentivize large institutions that may hold public funds or state contracts to not use ESG scores in their business or lending practices.

Because HB 2436 focusses on state actions without further intervention into a credit union's ability to make responsible lending decisions we stand neutral on the proposal. It is unproven that punitive provisions are required to slow down or stop the use of ESG scores, and this could still be a strong first step to show out-of-state institutions that Kansas is an open and free market for all industries.

Punitive Provisions Directly Placed on Credit Unions

We appreciate the evolution and improvement that this proposal has gone through since the 2022 legislative session. Although punitive provisions, such as fines or misdemeanor crimes, are not currently present in this bill we wanted to address our concerns with them should they be considered. While it is unlikely that a member-owned Kansas credit union would be credibly accused of using social credit scores in their lending decisions the cost and time of litigating those accusations is an unnecessary burden.

Overregulation by government is one of the leading factors for the decline in small financial institutions nationwide and particularly in rural Kansas. Most regulatory burdens that drive up compliance costs for Kansas credit unions are imposed by the federal government. Federal one-size-fits-all regulation has led to tens of millions of dollars in compliance and regulatory costs for Kansas credit unions each year. Full time staff is required for credit unions to hope to remain in compliance leading to the eventual merger or acquisition of smaller credit unions.

For these reasons we have are neutral on HB 2436.

Thank you again for the opportunity to testify on this proposal and for your consideration.

Please reach out with any thoughts or questions at mmurray@kscua.coop or 785.215.9574