

Approved: February 15, 2011

Date

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Forrest Knox at 4:00 p.m. on February 8, 2011, in Room 152-S of the Capitol.

All members were present except Representatives Hermanson and Grant, both of whom were excused.

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department
Cindy Lash, Kansas Legislative Research Department
David Wiese, Revisor of Statutes' Office
Gary Deeter, Committee Secretary

Conferees appearing before the Committee:

John P. Smith, Administrator, Kansas Department of Credit Unions

Others attending:

See attached list.

The Chair welcomed John P. Smith, Administrator, Kansas Department of Credit Unions, who provided an agency overview (Attachment 1). He stated that the fee-funded department, authorized by the legislature in 1968, and with a current budget of \$949,000, provides regulation and supervision for the state-chartered Kansas credit unions, a total of 80 natural-person credit unions with assets of \$4.0 billion; Kansas also has one corporate and 21 federal credit unions. He explained that Kansas credit unions are insured by the National Credit Union Share Insurance Fund, which is administered by the National Credit Union Administration. He noted that a credit union is considered well capitalized if its net-worth ratio is 7% or above and that no Kansas chartered credit union ratio is below 8% in net worth.

To assure that every state-chartered credit union is financially stable, Mr. Smith said that examinations are conducted every 13 months (statutory requirement, every 18 months) using AIRES risk-focused software that results in CAMEL (Capital, Asset Quality, Management, Earnings, and Asset-Liability Management) ratings of 1 (least risk) to 5 (most risk); credit union CAMEL ratings have remained stable during the past 5 years with no Kansas credit union receiving a rating of 5, 3 received a rating of 4, 9 a rating of 3, 56 a rating of 2, and 14 a rating of 1.

Mr. Smith stated that Kansas credit union assets increased at an annualized growth rate of 3.6%; loan growth increased by 5.75%. Delinquency rates have remained unchanged at 1.36%. Home mortgages, which comprise 28% of total loans, currently have a delinquency rate of 1.02%, while business loans (5.03% of total loans) have a delinquency rate of 2.54%.

The January 27 minutes were approved as printed. (Motion by Representative Fawcett and seconded by Representative Proehl)

CONTINUATION SHEET

Minutes of the House Financial Institutions Committee at 3:30 p.m. on February 8, 2011, in Room 152-S of the Capitol.

Mr. Smith responded to members' questions as follows:

- Banks, credit unions, and savings and loans all fall under the reporting requirements of the Bank Secrecy Act.
- Several incidents besides the \$5000 cash deposit trigger a Suspicious Activities Report.
- The new federal regulations may require additional training for examiners. But institutions with less than \$10 billion in assets are exempt from most of the regulations. Nevertheless, there may occur some "trickle-down" requirements.
- A credit union may be well capitalized but still have a CAMEL 3 or 4 rating if loan delinquency is high or the credit union has compliance issues.

Michael Baugh, Financial Examiner Administrator, responding to a question, said that the delinquency rate is higher for business loans because of several factors, but primarily due to the present economic climate. To another question he replied that the ARIES software is designed to show sensitivity to risk. Mr. Smith replied to another question that all credit union members pay the same insurance fees regardless of their CAMEL rating.

The meeting was adjourned by the Vice-Chair at 5:00 p.m. The next meeting is scheduled for Thursday, February 10, 2011.

DATE: FEBRUARY 8 2011

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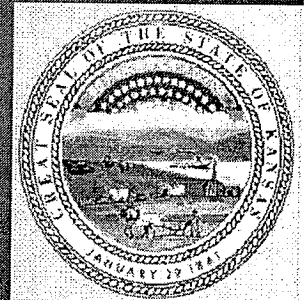
Kansas Department of Credit Unions

Overview of the Kansas Department of Credit Unions and Kansas Credit Unions

for the House Financial Institutions Committee

February 1, 2011

John P. Smith, Administrator

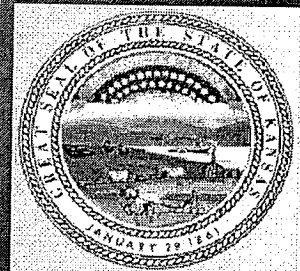


Credit Union Regulation

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

All fees received by the Department are remitted to the state treasurer with 20% credited to the state general fund and the balance credited to the credit union fee fund.

2011 Budget \$949,440.00



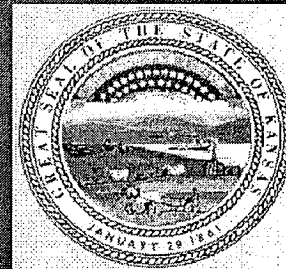
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Department of Credit Unions meets national standards

Kansas Department of Credit Unions is accredited by the National Association of State Credit Union Supervisors .

We are subject to:

- Accreditation standards and best practices
- Annual Reviews
- Reaccreditation every 5 years by our peers



Department Structure

Administrator

Financial Examiner Administrator

Three Financial Examiner Principals

Three Financial Examiner Seniors

One Financial Examiner

Two Administrative Specialists

Assistant Attorney General acts as General Counsel



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Kansas Credit Unions

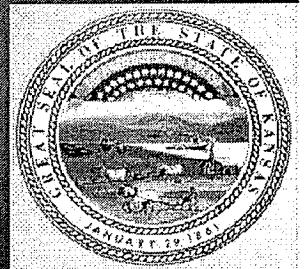
80 Natural Person Credit Unions

Assets of \$3,970,247,466

552,830 or about 21% of Kansans are members
of Kansas chartered credit unions

1 Corporate Credit Union

21 federal credit unions



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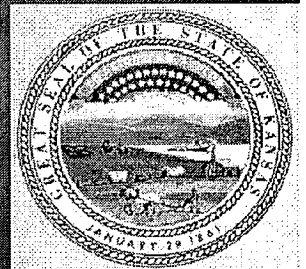
Kansas Credit Unions

Credit unions are member owned
cooperatives

Board and Committees are non-paid
volunteers

Supervisory Committee

Credit Committee

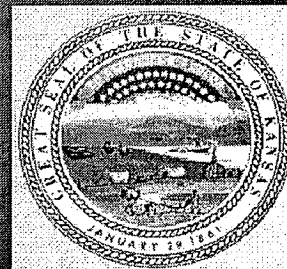


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Deposit (Share) Insurance

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.

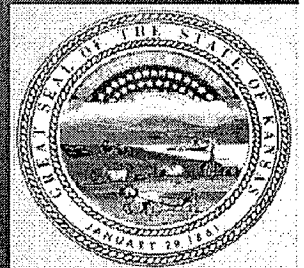
The insurance limit was permanently increased to \$250,000 per individual depositor on September 17, 2010. Administered by the National Credit Union Administration (NCUA), the NCUSIF is backed by the "full faith and credit" of the U.S. Government.



Kansas Credit Unions

Capital obtained *only* from undivided earnings

Must meet regulatory net worth standards

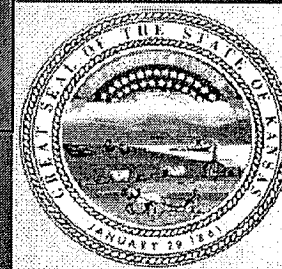


Kansas Credit Unions

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A credit union's net worth category is...	If its net worth ratio is...
Well Capitalized	7% or above
Adequately Capitalized	6% to 6.99%
Undercapitalized	4% to 5.99%
Significantly Undercapitalized	2% to 3.99%
Critically Undercapitalized	Less than 2%

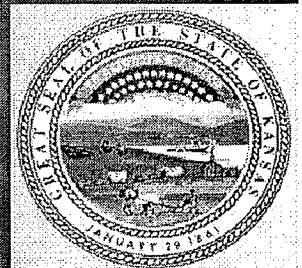
The average net worth to total assets ratio for Kansas chartered credit unions has increased by one basis point to 10.70% as of September 30, 2010. The net worth to total assets ratio for all FICU's nationally increased by 9 basis points to 9.97% as of September 30, 2010.



Examinations

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.

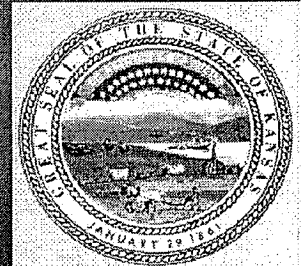
Currently the average period between examinations is just under a 13-month cycle, a standard the Department has maintained since 2002.



Examinations

AIRES Risk Focused Examination concentrates on 7 areas of risk:

- Credit Risk
- Interest Rate Risk
- Liquidity Risk
- Transaction Risk
- Compliance Risk
- Strategic Risk and
- Reputation Risk

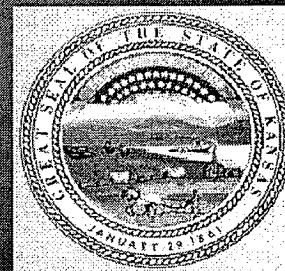


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Credit Union Examination Results

At the conclusion of each examination a CAMEL risk rating of 1 to 5 is assigned for Capital, Asset Quality, Management, Earnings, and Asset-Liability Management. A CAMEL rating of 1 represents the least amount of risk while a rating of 5 represents the most risk.

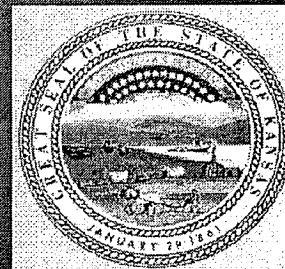
From the CAMEL component ratings an overall composite rating of 1 to 5 is assigned. These ratings are disclosed to the Board and senior management but are confidential



Credit Union Examination Results

CAMEL 1	14 credit unions or 17%
CAMEL 2	56 credit unions or 68%
CAMEL 3	9 credit unions or 11%
CAMEL 4	3 credit unions or 4 %
CAMEL 5	0

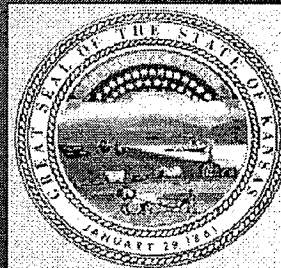
CAMEL ratings have remained stable with no increase in credit unions given a CAMEL 3, 4 or 5 during the past 5 years.



Kansas Credit Union
CAMEL RATING COMPARISON REPORT

As of December 1, 2010

CAMEL RATING AS OF:	04	05	06	07	08	12/31/09	12/01/10
COMPOSITE 1	14	13	11	12	12	14	14
COMPOSITE 2	56	52	55	58	57	53	56
COMPOSITE 3	24	22	19	16	15	14	9
COMPOSITE 4	3	4	7	2	2	2	3
COMPOSITE 5	0	0	0	0	0	0	0
NOT RATED	1	2	1	0	0	0	0
TOTAL	98	93	93	88	86	83	82



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ADDITIONAL RESPONSIBILITIES

Problem credit union monitoring – follow-up and monitoring required

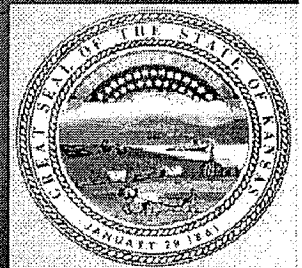
On-site meetings with Credit Union Board of Directors and Committees

Quarterly staff meetings

Quarterly call reports

Correspondence and communication with National Credit Union Administration, state and federal trade associations

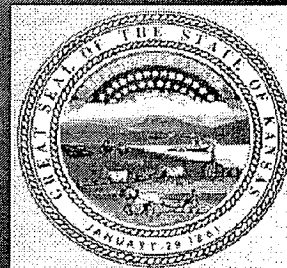
Bank Secrecy Act reporting to the *Financial Crimes Enforcement Network*



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Credit Union Financial Performance

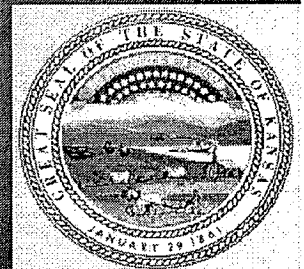
- Third quarter September 30, 2010 call report statistics indicate Kansas credit unions are faring better than federally insured credit unions nationwide.
- Assets for Kansas credit unions increased at an annualized growth rate of 3.60%; nationally by 3.50%. September 30 assets totaled \$3,970,247,446, an increase of \$215,858,709 since June 30, 2010.



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Credit Union Financial Performance

- Annualized loan growth increased by 5.75% compared with a 3.86% growth rate nationally.
- Total loans for Kansas chartered credit unions have increased by \$161,293,171 or 6.38% for the 12 months ending 9/30/10. Total loans for all federally insured credit unions have decreased by \$8,410,553,387 or 1.46% over the same period of time.
- Credit union average delinquency remained unchanged from June, 2010 at 1.36% compared to an increase of 2 basis points at 1.75% for all federal credit unions nationwide.



Credit Union Financial Performance

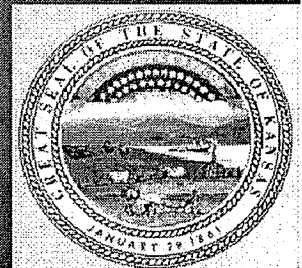
- The September 30, 2010 year to date (YTD) annualized return on average assets (ROAA) for Kansas chartered credit unions combined was 0.64% after the Temporary Corporate Credit Union Stabilization Expense and a premium assessment for the National Credit Union Share Insurance Fund (NCUSIF). This is an increase from 0.58% at June 30, 2010. Prior to the expenses noted above the combined ROAA for Kansas chartered credit unions was 0.77%.
- For all FICU's the ROAA as of September 30, 2010 was 0.45% after the Temporary Corporate Credit Union Stabilization Expense and NCUSIF premium assessment. This is an increase from 0.40% at June 30, 2010. Prior to the expenses noted above the ROAA was 0.61%.



Home mortgage lending

September 30, 2010 call report

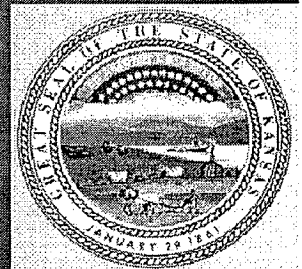
- 51 of 81 or 63% of Kansas chartered credit unions reported second mortgage loans on the September 30, 2010 call report. The balance of these second mortgage loans totaled \$243,846,324 or 9.06% of total loans outstanding
- 41 of 81 or 51% of Kansas chartered credit unions reported first mortgage loans on their September 30, 2010 call report. The balance of these first mortgages totaled \$508,170,600 or 18.89% of total loans outstanding. 26 credit unions offered no mortgage products.



Home mortgage lending

September 30, 2010 call report

- All mortgages, (first and second) totaled \$752,016,736 or 28% of total loans outstanding.
- There were \$7,678,992 mortgage loans that were more than 60 days delinquent for a mortgage loan delinquency ratio of 1.02%.



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Member Business Loans

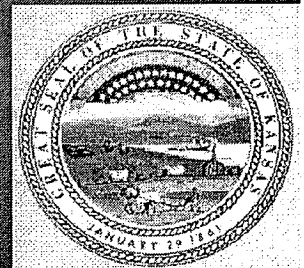
- Member business loans are classified as loans made for business purposes with aggregate balances greater than \$50,000.
- By federal credit union statute credit unions are limited in the amount of business loans they can make to 12.25% of total assets or 1.75% of net worth



Member Business Loans

September 30, 2010 call report

- 24 of 81 or 30% of Kansas chartered credit unions reported member business loans on their September 30, 2010 call report.
- Total member business loans as of September 30, 2010 were \$132,262,642. This is 5.03% of total loans outstanding as of September 30, 2010.
- There were \$3,431,068 member business loans reported 60 days delinquent as of September 30, 2010 for a member business loan delinquency ratio of 2.54%.



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Questions

