MD|DC Credit Union Association

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October 26, 2017

Chairman Gary Gensler, Maryland Financial Consumer Protection Commission

The Maryland & District of Columbia Credit Union Association (MD|DC CUA) is pleased to submit testimony to the Maryland Financial Consumer Protection Commission regarding Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Recent Federal Activity pertaining to its implementation. MD|DC CUA represents over 130 credit unions, with over 2.0 million member-owners. These consumers are impacted by regulatory changes to their credit unions, both in Annapolis and in Washington, and we are pleased that the Commission includes their perspectives on the critical issues before you.

Since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the financial services landscape has undergone a transformation. Many of the regulatory changes enacted have had a beneficial effect on restoring stability, transparency and more prudent operations to those large banks that were at the center of the financial crisis of 2008-10. Furthermore, Dodd-Frank has begun to address issues related to "too big to fail" banks, and has put in place safeguards to identify and mitigate systemic risk in the financial system.

Taken as a whole, these were necessary steps taken to improve the overall financial institution sector. However, there have also been unintended consequences that have adversely affected smaller financial institutions such as credit unions and our ability to serve members in the most cost-effective and consumer-friendly manner. Compliance burdens, and their associated costs, have risen appreciably with no tangible safety or soundness enhancement to the institutions, or apparent benefit to the consumer.

Intentional or not, these burdens are placed on credit unions through misguided, "one-size fits all" rules that do not take into account our unique cooperative structure and operational approach that is markedly different than that found at banking institutions. Credit unions are the one prominent segment of the financial services sector that did not cause the crisis that the regulations now purport to address, and MD|DC CUA asks respectfully but firmly that this Commission do its part to "right size" the regulatory regime under which credit unions operate.

One other important point: credit unions are, by design, consumer-friendly financial institutions. They are member-owned, not-for-profit cooperatives of fairly-priced financial products and services for the consumer. Furthermore, as regulated institutions, credit unions recognize the need for a reasonable and coherent set of consumer protection laws and regulations, both at the federal and state levels, that provide valid assurances to consumers that their rights are being observed at all times.

But based on the experience of the last seven years, we also assert that there has been a tendency, particularly at the federal level with the Consumer Financial Protection Bureau (CFPB), to issue excessively complex and prescriptive rules that unfortunately impact good actors such as credit unions at a time when they should be more properly aimed at predatory sectors of the marketplace. CFPB has one readily available remedy that MDDCCUA and other credit union associations have advocated: CFPB could use exemption authority set forth in Dodd-Frank to relieve smaller financial institutions from certain regulations, particularly those that do not serve any consumer benefit but carry with it significant burdens. Although CFPB has chosen to not exercise this exemption authority, MDDCCUA will continue to advocate carefully targeted, common-sense regulatory relief.

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We encourage this Commission to be mindful of the difficulties presented by overregulation at the federal level, as well as here in Maryland, and work to provide balance and fairness to the consumer regulatory regime.

Extra Cost of Regulation Has an Impact

The impact of regulatory burden borne by credit unions and their members since 2010, including costs and direct impact on services, is considerable and needs to be addressed. As a starting point credit unions recognize that they operate in a regulated industry and must bear reasonable costs of regulation. However, the total financial impact of undue regulation on credit unions and their members is high and has increased dramatically since the recent financial crisis.

The Credit Union National Association (CUNA), a national trade organization, commissioned the financial analysis firm Cornerstone Advisors to perform a rigorous evaluation of the current financial impact of regulation on credit unions, and how much it has changed since 2010.

Cornerstone Advisors conducted a two-phased study to gain an in-depth examination and quantify the impact of regulation at small, medium and large credit unions. The study gathered data in terms of increased costs, including staffing, third party expenses and capitalized expenses, and reduced revenue opportunities.

The study found an added regulatory cost of 15 basis points over what had existed in 2010. This means that regulatory costs for credit unions in 2014 were $1.7 billion higher than they would have been without the changes that occurred from 2010 to 2014. Adding the 10 basis point reduction in revenues ($1.1 billion) yields an increase in total financial impact of 25 basis points ($2.8 billion).

Maryland specific figures are:

Maryland Credit Union Data	
Number of Credit Unions	95
Number of Credit Union Members	1,769,296
Total Credit Union Assets	$20.4 billion
Cost of Regulatory Compliance	$93.8 million
Reduced Revenue as result of added compliance	$21.2 million
Total Impact to Maryland Credit Unions	$115.1 million
Cost per credit union in Maryland	$1.211 million
Cost per member per year	$65

Types of Regulatory Cost

The study collected data on three types of costs related to regulation: staff costs, third party expenses and depreciation of capitalized costs. For each cost category, care was taken to include only that portion of the costs that are driven by regulatory requirements. For example, for compliance staff, time

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spent on compliance with internal policies not required by regulation was not included as a regulatory expense.

The study solicited credit union CEOs' views on how the funds devoted to regulation would have been reallocated within the credit union had they not been impacted by regulation. Better member pricing, better service delivery, and institutional strengthening topped the CEO's lists.

In addition to extensive data collection, the study received credit union CEO responses that identified areas where the greatest increase in regulatory burden was observed. In addition, the study also identified areas of lost revenue due to excessive regulation.

The increase in regulatory burden has adversely affected credit unions and taken significant resources by:

- Significantly increasing the cost of compliance on unnecessary one size fits all regulation;
- Added costs, redundancy and needless complexity to mortgage and consumer lending;
- Made the internal audit process less efficient and useful.

The negative effects on revenue are most apparent in the areas of:

- Mortgage lending;
- Debit interchange income;
- Payment system income.

The study found that the costs that credit unions bear as a result of regulation, even when conservatively measured, are very high, and have increased substantially since the financial crisis and Great Recession. The burden is particularly egregious for smaller institutions such as credit unions.

Conclusion

The MD|DC Credit Union Association believes that rational and practical regulations enhance the ability of credit unions to deliver the very best financial services possible. We also believe that government at all levels needs to engage in an ongoing re-assessment of the effects of these rules, balancing the consumer benefits against cost and complexity. Regulatory relief is a broad term, but in our case, we believe that regulatory reform, predicated on ensuring that a system of rules is in place that are as minimal as possible, and as much as necessary. Federal and state regulations on capital, risk concentration and management, liquidity and consumer protection all fall under this heading, and should be reviewed proactively by this Commission.

An appropriate balance is achievable, and will result in safe and sound credit unions that are able to constantly improve service to their members. This is a realistic goal that would provide a meaningful enhancement in the financial quality of life for all Marylanders, and we encourage you to undertake this task as soon, and as thoroughly, as possible.

Thank you for the opportunity to provide this testimony and please feel free to contact me if you have any questions.

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