

JUNE 2013

Credit Union Advisory Council meeting minutes

JUNE 6, 2013



Consumer Financial
Protection Bureau

Meeting of the Credit Union Advisory Council

The Credit Union Advisory Council (CUAC) of the Consumer Financial Protection Bureau (CFPB) met via conference call at 1:00 p.m. on June 6, 2013. The conference call was held at CFPB, 1700 G Street NW, Washington, DC 20552.

Board members present:

Carla Decker
Rose Bartolomucci
Bernard Balsis
John Buckley
Ron Ehrenreich
Kevin Foster-Keddie
Helen Godfrey Smith
Mitchell Klein
Lily Lo
Maria Martinez
Marcus Schaefer
Camille Shillenn
Gregg Stockdale
David Wright

CFPB staff present:

Director, Richard Cordray
Kelly Cochran
Delicia Hand
Cliff Rosenthal
Katherine Samolyk
Daniel Smith

Welcome and meeting overview

Richard Cordray, CFPB Director

The meeting via conference call was called to order at 1:00p.m. by Director Cordray, who welcomed CUAC members, and introduced the new Assistant Director of the Office of Financial Institutions and Business Liaison, Dan Smith, who provided an overview this new office.

Introduction of Office of Financial Institutions and Business Liaison

Daniel Smith, assistant director of financial institutions and business liaison office

Assistant Director Dan Smith began with an overview of the role of his office, which is to coordinate communication between the Bureau and industry groups. Assistant Director Smith explained that the approach of the office is to hear from all sides of industry and ensure that all areas are represented. The office plans to have one staff member to advocate for small institutions.

Payday Loans and Deposit Advance Product White Paper

Katherine Samolyk, senior economist, Research, Markets, and Regulations

Research Economist Katherine Samolyk began by telling the group that [The Payday and Deposit Advance White Paper](#) is the first step in an empirical investigation into two small-dollar products being offered to consumers:

- Store front payday loan options and
- Bank products, which require a fee up front in proportion to the amount borrowed. (The bank decides customer eligibility. Funds are automatically paid back with the next deposit.)

The White Paper analysis looked at twelve (12) months of loan use; who had a loan and the outcome; and source of income and frequency. Outcome showed high fees in relation to amount borrowed. These findings are substantively consistent with what other research shows, but more research is necessary.

A Deposit Advance Product (DAP) has been available for about two (2) decades. DAP users, to our understanding, are heavy debit card users, have low average balances and are more likely to incur overdraft transaction fees. DAPs often include APRs over 200%, which raises concerns. The conclusion is that there is a lot more to look at.

CUAC comments and questions

- A CUAC member asked if Deposit Advance Products (DAP) are 100% banks. CFPB staff responded that DAP are 100% banks. It is important for the Bureau to know what the parameters of financial institution programs are.
- A CUAC member stated that they would like to see the Bureau acknowledge that there are “bad” loans and provide a list of other loans that actually help people.
- A CUAC member stated that the payday alternative program they offered has unique characteristics built in including a built in savings. The CUAC member expressed concern over policies that may not take into consideration the value that Credit Unions bring to consumers in offering these alternative products.
- A CUAC member suggested that the Bureau should look into mobile platforms and keep the rules simple.
- A CUAC member stated that historically credit unions have not weighed the cost to make small dollar loans when choosing to offer small dollar products. They have offered these products for their members’ convenience and benefits. If there is a regulatory framework coming, credit unions need to look at what the costs are to make small loans.
- A CUAC member stated that credit unions work with customers to sort through all the checking accounts and ACH files as a review of transaction activity. Credit unions let the customer know when they qualify for another lower cost product.
- A CUAC member enquired whether ability to repay would be a factor to reduce processing costs. CFPB staff responded that with the Deposit Advance product, institutions have the ability to see the potential of the customer’s ability to pay. Because financial institutions know the history of the customer, they can assist with control of the account. CFPB staff also acknowledged that different institutions might not have the same cost structure.
- A CUAC member remarked that the way loan terms are set up now, and the way payday loans are structured, there is a disaster waiting to happen. The same CUAC member suggested it would be better to extend the payback time for payday loans.
- A CUAC member stated that they do not do any underwriting for the short-term product they offer because of the relationship they have with the member.
- A CUAC member stated that payday lending products often gets some credit union members into trouble, because the credit union member often has an existing installment loan and alongside the payday loan.

- A CUAC member asked whether there is a time frame for development of regulations. CFPB staff responded that there is no specific time frame for rulemaking.

Ability to repay and Qualified Mortgage Rule

Kelly Cochran, assistant director for regulations

The time frame to adopt the Qualified Mortgage Rule was January of this year. This was not accomplished because of hard issues and complexities. We needed more time with fees and points. There were administrative constraints out of our control. There are still specialty pieces to consider:

- How would the rule affect charitable organizations, such as Habitat for Humanity?
- What effect will the rule have on jumbo loans in areas with high property values?
- How will the balloon loan payment exemption for rural and underserved areas be implemented?
- What is the process for securing safe harbor eligibility?

We hope to finalize sometime this summer, possibly late June. Finalizing the rule will hopefully ease the burden for mortgage lenders and smaller institutions.

CUAC comments and questions

- A CUAC member suggested that some financial institution loans imploded during the financial crisis because of irresponsible lending. The same CUAC member asked if Bureau staff knew if this happened with any credit union. CFPB staff responded that they are not aware of any specific instances of irresponsible lending in a specific credit union; however, the Bureau addresses issues the same across all markets.
- A CUAC member expressed concerns that under the Bureau's recent mortgage rules, if there is a foreclosure, the defense could be that it was not a qualified mortgage.
- A CUAC member asked whether in the Qualified Mortgage rule there is an offset of three months of income. A CUAC member asked how would the NCUA look at the qualified mortgage rule. CFPB Staff responded that the rule would go into effect in January 2014 and that there will be training and guidance for CFPB examiners as well as examiners at other regulators. The Bureau is working closely with other regulators to ensure that there is a common understanding and framework for application of its rules.
- CFPB staff encouraged CUAC members to continue to bring their concerns to CFPB staff; Bureau staff is widely accessible and the Bureau has set up a hotline and email address for inquiries about the mortgage rules.
- A CUAC member asked if there is a benefit to credit unions doing a cost analysis of small dollar loans and payday loans. CFPB staff responded that there is a benefit to this analysis. The Bureau could benefit from additional information about the products offered by credit unions. A CUAC member stated that payday loans were once not as rampant as they are today. Many credit unions understand that they won't make money on the product, but offer it nonetheless as a service to customers.

The discussion concluded with staff emphasizing the desire to continue the conversation with the Council. Staff agreed to follow up with Council members on questions raised in the discussion and to share additional information requested. Staff also encouraged council members to share more about their individual models and to do so by sending an email to CUAC@cfpb.gov.

Adjournment

CUAC members provided feedback on the format and content of the current meeting, and the meeting adjourned at 3:00 p.m. EST.