Credit Union Advisory Council Meeting

March 8, 2024

Consumer Financial Protection Bureau

Meeting of the CFPB Credit Union Advisory Council

The Consumer Financial Protection Bureau's (CFPB) Credit Union Advisory Council (CUAC) met via WebEx at 1:00 p.m. eastern on March 8, 2024.

Council members present	CFPB staff participants
Credit Union Advisory Council	Director Rohit Chopra
Chair Shawn Wolbert	The Honorable Tanya F. Otsuka, Board Member, National Credit Union Association
Sharon Grieger	Kim George
Andy Grimm	Manny Mañón
Kimberly Jones	Wei Zhang
Chad LaFlash	Amy Zirkle
Floyd Rummel	
Suzanne Weinstein	

Welcome

Director Rohit Chopra
The Honorable Tanya F. Otsuka
Kim George, Outreach and Engagement Associate, Advisory Board and Councils, External Affairs Division
Shawn Wolbert, Chair, Credit Union Advisory Council

The CFPB's Advisory Board and Councils Outreach and Engagement Associate, Kim George, convened the Credit Union Advisory Council meeting and welcomed committee members and the listening public. She provided a brief overview of the meeting's agenda, touched on housekeeping items, and introduced Director Rohit Chopra.

Director Rohit Chopra welcomed the newest board member of the NCUA, Tanya Otsuka. He then gave an overview of the trillion-dollar credit card market. Though credit unions are a small slice of the market as a whole, he wants to think about creating more competition by providing more credit card options to consumers, which would include credit unions and other small financial institutions. The top credit card issuers dominate 95 percent of the market. An analysis of industry data revealed that large banks charge annuals fees and 30 percent or more higher interest rates, 8 to 10 percentage points, than small credit unions and banks on average.

CFPB recently issued a final rule which narrows exemption for the largest credit card issues when it comes to late fees. A CFPB analysis did not find credit unions or small financial institutions build a core part of their business models on late fees, and so they will not be affected by the final rule. The major issuers charged their customers $105 million in interest by raising interest rates to the highest point in recent history, whereas credit unions were offering rates even below the 18 percent cap under the Federal Credit Union Act. Despite large issuers offering worse terms, they are maintaining a lot of their dominance.

In 2014, about half of the larger companies stopped sending consumer payment information to consumer reporting companies, which increased the cost for competitors' ability to offer solicitations for switching, refinancing, or balance transfer. CFPB is going to develop a data set and consumer-facing tool that will bring in more price transparency, which will help the smaller issuers competitively and make it easier for consumers to switch to a lower rate or a better deal. Director Chopra introduced NCUA Board Member Otsuka, and he said he wants CFPB, NCUA, and CUAC to coordinate collaboratively on examinations and policies.

Board Member Otsuka said though the economy is doing well overall, there is still concern for many working families struggling with increase costs of basics, like groceries and housing. She said the CFPB data found that credit unions offered some of the lowest interest rates, which will really benefit not just consumers but give credit unions a competitive advantage. On core service providers, she said that the NCUA, other financial regulators, and small credit unions are concerned about the cybersecurity challenges, which requires the external pressure of adopting new technology to compete with the banks and fintech. Third-party service providers can cause problems for credit unions and their members. Board Member Otsuka said the views expressed are her own and not that of the NCUA.

Credit Card Competition Discussion

Following opening remarks, CUAC Chair, Shawn Wolbert welcomed attendees and moved into the first session of the day on Credit Card Competition. The Chair said that the research shows credit cards' balances have increased in the last few years for credit unions and other financial providers as the availability of credit has increased. The Chair expressed that the length of relationship is a big part of one's credit history and credit score, which is why it's hard to get people to shop for a better credit card to use for their financial needs.

Director Chopra said there are two barriers affecting why people do not switch, existing outstanding balances and challenges of credit unions enter the credit card business. CFPB needs to understand the regulatory impediments affecting credit unions.

A member shared that out of their 350,000 credit union members, about forty percent holds a credit card with the credit union. The member said that his credit union does have instant card approvals inside its branches, which is an attractive feature, and that the strategy is around a full product relationship with a checking lead. The member shared that the credit union has had an influx of college students every fall, but only five percent of members are college students, and sixty percent are millennials or Gen Z. Director Chopra mentioned this credit union has an affinity relationship with the university.

The member responded and said that the credit union offers a good self-service product with its own app, which is FIPS-enabled and SAP-to-pay. The UW Credit Union is the first Wisconsin-based institution to have an online banking platform since 1995, and it is developed in-house.

Board Member Otsuka asked why their customers decide to switch to one of the top six issuers.

The member replied that it is almost always about technology and sometimes the ubiquity of the branching network.

Director Chopra said the omni-channel providing a variety of ways to interact with their financial institution is key.

A member stated that at her institution it does everything credit card related and from a rates perspective it offers better rates, to include a five percent cashback on some cards. The member feels that the struggle is that the credit union doesn't have marketing dollars to advertise credit card products with low rates, however, they are looking into popups on the credit unions website and social media apps to help in this area.

A member shared that at his credit union the loan portfolio is five percent credit cards and thirty percent consumer loans. The member feels that reward programs are one of the main drivers seen to attract consumers. The member said that at his credit union there is more of a focus on mortgages. The member said that balance transfer is one way they attract new business.

A member commented that at her credit union there has been a decline in their credit card portfolio. The member mentioned that there is a big concern with fraud, and working through that when a card is compromised is challenging and troublesome for the members. The member shared that the credit unions technology is limited, and getting on comparison websites is not only costly, but the algorithms favor larger institutions.

Director Chopra said that the CFPB is worried about some of the marketing around points and the consumer actually trying to redeem the points that they cannot, and there is a pretty substantial number of forfeited rewards. Mr. Zhang said rewards is a marketing tool for many national brands, and many times people chasing for rewards end up revolving on their accounts and paying interests, costing them more than rewards earned. It is a key area that has been a focus for the CFPB, and more research is needed. He also said most comparison shopping sites are largely represented by the largest issuers. CFPB offers a free tool where people can see hundreds of products specifically on APRs by different credit tiers. Board Member Otsuka said the big issuers charging the higher interest rates can offer the rewards, whereas the credit unions charging lower interest rates find it more difficult to compete.

A member said that at her credit union they do offer credit cards to existing members as a convenience by do not do a lot of in term of acquisition for new credit card applications.

A member stated that at her credit union they want to make good underwriting decisions to help members long term in their financial well-being without causing any negative impacts to the members credit.

Director Chopra said credit scores of consumers being lowered due to closing credit card accounts is an area of concern and a lower score is a deterrent for consumers to shop around.

Director Chopra mentioned that digital technologies are on the rise as far as open architecture, and more research is needed in the tap-to-pay area. He said wearables and single-use devices will be convenient to consumers and may replace the use of plastic cards. CFPB is going to look into balance transfer fees and rewards in an effort to help small to mid-size institutions to be able to offer unsecured credit and giving options to their customers.

Core Service Providers Discussion

Chair Wolbert kicked off the second and last discussion of the day on Core Service Providers. The Chair mentioned that at her credit union the core provider had to be changed due to the fact they were not meeting the regulatory requirements within the system and that the process or change took a year. The Chair said that most core providers do not meet GAAP requirements as far as FASB-91.

Director Chopra said CFPB has been interested in core providers for a host of reasons. In the shift to digital services, there is going to be a need to leverage technology and relevant infrastructure support which will require support and enablement by vendors. But if there's only a handful of vendors, there is less flexibility to design and employ new service offerings and products. The ability to have appropriate leverage to ensure regulatory compliance gets compromised. Cybersecurity resilience is now an increasing issue with cloud service providers and other technology infrastructure. He said there is common concern about these matters with the CFPB and NCUA.

A member shared that his credit union is very small, about 11,000 members and $150 million in assets. The member said a major limitation for his credit union is when the core system is not nimble and flexible, and the core processes charge unexpected additional fees after they get on board. The member expressed that oversight in regulations would be very helpful.

Director Chopra said that the CFPB has been looking into the downstream effects related to representment with core providers. He mentioned a concept known as "multi-homing," where multiple devices can access different things. With core providers, you basically have only one, and if you cannot easily switch, you have no leverage.

Board Member Otsuka agreed and said that the problem is that it runs across the financial services industry, and it is particularly important for smaller institutions that don't have that leverage. It is important not just from a consumer protection standpoint but for a safety and soundness standpoint for core providers to be complying with the regulations.
A member stated that core providers do not give the same attention to smaller credit unions like his, and core providers could take as long as 18 months to two years to get the products developed.

The Chair said that buying power plays a role in how they are treated by the core providers.

A member stated that you can customize, but you have to be of a size to do it and have programmers in-house. The member said that the larger systems have the advantage because of customization ability. The member commented that regulation compliance cannot be customized for fear of litigation, and that is left to the vendor. The member feels that another trend that is going on is not being able to host the systems in-house and finding the talent needed to run old programming language is a difficulty.

A member commented that artificial intelligence (AI) lending with a fintech has been helpful and saves time and it has increased their lending business threefold without having to employ new people. The member shared that it allows loan officers and underwriters to spend more time working with consumers that have challenged credit. The member also said that AI removes bias in underwriting compared to humans.

A member said that until there is a force stronger than the current participants in the industry to say a standard format and integration is needed, they will be paying everyone who touches the data for integration and then paying maintenance fees for everyone who touches the data, unless they grow larger and can bring an in-house group of coders in to manage their own process.

A member replied to the previous comment and agreed that there is a talent drain which is also slowing things down.

The Director excused himself from the meeting and thanked the members, Board member Otsuka, and the listening public for their attendance.

Board Member Otsuka asked if the members' institutions had APIs in place for their customers or if it may still be a work in progress.

A member responded by saying that at his credit union they have installed and built a lot of them, but he said there is a need from regulators to help with standard setting for those interfaces.

The Chair mentioned that when asking their core providers to do certain projects in regard to APIs, they are not willing to help them get the technology they need and say that her institution will not be able to afford getting it done, which stops the conversation. The Chair said that her credit union has invested six figures to hiring a company to build an API with another outsources provider, but it was not successful.

Board Member Otsuka asked if any member has experienced a data breach or a core service providers' operations go down temporarily, and she wanted to know what the response time has been and how it affected members.

A member commented and said that she has not had that experience, but what her credit union struggles with is regulation and representment, and the only way to address it is to manually review all of the transactions.

The Chair mentioned having experienced its core going down for more than a week at one point, which was an interruption of service to all of the members. When the core does go down, the credit union has to hand-write all transaction processes.

The Chair asked the Council members if there were any issues as far as product development or product deployment in addition to API.

A member commented that her core is available to offer products and services to members, and they are going to redesign their checking products this year. The member feels like they have been innovative in terms of products and services, but they don't want to comply with regulations.

The Chair asked if the core works with the members' institutions to build the credit union and help them be successful in serving the memberships in the community.

A member commented that it depends on the size of the credit union, as there is a fee for design and implementation, and it is not a small cost.
A member said that because it's a company that owns multiple core platforms, they are not supporting the one they have, and the credit union is on its own as far as innovation and finding the talent needed. The member mentioned that the core will not develop anything for them.

A member commented that especially with mortgage escrowing and dealing with different amortization schedules, the core may say theirs is only at a certain level and advised them to explore other options or partners that they may have. The member believes this is why the fintechs have exploded in numbers because there are limitations with cores. The member expressed that rarely do you find a core good at everything.

A member said that the biggest limitation is commercial services, and his credit union has two cores, one devoted to commercial, and one devoted to retail.

A member mentioned that she too has two core processes, one for commercial and one for consumer, but they don't talk to each other, nor does it talk to their customer relationship management (CRM), which is challenging. The member expressed concern about members' information being protected when having the core information shared on the CRM platform.

The Chair agreed greed that the cores and CRM not communicating is more like a brick wall than a hurdle.

The Chair asked the Council members how core providers have helped members' institutions be successful with its members.

A member said that her credit union owns their core providers, so there is more flexibility.

A member replied and said that his credit union is happy with the core provider they have, but he thinks it's size driven to some extent, the fact that they are able to customize.

A member commented that his core provider is extremely stable, and his credit union has not had a downtime experience since 1992.

The chair asked a question about cybersecurity and how Council members are dealing with it at their institutions.

A member said that at her credit union it is taken very seriously and is taken with a layered approach, with a lot of tabletop exercises, external exams, and audits.

A member shared that at his institution it is always orienting its employees immediately about the dangers that exist, and their CISO does new employee cybersecurity training.

A member shared that her employees and members are the first line of defense against phishing, smishing, and vishing. The member said that the credit union has information on the website and go into the branches one day a month with cybersecurity and fraud teams. The member added that multi-factor authentication (MFA) is an important security tool that is utilized.

A member said that at her credit union shred days are offered at branches where members can come in and shred all of their personal documents, and when employees are traveling out of the Country, there is no ability to access any information on the credit unions system.

A member commented that she notices that many seniors respond to the cybersecurity education, but she also added that the older population are the most vulnerable.

The Chair mentioned that consumer education is important to advise members to not answer an email or a text or someone reaching out to get information from you, which is hard for the elderly population.

Closing

In closing comments, Board Member Otsuka said that she appreciated the opportunity to participate and hear the perspectives, which helps to keep everyone more informed on how to make sure goals are being met to keep the system safe and sound and that consumers are protected.

Bureau staff members Ms. Zirkle and Mr. Zhang thanked the Council members for sharing their perspectives, observations, concerns, and wisdom.

External Affairs Associate Director Angela Hanks thanked the members for their attendance and feedback during the meeting and the ability to meet everyone in-person. She thanked Board Member Otsuka for her attendance, and those that listened in from the public.

The Chair thanked the members, the Director, Board Member Otsuka, and Bureau staff for the ability to have been given the opportunity to have these discussions in-person.

Adjournment

The meeting adjourned on March 8, 2024, at approximately 3:30 p.m. eastern time.

Certification

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Manny Manon

Manny Mañón, Staff Director, Advisory Board and Councils, External Affairs Division, Consumer Financial Protection Bureau

Shawn Wolbert

Shawn Wolbert, Chair
Community Bank Advisory Council