



Kansas Department of Credit Unions

KDCU Newsletter

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NEW FIELD OF MEMBERSHIP STATUTE PROPOSED

SB 535 would enact new law and amend existing statutes governing field of membership (FOM), mergers and branching of credit unions. Text of the bill is on the internet at <http://www.kslegislature.org/legsrv-bills/index.do>. Here is a summary of the proposal:

Branches

Credit unions would be required to submit an application for a new branch location and receive the approval of the Administrator. The notice to apply for the branch must be published in a newspaper of general circulation in the county where the applicant proposed to locate a branch. The Administrator may hold a public hearing for applicants with a CAMEL 3, 4 or 5 rating.

Field of Membership (FOM)

The bill would allow a credit union to include multiple common bonds of occupation or association. The bill would specify that, except as provided in the exceptions outlined below, from and after July 1, 2008, no approved geographic area shall consist of any congressional district or the entire state of Kansas. The geographic area, in general, may include a single political jurisdiction or multiple contiguous political jurisdictions, until the aggregate total of the population of the geographic area reaches 500,000. If the

headquarters of the credit union is located within an MSA of more than one county, a different maximum population limit would apply. That limit would be determined by a formula: multiply the population of the most populous MSA within Kansas (i.e., the population of the Kansas City MSA counties within Kansas) by the fraction having 1 million as the numerator and 750,000 as the denominator. Current population numbers would be those of the adjusted federal census information presented to the Legislature by the Secretary of State.

The bill would require changes to certain current geographic FOMs:

◆ A credit union with a statewide FOM would be required, before January 1, 2009, to adopt a FOM of contiguous political jurisdictions with an aggregate total population not to exceed 1.0 million. A credit union whose headquarters is not in a county that is part of an MSA may not include more than one MSA in its new FOM.

◆ A credit union whose headquarters is located within an MSA as of February 1, 2008, could continue its FOM if that FOM includes multiple contiguous political jurisdictions with an aggregate total population of not more than 1.0 million. If the total population of its political jurisdictions exceeds 1.0 million, the credit union will be required to change its FOM by January 1, 2009. The population of any county where a branch not located within

the newly adopted FOM is located would not be included in the 1.0 million population total.

◆ A credit union whose headquarters is *not* located within an MSA as of February 1, 2008, could continue its FOM unless its FOM includes multiple contiguous political jurisdictions having an aggregate total population exceeding 1.0 million. If the total population of its political jurisdictions exceed 1.0 million, the credit union will be required to change its FOM by January 1, 2009. The population of any county where a branch not located within the newly adopted FOM of the credit union is located would not be included in the 1 million population total. A credit union whose headquarters is not in a county that is part of an MSA may not include more than one MSA in its new FOM.

The bill would require a credit union that wanted to change its FOM to file an application with the Administrator and to furnish proof of publication in the *Kansas Register* related to that application.

Exceptions

In general, credit unions will be allowed to continue to serve current members and groups.

Mergers

The bill also amends two existing statutes governing merger procedures to allow for emergency mergers.

From the Administrator...

New Legislation

Today Monday March 24 SB 535 will be heard by the Kansas House Insurance and Financial Institutions Committee. It appears new legislation will be adopted by the 2008 Legislature that will change how KDCU implements FOM changes, mergers and branching. Of immediate attention are the 9 credit unions whose FOMs must be re-configured prior to January 1, 2009.

KDCU requests your forbearance as new application forms and procedures are developed and implemented. Credit union boards of directors and managers must carefully consider adoption of the

FOM that will 'best' serve their membership.

Working together we can address the challenges ahead.

Economic Conditions

Did your credit union anticipate and plan for the current economic conditions? Is your management team appropriately protecting you members interests? The warning signs are not new, as regulatory agencies and the media have discussed the economic stressors of sub-prime lending for years. The issues did not simply develop in 2007.

How could current economic conditions affect your credit union? Credit unions could see a decrease in profitability due to charge offs,

and/or a decrease in fee income. Classified loans could increase.

Credit unions appear to not be a part of the crisis in our nation's financial organizations. Continuation of following basic financial and management practices will serve credit union members during these times.

Credit unions should use these economic times to expand their membership as other lenders are finding it difficult to make loans.

Boards of directors must determine their credit union's tolerance for interest rate risk. Rates must be continually monitored. Please refer to our bulletin 2007-KDCU-CUB-08 Interest Rate Risk.

Council Appointments:

Governor Sebelius has reappointed Lee Williams, Central Star Credit Union and Denise Bonner, Wakarusa Valley Credit Union to a second three year term on the Council and appointed Sue Henke, a public member, to a three year term.

Bulletins Issued:

January 30, 2008 2008-KDCU-CUB-01 Elimination of the CAMEL Matrix.

February 26, 2008 2008-KDCU-CUB-02 Fourth Quarter 2007 Call Report Statistics

March 14, 2008 2008-KDCU-CUB-03 Field of Membership Bylaw Amendments

CREDIT UNION COUNCIL MEETS

The Credit Union Advisory Council met on March 20, 2008 as required by statute. Council members present were Garth Strand, Chair, Mark Kolarik, Vice-Chair, Gary Regoli, Lee Williams, Gilbert Benton and Sue Henke.

The Council reorganized electing Garth Strand as Chair, Gary Regoli, Vice-Chair and Mark Kolarik, Secretary.

The Council received several reports:

- ◆ KDCU personnel update
- ◆ Credit union status reports
- ◆ KDCU financial reports
- ◆ The Administrator reported if SB

535 becomes law, the vacant examiner position will be filled and credit union fees which have not increased in over 20 years, may increase slightly this year.

- ◆ Reports from the Kansas Credit Union Association and the Kansas Corporate Credit Union.

The Council extensively discussed SB 535 and steps required for implementation.

The Council discussed the current economic conditions, their effect on credit unions.

KDCU staff reported that data tends

to indicate the current sub-prime mortgage crisis has not affected Kansas credit unions. Council members reported a general slow down in the ability to sell mortgages on the secondary market.

The next meeting of the Credit Union Advisory Council is scheduled for June 19, 2008. The seven-member Council is appointed by Governor Sebelius to advise the Administrator on issues and needs of credit unions. Credit unions are invited and encouraged to attend Council meetings.

Kansas Department of Credit Unions Staff

- John P. Smith, Administrator
- Dick Yadon, Financial Examiner Administrator
- James Klausen, Financial Examiner Principal
- Valorie White, Financial Examiner Principal
- Michael Baugh, Financial Examiner Principal
- Jonathan Hankin, Financial Examiner

- Christopher Taylor, Financial Examiner
- Tana Hoffman, Financial Examiner
- Billy Vardaman, Jr., Financial Examiner
- Cheryl Bishop, Administrative Specialist
- Freda Chabira, Administrative Specialist