



# Kansas Department of Credit Unions

## KDCU Newsletter

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### THIS ISSUE AT A GLANCE

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## LPA RECOMMENDS COMBINING AGENCIES

Legislative Post Audit (LPA) staff on September 17 presented their performance audit *Financial Regulatory Agencies in Kansas: A K-Goal Audit Determining Whether functions Could Be Combined To Gain Cost Efficiencies* to the Legislature's Post Audit Committee. The report reviewed the current structure, staffing, budgets, missions, revenues and expenditures of the Department of Credit Unions, Office of the Bank Commissioner and the Office of the Securities Commissioner, and compared the Kansas regulatory apparatus with other states. Among the recommendations in the report were:

- combine the securities, banking and credit union agencies;
- reduce the frequency of examinations of credit unions with good CAMEL ratings to once every 18-months;
- eliminate unnecessary travel;
- ensure that banks and trusts are examined once every 18 months; and
- bank examiners work from home eliminating branch offices.

Through implementation of these and other recommendations the report suggests a savings of \$555,000 might result.

The written responses to the report from the three agencies are included at the conclusion of the report.

The KDCU response is summarized below:

- LPA fails to acknowledge significant differences exist in the structure of credit unions and banks. In states where the agency regulates both credit unions and banks, the statutes, regulations and examinations are usually separated. The credit union regulatory functions are also usually separated negating most of the cost or efficiency advantage that is assumed by LPA in their report.
- Credit unions are structured as financial cooperatives, each with a volunteer non-paid board of directors and committees. Membership is limited to a clearly defined "field of membership" which is limited by state statute. Credit union earnings go first to payment of expenses, then to building capital (net worth), and then to return of earnings to the member owners as dividends. Credit unions only build capital from earnings. Each member has one vote in electing Board members and in conducting other business. Service to the members (members helping members) is the credit union business model.
- Banks are investor-owned, for profit institutions, which issue stock and thus are responsible to their stockholders. Banks are capitalized from issuance of stock and thus can grow capital by issuing additional stock.
- Credit unions are smaller in asset size; loans are primarily consumer loans. If a few poor quality loans become delinquent, the financial

future of the credit union can change rapidly, necessitating examinations that are more frequent than 18-months.

- The NCUA administers the NCUSIF, which provides the \$100,000 per account insurance for credit union members. The FDIC provides deposit insurance for banks and savings and loan institutions.
- The relationship of KDCU with NCUA is different than OSBC with the FDIC. The FDIC examines state banks. NCUA does not examine Kansas chartered credit unions. NCUA teams their examiners with KDCU examiners when an insurance issue with a Kansas credit union is identified. KDCU examiners are in charge when joint examinations occur.

In summary: though it is a commonly held notion that consolidation will always bring "cost efficiencies," what is often overlooked is the result on mission effectiveness. Most cost savings are achieved by cutting back the mission and objectives to a greater or lesser degree.

Kansas credit unions who fund KDCU need the specialization and focus of "their" agency on credit unions. The fundamental difference of credit unions—their cooperative structure, field of membership limitations and limited ability to raise capital—does not lend itself to consolidation with banking and securities agencies. The complete report is at <http://www.kslegislature.org/>

### Reporting of Suspected Financial Abuse or Exploitation

Financial institutions are required to report suspected financial abuse or exploitation to the Kansas Social and Rehabilitation Services within 6 hours during normal work days of receiving the information or to law enforcement agencies during the time social and rehabilitation services are not in operation (K.A.R. 39-1431).

Kansas Attorney General Six suggests that it would be helpful to know:

- Time, date, name of member and the nature of activity that is causing concern
- Apparent demeanor of member

(apprehensive, defensive, withdrawn, etc.).

- Name of companion if one accompanies the member, and physical description of companion. What is the relationship of the companion, and do they dominate in the decision process of the transaction.

- A general description of account activity that indicates potential financial exploitation of the member (for example, changes in the size or types of transactions).

- Are other family members aware of the concerns?

- If available, provide surveillance video of transactions or subjects.

- If documents were notarized, provide a notary log (if available) or

recollection of notary that could provide insight into transaction.

- Was member oriented to time and place, and why the member was at the credit union?

Reports can be made by calling 1-800-922-5330.

#### Bulletins Issued:

- ♦ August 29, 2008 KDCU-CUB-8 Preparing a Field of Membership Application

- ♦ August 26, 2008 KDCU CUB-7 Second Quarter 2008 Call Report Statistics

- ♦ August 14, 2008 KDCU CUB-6 Information for Use in Preparing a Change in Field of Membership Application

### From the Administrator

The LPA Report recommending the consolidation of securities, banks and credit union regulation is in my opinion flawed for several reasons. In 1979 a similar recommendation was made without the Legislature taking action. If the Legislature heeds the comments in the report from the three agencies studied, no action will be taken. Credit unions should be vigilant and be ready to inform legislators of their opinion about the report if the Legislature does initiate action on the recommendation to combine agencies.

## CREDIT UNION COUNCIL MEETS

The Credit Union Advisory Council met on September 17, 2008. Council members participating were Garth Strand, Chair, Lee Williams, Vice-Chair, Mark Kolarik, Secretary, Sue Henke, Denise Bonner, and Jim Holt.

The Council received several reports:

- ♦ KDCU personnel and training update
- ♦ Update on implementation of SB 535
- ♦ Credit union status reports
- ♦ KDCU financial reports
- ♦ Reports from the Kansas Credit Union Association and the Kansas Corporate Credit Union.

Financial Examiner Administrator Dick Yadon reviewed the proposed FY 2010—2011 budget that has been submitted to the Governor's Office. No increase in credit union assessments are anticipated.

The Administrator reported the Legislative Post Audit Report concerning efficiencies that might result from combining securities, credit union and banking regulatory agencies is embargoed until it is reported to the Legislative Committee on September 18. After release the report will be on the Legislative Post Audit web-site at <http://www.kslegislature.org/postaudit/>.

The Administrator reported that with the implementation of the Kansas Tax payers Transparency Act (KanView) revenues and expenditures of state agencies are now available at <http://www.kansas.gov/kanview/kanview.html>.

The next meeting of the Credit Union Advisory Council is scheduled for December 4, 2008. The seven-member Council is appointed by Governor Sebelius to advise the Administrator on issues and needs of credit unions. Credit union members and officials are invited and encouraged to attend.

### Kansas Department of Credit Unions Staff

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