Credit Union Advisory Council

September 1, 2016

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 in person at 8:30 a.m. on September 1, 2016. The meeting was held at the CFPB Headquarters located at 1275 First Street, NE, Washington, D.C.

Board members present	**CFPB staff present**
Robin Romano, Chair	CFPB Director, Richard Cordray
Daniel Berry, Vice Chair	Julian Alcazar
Gail L. DeBoer	Elena Babinecz
Robert C. Donley	Mary Kate Binecki
Patrick F. Harrigan	Michael Byrne
Gregory W. Higgins	Matt Cameron
Richard Ledezma	Paul Ceja
Faith Lleva Anderson	Pedro De Oliveira
Sarah Marshall	Crystal Dully
Dayatra T. Matthews	Alan Ellison
Amy Nelson	Delicia Hand
Carrie L. O'Connor	Grady Hedgespeth
Thomas J. O'Shea	Timothy Lambert
Katey Proefke	Sheila Lee
James E. Spradlin	Sunaena Lehil
Raynor Zillgitt	Emmanuel Manon

	Diego Marcogliese
	John McNamara
	Kristin McPartland
	Patrick Orr
	Janneke Ratcliffe
	Patricia Scherschel
	William Wade-Gery
	James Wylie

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Welcome and agenda overview

Richard Cordray, director, Consumer Financial Protection Bureau

Delicia Hand, staff director, Advisory Board and Councils Office

Robin Romano, chair, Credit Union Advisory Council

Chair Robin Romano called the Credit Union Advisory Council (CUAC) meeting to order on September 1 at 8:30 a.m. Chair Romano welcomed the new and returning members of the Council, and explained the changes in committee structure and leadership since the last CUAC meeting. She thanked the CFPB staff for their work in preparing the discussion materials and presentations for the meeting, and advised Council members to direct questions and comments to them. Following Chair Romano's remarks, Director Cordray welcomed the CUAC and expressed his appreciation for its work. He invited Council members to raise any comments or concerns they have about their industry, and said he was looking forward to hearing their thoughts on recent and upcoming CFPB initiatives. Director Cordray reviewed the agenda for the open and closed portions of the day's meeting. Staff Director Delicia Hand thanked the Council for its efforts and updated the members on the work the committees and CFPB have completed since the last CUAC meeting. Council members introduced themselves and provided brief overviews of their respective financial institutions.

Committee Breakout Sessions

Gail DeBoer, chair, Card, Payment, and Deposit Markets

The Card, Payment, and Deposit Markets Committee was brief by Markets team in the Division of Research, Markets and Regulations. The Markets team monitors market trends, and serves as a client service part of the Bureau, advising offices on policymaking, enforcement, and supervision among other duties. In the policymaking sphere, the markets team gauges reaction to proposed and implemented rules, and serves as an early warning mechanism. The presentation ended with a discussion of the various waiver programs that CFPB offers businesses to test new ideas and programs, and how the Bureau hopes participation and knowledge of these programs to increase.

Next, the Committee discussed major issues credit unions face with vendors in the cards and payments area. Outside vendors provide helpful products for consumers, but they often dictate the terms of the relationship and retain the information they collect. CFPB staff asked if credit unions could develop these products themselves. Committee members agreed that it would be time-consuming and prohibitively expensive.

CFPB staff asked the Committee members about their experience with the new EMV chip cards. Several committee members responded that while the cards hold the promise of increased fraud prevention, the benefits are yet to be fully seen, and that instances of card fraud are actually up. Credit unions are finding new ways to combat fraud, and although rolling out new cards in the wake of security breaches is expensive, the anticipated benefits should make the programs worthwhile. The meeting ended with a discussion about what role new purely electronic forms of payment will play in the near future.

Carrie O'Connor, chair, Consumer Lending Committee

The Consumer Lending Committee was briefed by the Bureau's Student Lending Program. The student lending market is split into two parts: federal and private loans. The Bureau has regulatory authority over private loan lenders and the servicing of both private and federal loans. In studying these markets, CFPB staff has discovered that private lending is increasing while origination by banks and credit unions of federally guaranteed loans ended in 2010 and that credit unions are becoming an increasingly important source of private loans.
In addition, private loans are evolving on their own away from the federal versions upon which they were originally based, and are now offering new platforms and technologies. The Bureau is interested in looking further into the role that credit unions play in this market and what forms private loans are starting to take.

The conversation transitioned to a question and answer session with CFPB student lending staff. Several committee members explained the methods their credit unions use in helping students understand the loans to which they're signing, and in how to ensure they keep up on their payments after graduation. The meeting ended with a discussion on the committee's topics of discussion for upcoming meetings.

Katey Proefke, chair, Mortgages Committee

The Mortgages Committee met with the staff from the Bureau's Mortgage Markets team. CFPB staff and Committee members discussed challenges facing credit unions today and how institutions are coping with the new regulations. If vendors are unwilling to adjust their products for new regulations, the patch is time-consuming and costly. There is some difficulty in knowing where to get the information necessary to understand regulations. Servicing mortgages is also difficult, because this is often done by third party vendors, and the credit union must keep their eye on how their loans are being serviced. CFPB staff asked if the credit unions are prepared for the new HMDA reporting requirement. Several Committee members agreed that it is too early to tell whether the vendors will be fully prepared for when the new reporting requirements kick in. Credit unions are taking on additional costs in anticipation of the new requirements, including hiring additional staff to facilitate the transition and reassessing their relationship with their vendors.

Lastly, the Committee ended their meeting by discussing their steps moving forward and planning what the topic of discussion should be at their next meeting. Committee members suggested that Bureau staff prepare a list of which Dodd-Frank requirements involving mortgages remain. While most of the CFPB rules concerning mortgages have already been implemented, the Committee should focus on providing feedback on pinpointing issues that arise. The Committee decided to schedule more telephone call meetings for the future.

Information Exchange: Working Lunch – Introduction to the Office of Small Business Lending Markets

Grady Hedgespeth, assistant director, Small Business Lending Markets

Alan Ellison, small business program manager, Small Business Lending Markets

Staff members provided an introduction to the Bureau's Office of Small Business Lending. The recent rebirth of the H Street Corridor near the CFPB's headquarters as a vibrant neighborhood commercial district was cited as a good example of the kinds of opportunity the new Office hopes help facilitate with the implementation of Section 1071 of the Dodd Frank Act (Section 1071.) The birth of H St. might have been hastened had a database been in place similar to the one envisioned in Section 1071 to more quickly and accurately point out where there may be gaps in the provision of credit to businesses or lack of equal access. Specifically, Section 1071 calls on lenders of all types to report on applications for credit received from woman-owned, minority-owned businesses and small businesses and to develop a comprehensive database that will assist in the purposes of community development and fair lending. The Bureau is at the beginning of a deliberate process of research, fact-finding and engagement with various stakeholders to better understand the market for business credit and how its present practices and offerings comport with these data collection requirements. This is the first step in a multiyear formal rulemaking process. The resulting database will be an important new resource for researchers and policymakers regarding credit availability and its critical role in the economy.

A CUAC member asked what vision the Office has for the Dodd-Frank Section 1071 database, and how it will compare to the current Home Mortgage Disclosure Act (HMDA) database. While the Bureau will benefit from the learnings of HMDA, staff cautioned that there are many things that distinguish small business lending from mortgages. Several CUAC members echoed this observation and highlighted challenges the Office will face in creating the Section 1071 database, including the need to document these data from online and FinTech lenders, the use of personal credit cards and home equity loans in small business lending, and the challenges of making data reporting as simple as possible for lenders. CFPB staff said it will take at least a year for them to research all the issues involved in database design to meet statutory requirements. The staff reiterated that the Bureau is committed to a full rulemaking process for Section 1071 and will benefit from the input of a wide range of stakeholders in the process.

Information Exchange: HMDA Implementation Discussion

Elena Babinecz, senior counsel, Regulations
Michael Byrne, HMDA technical ops lead, HMDA Operations
Timothy Lambert, senior counsel, Fair Lending and Equal Opportunity
Sheila Lee, regulatory implementation specialist, Regulations

Staff members provided an overview of the technical elements of the CFPB's Home Mortgage Disclosure (HMDA) rulemaking implementation. HMDA is a data collection reporting and disclosure law that was amended by the Dodd-Frank Act, which added new reporting requirements and gave CFPB the ability to require additional information that furthered the purposes of HMDA. The Bureau hopes its efforts will help identify possible discriminatory lending patterns, help it better understand whether financial institutions are serving the housing needs of the communities in which they're located, and assist in distributing public-sector investment so as to attract needed private investment. Part of the new HMDA rule implementation is building an infrastructure for the collection and reporting system to which data is submitted. CFPB staff explained the back-end technology of the new system, as well as the new processes that will reduce burden on both the reporting and collection sides. CFPB will assume operations of the HMDA data collection, maintenance, and reporting beginning January 1, 2018, functions that are currently performed by the Federal Reserve Board. The new system will be web-based, and is expected to increase efficiency and reduce burden, while still maintaining the high quality of the data. CFPB staff provided an overview of how the new system will work. The new system will be open-source, increasing the transparency of the entire process as well as improving compatibility across systems. The internal testing phase will begin in December, with the official release coming in June, 2017.

CFPB staff asked CUAC members how credit unions currently use the HMDA information and what benefits they receive from it. In general, members noted that HMDA data is critical to understanding the current state of local mortgage markets, potential business opportunities, and peer institutions. Some credit unions are not familiar with the on-line tools available on the Bureau's website to access the HMDA data, and that helping financial institutions better understand the usefulness of HMDA data is important. CFPB staff and the CUAC members agreed that conducting several webinars with useful information would go a long way. The Bureau should design the system so that multiple reporting submissions can come from different vendors, but the reporting institution can select the final submission.

Information Exchange: On the Ground Perspectives

CUAC members engaged in a discussion about their observations and experiences in the credit union marketplace. Regarding auto loan refinancing that is implicated by the Bureau's small dollar loan Notice of Proposed Rulemaking, CUAC members discussed specific kinds of auto loans that are covered by the Bureau's proposed rule, and agreed that the refinancing product often provides great value to their credit union members. that the CFPB should carve out an exception for long-term loans for the purpose of refinancing purchase money for a vehicle with no cash out, because these loans are different from title loans. CFPB staff asked members to explain the structures of their relationships with car dealers, and whether they pay flat fees or markups. Several CUAC members explained their relationship with car dealers, and many agreed that it varies from region to region and credit union to credit union. Some CUAC members highlighted convenience problems that arise when customers want to purchase a vehicle, but, for instance, the credit union is closed on the weekend. A CUAC member brought a new leasing tactic to the Bureau's attention: the customer is presented with low monthly payments, but a low cap on yearly miles driven is added to the lease agreement. When the customer exceeds the yearly limit, they are confronted with heavy additional fees.

A CUAC member requested that CFPB consider making an exception for financial institutions where payday loans are not their primary type of lending. Several CUAC members raised concerns with the proposed rule, considering its impact on credit unions affected by economic forces outside of their control.   A CUAC member asked how lenders operating on tribal lands will be affected by upcoming CFPB rules. CFPB staff said payday lending rules will affect the entire market including tribal lenders.

Furthermore, CUAC members discussed credit unions' relationships with vendors regarding regulatory requirements. A CUAC member said that their vendor has been having issues complying with several reporting requirements, but the long process of vetting and eventually switching to another vendor is cost prohibitive. Several CUAC members agreed that any change to the rules, no matter how beneficial, causes market disruption. As such, vendors and reporting staff want to keep changes to a minimum.

Finally, CFPB staff asked the CUAC members for an update on how the Know Before You Owe rule has affected their institutions. Several CUAC members agreed that although new rules have helped, customers still prefer settlement statements, and many will rely on others to understand the majority of their mortgage agreements.

CFPB Credit Union Advisory Council public session

Delicia Hand welcomed audience members to the CUAC public meeting and introduced CUAC members and CFPB staff. Director Cordray addressed the CUAC and members of the public. CUAC Chair Robin Romano provided opening remarks and facilitated the meeting. Janneke Ratcliffe, assistant director, and Sunaena Lehil, senior policy and innovation analyst, both with the Office of Financial Education presented on the Bureau's approaches for helping young people achieve financial capability. Kristin McPartland and John McNamara from the Research, Markets and Regulations Division led the discussion on the CFPB's recent proposals pertaining to third party debt collection. A live-stream video of the session is available on consumerfinance.gov.

Adjournment

CUAC Chair Robin Romano adjourned the meeting on September 1, 2016 at 5:07 p.m. Eastern.

Certification

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

Delicia Reynolds Hand
Staff Director, Advisory Board & Councils Office
Consumer Financial Protection Bureau