Credit Union Advisory Council Meeting

November 16, 2023

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 p.m. EST on November 16, 2023.

Council members present	CFPB staff participants
Credit Union Advisory Council	Director Rohit Chopra
Chair Shawn Wolbert	Manny Mañón
Sharon Grieger	
Andy Grimm	
Kimberly Jones	
Chad LaFlash	
Floyd Rummel	
Suzanne Weinstein	

Welcome

Director Rohit Chopra
Manny Mañón, Staff Director, Advisory Board and Councils, External Affairs Division
Shawn Wolbert, Chair, Credit Union Advisory Council

The CFPB's Advisory Board and Councils Staff Director, Manny Mañón, convened the Credit Union Advisory Council meeting and welcomed committee members and the listening public. He provided a brief overview of the meeting's agenda and introduced Director Rohit Chopra.

Director Rohit Chopra said he wants to have more discussion from council members rather than presentations from Bureau staff because we are in a different moment in the economy now with a different interest rate environment that's having impacts on households. Household financial stability and resilience and how consumers navigate the financial marketplace are a few things already being seen.

He said there are big changes in how much people are borrowing, while unemployment is quite low and wages in the bottom income quintiles have had significant growth. There is more credit card and auto loan debt. Credit card debt is now over $1 trillion that people owe, and last year, a CFPB analysis suggested that roughly $130 billion was paid in interest and fees. Auto loans are over $1.5 trillion, and though credit unions played a big role in helping people achieve their financial goal, there are higher vehicle costs due to the supply chain disruptions during the pandemic. The CFPB has published work on the mortgage market which showed significant reductions in loan originations and refinancing because of the changed interest rate environment. The CFPB wants to understand what's happening at the local and regional levels when it comes to what smaller financial institutions and credit unions are hearing about challenges from their members.

Director Chopra hopes the first session with the new CUAC members will reveal how people are thinking about financial conditions and the economy, where their members are struggling and succeeding, which will help the CFPB prioritize goals. A second area for discussion is the significant change in the marketplace when it comes to payments and payment apps, questions about fraud, particularly sophisticated scams, private currencies, and other ways people will be moving money outside of the credit union and banking system. The CFPB has increased the proportion of supervision going toward non-depository companies and has recently proposed additional supervisory oversight for the largest nonbank payment firms.

Following Director Chopra’s remarks, CUAC Chair, Shawn Wolbert welcomed attendees and provided opening remarks. She said the council appreciates the set of topics laid out to discuss economic conditions and payments. The financial institutions are dealing with changes in the payment structure, which catapulted forward after the pandemic. New technology was adopted quickly to meet members' financial needs at times when people did not leave their homes or could not travel, she said it is important that their information and data is protected.

Discussion Questions on Economic Conditions:

- **How are the households in your community, region, and Federal Reserve District adjusting to higher interest rates on mortgages and consumer loans?**
- **When reviewing the Federal Reserve’s Beige Book, how does the assessment of conditions in your Federal Reserve District compare to your own view?**

- **What is your reaction to the recent increases in outstanding credit card debt? What do you see as the drivers for increasing credit card debt?**
- **What risks do you see on the horizon for consumer and households in your community?**
- **What risks should the CFPB prioritize in 2024?**

A member shared concerns with higher interest rates and the effect it has on credit union members. The member said that in western South Dakota, mortgage generation origination was down 44 percent, but it's down in 2023 on an annualized rate of about 32 percent due to higher interest rates. The member stated that there is a lack of affordable housing, which drives the lack of mortgage originations. The member shared that credit union members are borrowing against the equity in their homes to pay off unsecured credit card and other personal debt. The member mentioned that credit union members are also doing it to make improvements to their homes. The member shared that at his credit union auto loans had seen an increase of 25 percent in 2023.

Director Chopra said this seems a bit faster growth, especially on auto loans in that member's area, than seen in other places, that it's obviously a regional-dependent thing. He also mentioned an increase in closing costs have been noticed and wonders if borrowers are paying points in order to buy down the rate.

A member commented that the average interest rate for a 30-year fixed-rate mortgage is around 7.4 percent, they are seeing low inventory driving up housing prices, and both buyers and sellers are holding out for better circumstances. The member shared that home prices are growing faster in Chicago than any other U.S. city, according to the Case-Shiller Home Price Index, and there has been a slight increase in Self-Help's loan originations. The member said that to spur growth, Self-Help reduced the amount of cash on hand to purchase a home, offers a zero-interest rate down payment and up to one percent on closing costs. The member added that they do not require PMI on mortgages and work with borrowers with a credit score as low as 580.

A member mentioned that housing affordability is a huge challenge in Tucson area, and to address this, Vantage West has created programs around a 40-year mortgage, introduced in July, and down payment assistance. The member mentioned that during the pandemic, folks were saving, but now charge offs are increasing, and to combat this, the credit union is putting financial counselors in every branch to provide budget counseling.

A member shared that her credit union in New York has certified two-thirds of their staff as financial counselors to help their customers.

A member provided an overview of the Beige Book starting with New York. The member said that workforce availability is a problem for both update and downstate New York, putting a strain on businesses. The member said that New York restaurants are closing Mondays and Tuesdays so they can staff during the busiest times.

A member shared that they participate with the Regional Economic Information Network. There is an increase in non-collateral and credit card debt, and they have started to see charge offs in both areas. The member said that bankruptcy as a solution to debt is increasing. The member added that affordable housing is a concern. The member said that manufacturing industry has exceeded tourism in Florida, which will bring jobs and income, but this puts pressure on affordable housing. The member mentioned an area of concern that individuals are using student loans to live on, to make ends meet, which brings a need to work through strategies of financial education. The member added that there has been an increase in debt consolidation. The member said that the escalating rent prices is another challenge. The member expressed that financial literacy and education is important.

A member said that in Madison Wisconsin the market is a little stronger and more robust than regional and national averages. The members said that student loan forgiveness led to some overspending, which involved Buy Now Pay Later providers in the marketplace making it too easy to get into debt.

Director Chopra said there is an increased confidence, especially in some of the lower-income brackets, seen in category spending like travel, entertainment, and dining. There are issues of what choices people are making and what's driving them, and this is where financial education can play a role in helping consumers make sound choices for their financial health.

A member commented that they have seen no mortgage or commercial loan delinquency, but there has been delinquency on the consumer side with auto, credit card, unsecure, and unsecured fixed-rate loans. The member said that repricing risk is on the horizon. The members shared a statistic from the MBF Group which stated student loan, credit card, and auto loan payments are now 4.55 percent of income, and this is only the third time in history since 1959 that it's been this high. The member said that the other two times it happened, it preceded a recession.

Director Chopra said data shows that payment to income ratio for auto has notably increased. The CFPB is looking closely at payment hierarchy to see who's transacting versus who's revolving. He mentioned that the CFPB published research looking at student loan borrowers versus nonstudent loan borrowers on their nonstudent loan obligations, and even during the pandemic pause, student loan borrowers were struggling.

The member stated that property and casualty insurance costs have gone through the roof, with premiums at his credit union insurance agency going up 50 to 100 percent in the last two years, and this adds to the lack of affordability of homes in the region. The member said that the risk mostly centers on the lower-income groups. Director Chopra said cancellations and non-renewals, or premium increases could create stress delinquency and have real implications for resale potentially, but the bigger issue is no insurance at all with mortgage servicers having to do forced-place insurance. This has been an issue in Florida. A member did share good news about having a strong labor market, which is different than some of the main industry peers.

Discussion Question Number Two:

- **What are some of the factors your institution considers when seeking to implement real-time payment solutions like FedNow and Zelle?**
- **What are your customers' expectations when it comes to real-time payments?**
- **What are your institutions experience with customers who use nonbank payment providers like Venmo and CashApp?**
- **For those who are implementing FedNow, are you planning to be "send and receive" or "receive only"?**
- **What are the challenges you and your customers are facing when it comes to real-time payment solutions?**

Several members shared their thoughts on real-time payment solutions. A member said that his credit union was one of the first to implement Zelle due to demand, and the member demographics were right for using P2P solutions. The member stated that due to competition, offering Zelle to members has been extremely successful. The member shared that his credit union is a consumer-only credit union, with no business accounts, so there is no pressure to adopt FedNow solutions at this time. The member said that with 350,000 members, over 50 percent are using the Zelle product, and they have one of the highest adoptions rates in the country but with this, they are competing with Venmo and Cash App and other services. The member said that members are experiencing similar levels of fraud through other services, like Venmo and other apps, it is related to scams and not data breaches or data integrity. The member added that it is an easier means for people to get scammed now digitally. Another member shared that Zelle was implemented in June of 2022 with 1,750 users, and today they have about 46,000 users, however, in the first month of implementation, they lost $48,000 due to fraud. The member shared that total losses to date is $608,000 and to combat this, they leveraged the fee income to find tools and resources to combat fraud. The member added that artificial intelligence has helped in this regard, and the fraud on average that was $60,000 a month has dropped to $4,000. Another member said that her credit union is getting ready to launch Zelle, but an area of concern is the insurance provider has cautioned them to be careful when monitoring fraud. The member added that if fraud escalates, it may involve disabling Zelle to be able to receive any type of electronic crimes compensation from their insurance premium. Several members shared that their credit unions don't offer Zelle due to fraud issues and the insurance concerns; they can't justify the cost, however, they do offer P2P and A2A payment processing through mobile apps. A member shared that Zelle and Venmo is a necessity for competitive reasons and had 30,000 users within a few months. The member feels it is a major part of the industry and definitely requires regulation.

Director Chopra asked about volumes of Apple Pay and Google Pay. A member responded by saying that 30 to 40 percent of his members are regularly using them and the member feels it is a better experience for members and is more secure because they are not handing over credit card numbers to merchants to store and using a digital wallet instead. The member feels it adds a level of security, though it is a bit more costly to process those transaction, but the convenience and security are worth it.

Director Chopra said the CFPB issued a consumer alert on uninsured systems, such as crypto trading platforms, where billions of dollars were lost. He encouraged the CUAC to look at CFPB research done on tap-to-pay and the point-of-sale market.

Director Chopra asked the council to advise the CFPB on issues related to core providers and issues related to cost flexibilities. He has discussed with the National Credit Union Administration board issues of long-term sustainability of the credit union system.

A member said the National Association of Federal Credit Unions polling of credit unions revealed 38 percent of U.S. credit unions are contemplating receive-only capacity when moving to FedNow, and 31 percent are thinking about doing receive and send, showing a greater hesitancy on the sending side.

A member commented that it is important to understand the complexity of payments and how regulations are being interpreted and applied.

Director Chopra said CFPB has been taking a hard look at network rules and that this is going to be an area CFPB needs feedback on from the CUAC.

A member emphasized that there's been an uptick in account takeover and fraud in the mobile deposit aera with bad actors stealing checks out of the mail, washing them, and then taking over somebody's account with a mobile deposit.

Director Chopra said another practice known as screen scraping is when a consumer is asked to share their credentials for their online banking app, and this can also perpetrate fraud. He is looking to the CUAC to provide feedback in this area.

A member mentioned that in New York people are paying students at a community college for not only their online banking credentials but their driver's license and Social Security cards, and it is difficult to fight this type of fraud.

Closing

Director Rohit Chopra

In closing comments, Director Chopra asked for the CUAC to meet as a group and define what are priority areas when it comes to incoming risks, and another area of focus is to continue to talk about technology and the future of payment fraud. He also suggested that an in-person meeting at the CFPB offices, if any member is coming to Washington, D.C., would be welcome.

The Chair thanked the members and the Director for the discussion. She mentioned that a group of CUAC members will be in D.C. for an upcoming Governmental Affairs Conference meeting and would welcome the opportunity to meet with Director Chopra and CFPB staff in person.

Adjournment

The meeting adjourned on November 16, 2023, at approximately 2:15 p.m. EST.

Certification

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

Emmanuel Manon

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

Shawn Wolbert

Shawn Wolbert, Chair
Community Bank Advisory Council