

The GoWest Credit Union Association is pleased to provide our quarterly analysis of regulatory developments at the state and federal levels. This quarter's report includes:

- Economic Update & Outlook
- Federal Regulatory Update

### **Third Quarter Review and Fourth Quarter Economic Outlook**

The economy is driving policy and impacting the exam experience. The third quarter materialized as expected despite a debt ceiling showdown and additional bank failures. We continued to see strong GDP growth, record employment, and elevated inflation. While these economic indicators remain strong, they are no longer looking like a runaway train.

Going forward we see a high probability of at least one more interest rate hike as the Fed continues to work to meet its mandate. The likelihood of another interest rate hike increased dramatically with the release of key September economic indicators. Inflation came in higher than expected, retail sales rose dramatically, unemployment remained low, and wages continued to rise. Many economists are anticipating that the next rate hike will be followed by a 12-month holding pattern that will take us through the election next year.

Credit unions remain relatively strong heading into the 4<sup>th</sup> quarter. Auto loan portfolios continue to perform well, and while pay offs are extending, they are still turning over relatively quickly, creating liquidity that is reinvested in higher-yielding assets.

Two exigent shocks that could be on the horizon could dramatically change our forecast. While we avoided defaulting on our debt earlier this year at a significant cost, the result was a lowering of the US debt rating, which increases the cost to borrow. We are now facing a government shutdown that could end up being drawn out, which would have a substantial economic impact. Commercial real estate, particularly class A and B office space, is showing signs of weakness. While credit unions have very limited exposure to this asset class, significant defaults would resonate broadly.

**Not-so-fun fact** - Assuming the downgrade of our debt rating accounted for a .25% increase in \$1 Trillion dollars of 10-year debt issuances, what is the cost to the American people of the downgrade?

**Answer** - \$25 Billion

Managing liquidity, rising cost of funds, higher losses, and growing operational expenses are top of mind during examinations. Financial regulators issued a policy statement on funding and liquidity risk management. The long and short of it is this: dust off your contingency funding plans, test lines, and make sure you are prepared for continued pressure on liquidity. We anticipate that credit union growth in the GoWest region at the end of the 3rd quarter will be flat. But that is in large part due to increased borrowings which are expected to top \$15 Billion. Assets

pledged are expected to top \$90 B. Those numbers are expected to continue to climb. We are anticipating 35% of GoWest credit unions to be 90% loaned out and about 15% to be over 100% loaned out.

### **Some things that credit unions might consider doing include:**

- Cashing out low-yielding CDs, which typically have small penalties that can be made up quickly when reinvested in loans or short-term investments.
- Prudently borrowing long to fund short-term assets. For example, utilizing the bank term funding program for a one-year duration and investing in overnights.
- Utilizing derivatives to swap short-term floating rates for lower longer-term fixed rates further out the inverted yield curve.

While Fed rate hikes are expected to slow down, the cost of funds is expected to continue to rise as competition for deposits continues.

## **NCUA**

NCUA Board Member Rodney Hood's term ended in August. As with many past appointees, Hood may be allowed to hold over until the nomination and confirmation of a successor. While we don't know the timing, we would expect the Administration to work to confirm nominees before the end of 2024.

### **NCUA Third Quarter Board Meetings:**

NCUA held a board meeting in July and September and issued a couple of important final rules that GoWest has supported and advocated for. A final rule was approved on loan participation that continues the move from prescriptive limits to a principles-based approach and a final FCU Bylaws rule was passed that creates a reasonable standard for expulsion. The Board also received a mid-year budget briefing revising the budget downwards and in September received a Share Insurance update that puts the equity ratio above 1.3%.

#### **FCU Bylaws Expulsion Amendment:**

- Makes changes to allow credit unions to adequately protect employees from egregious behavior. Allowing a credit union to expel members who threaten or are abusive to employees.

#### **Loan Participation Rule**

- The loan participation rule eliminates the 5% limitation on purchasing consumer loans. This rule is critical to the long-term evolution of the credit union movement particularly as the indirect lending model evolves to direct lending.

#### **Continuing Advocacy Efforts**

- **CLF** - The Association continues to advocate for the CLF expanded borrowing authority, the ability of Corporates to subscribe on behalf of some members, and modernizing the CLF so that it functions as a true liquidity facility.
- **NCUSIF** - We are advocating for clarity that NCUA Share Insurance is passed through to individual members of cash sweep programs in the same way FDIC insurance is passed through.

- **Returning Capital** - We continue to encourage the NCUA to lower the NOL from 1.33% to 1.30% which would result in a SIF distribution if the equity ratio were above 1.3.
- **Operating Fee** – We are asking the NCUA to adopt a higher asset threshold for an operating fee exemption for Federal Credit Unions

### NCUA Grant Round

NCUA 2023 grant recipients are expected to be notified this Fall and once again we expect the GoWest region to have a number of successful applicants.

## CONSUMER FINANCIAL PROTECTION BUREAU

### Continuing Advocacy Efforts

- **Small Business Lending Rule** - The Association continues to advocate for the CFPB to exempt small business loans under \$50,000 from the threshold for applying the small business data collection rule, since credit unions do not typically classify loans under \$50,000 as business loans even if they are business purpose loans.
- **Personal Financial Data Rights** - We are advocating that the CFPB delay the adoption of this rule until Congress adopts a nationwide data privacy standard.
- **AVM** - We continue to push for a safe harbor to be included in the AVM rule.

## Federal Home Loan Banks

The GoWest Credit Union Association has focused much of our advocacy efforts with the FHFA and FHLB around expanding the community development focus. Those efforts have paid off with a nearly 200% increase in the number of awards granted and a significantly expanded grant model. Several GoWest credit union members have benefitted and were awarded FHLB awards designed to create economic opportunity through proven or innovative development models.

## Regulatory Advisory Committee

The six-state Regulatory Advisory Committee will be meeting on **Monday, October 2 from 1-3 pm Pacific, and 2-4 pm Mountain time** as part of the MAXX annual conference. The committee will review rulemaking agendas, provide insights towards improving exams, and help set the regulatory advocacy priorities of the association.

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