The GoWest Credit Union Association is pleased to provide our quarterly analysis of regulatory developments at the federal level. This report includes:

- **Economic Update & Outlook**
- **Federal Regulatory Update**

First Quarter Review and Fourth Quarter Economic Outlook

The first quarter of 2024 has been challenging to navigate. Economic data continues to come in hotter than expected across a wide range of metrics important to the Fed including strong jobs reports, higher-than-expected GDP, and persistent inflation numbers that are above the Fed target.

Economic data shows us several general trends. Rising interest rates are dampening consumer confidence and borrowing. The cost of borrowing is climbing, squeezing margins on loans that sometimes do not compensate for the risk involved. Concurrently, inflation exacerbates members' financial strain, affecting their capacity to afford essentials like housing, groceries, and energy which is also leading to increased delinquency. Moreover, operating costs for credit unions are on the rise due to inflation and tight labor markets. Liquidity has tightened as core deposits decrease, with savers seeking higher returns on savings. Amidst economic headwinds and uncertain forecasts regarding interest rate cuts, the unspent funds from the infrastructure bill passed last year by Congress may further strain labor markets and interest rates, compounding these challenges. At the same time, the CFPB continues its attack on fee income and big retailers continue to call for reductions in interchange.

While the economy continues to present challenges, there are some reasons to be hopeful as we enter the second quarter. Many credit unions across the GoWest region are seeing stronger deposit growth than anticipated from higher-than-anticipated tax returns. The challenge is keeping those funds, but credit unions are stepping up to the challenge. Additionally, despite the positive economic data, the Fed seems committed to at least a couple of rate cuts in 2024. We are also expecting the Fed to begin balance sheet expansion in the second half of 2024 which will put downward pressure on longer-term interest rates as they begin purchasing Treasuries and Mortgage-Backed-Securities again. There is a lot of uncertainty about whether rate cuts will continue into 2025 and there is a real possibility that infrastructure dollars flowing into the economy could drive economic growth, inflation, and jobs into 2025 and beyond.

NCUA

The NCUA is undergoing significant changes, as expected, with the latest board transitions. Tanya Otsuka's appointment, replacing Rodney Hood, allows Chairman Harper to advance his agenda, which includes an increased focus on consumer compliance exams and specific attention on overdraft fees. In addition, we expect additional resources to be directed towards CUSO exams and incorporating more specialists into the process.

As announced in December by Chairman Harper, the NCUA will begin collecting itemized Overdraft Protection (ODP) and Non-Sufficient Funds (NSF) fees data on Call Reports for all credit unions with more than 1 billion in assets.

The anticipated change in the NCUA's reporting requirements is significant because the new data is expected to reveal that credit unions charge an average of between 50 and 100 times more for Overdraft Protection (ODP) fees compared to similarly sized banks. **Make no mistake about it, overall bank fees continue to be higher than credit unions',** particularly as they derive significantly more income from credit card interchange, account fees, fees associated with commercial loans, fees related to closing costs, and more. However, the narrow focus of the new reporting requirement and a discrepancy in ODP fees could have implications for consumer perception, negative press, regulatory scrutiny, and the competitive landscape of financial institutions, in maintaining trust and loyalty among credit union members. While some credit unions have taken steps to reduce or eliminate overdraft fees and credit unions below $1B in assets will not be required to report these fees, there is still a reputational risk to the entire credit union movement, even though consumers choose this product and, in many cases, face grim alternatives should they lose access to overdraft protection.

In California, financial institutions are already required to file NSF and ODP as line items. The comparison is concerning; see the 2023 report:

- CA Annual Report of Income from Fees on NSF&ODP

- There has been negative media fallout as evidenced in a recent Consumer Reports article and another in Politico.

Credit unions must understand the importance of reporting Overdraft and NSF fees accurately on the call report making sure to back out any reimbursements of these fees from what is reported. We expect the spotlight on fees to continue, not just from agencies, but GoWest also expects fee income to be a central issue during the 2024 Presidential Campaign.

The GoWest Association is advocating for a voluntary phase-in period for the Call Report changes.

NCUA First Quarter Board Meetings

NCUA held two board meetings in the first quarter, one in January and one in February, while the March meeting was canceled. The board meetings in the first quarter were relatively light and included a Share Insurance Fund Quarterly report, a Final IRPS updating the Minority Depository Institution Preservation Program, and an outline of the agency's strategic plan.

Continuing Advocacy Efforts

- **CLF/NCUSIF/Return Member Capital** - The Association continues to advocate for Central Liquidity Facility (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. 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. We continue to push the NCUA to lower the Normal Operating Level (NOL) from 1.33% to 1.30% which would result in a SIF distribution if the equity ratio were above 1.3.

CONSUMER FINANCIAL PROTECTION BUREAU

The Consumer Financial Protection Bureau (CFPB) is intensifying its efforts in the war on fees, impacting various financial products and services. A notable action is the final rule on credit card late fees. The final rule was dropped a day before the President's State of the Union Address, and a mention of it was made by the President the next day. This rule is poised to significantly affect large issuers by potentially reducing fee revenue and causing disruptions to liquidity projections. Additionally, the proposed Overdraft Protection (ODP) Rule aims to address fees related to overdraft services, promising substantial changes in how financial institutions manage and charge for these services. Lastly, the CFPB is scrutinizing mortgage closing costs, aiming to reduce expenses for consumers and bring more transparency to the home-buying process.
In a nod to community financial institutions, Director Chopra recently recognized the importance of small and midsized financial institutions over a handful of large banks. He emphasized that JP Morgan would not have been allowed to bid on SVB had they not been a failing institution because JP Morgan controls 10% of the nation's deposits, and called for bank merger reforms that would be beneficial to small and midsized institutions.

Continuing Advocacy Efforts

- **Overdraft Fees** - GoWest, along with member credit unions, raised awareness with Congress during the GAC conference about the adverse effects these rules may have on community based financial institutions and more importantly, consumers. We are currently working with GoWest credit unions to finalize and submit comment letters by the deadline of Monday, April 1st.

  Link to Draft Letter

- **Housing Fees and Closing Costs** – The Association is carefully monitoring the Bureau's actions related to data collection on closing costs and strategically messaging how any ill-advised proposed rules could negatively impact credit unions and their members.

On the Horizon

- **Auto Loans and Auto Servicing:**
  The CFPB continues to focus on add-on products. We anticipate regulatory action in rule form and remain vigilant for any developments in this area.
- **Fair Credit Reporting Act Rulemaking:**
  We anticipate regulatory action related to credit reporting and consumer privacy. While there are no new developments at present, we are actively monitoring and testing strategic messaging in preparation to advocate on behalf of credit unions.
- **Open Banking:**
  GoWest has provided input on the CFPB's move to change open banking standards, and while rulemaking is ongoing, there have been no new developments to report. We remain attentive to this issue and are prepared to advocate as needed.

Federal Home Loan Banks

GoWest is monitoring developments coming from the FHFA that could impact the FHLB. Specifically, we are monitoring the impacts of voluntarily increasing the Affordable Housing Program set aside on dividends paid by FHLB to shareholders. We are also reviewing GoWest credit unions' housing portfolios to evaluate the true impact should the FHLB implement a 10% of assets in housing requirement.

Federal Reserve

GoWest is actively engaged in the Federal Reserve's proposal on debit interchange fees. We worked with credit unions in drafting a comprehensive and representative comment letter to the Fed.

Link to Draft Letter

Regulatory Advisory Committee

The six-state Regulatory Advisory Subcommittee will meet virtually on **Thursday, April 25 from 10-12 pm Pacific, and 11-1 pm Mountain time.** The committee will review rulemaking agendas, discuss exams, and help set the regulatory advocacy priorities of the association.

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