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**
  - **NCUA**
  - **CFPB**
  - **FHFA**
  - **Federal Reserve**
  - **CDFI**

Third Quarter Review and Fourth Quarter Economic Outlook

The third quarter of 2024 showcased some continued challenges for financial institutions as a whole, marked by rising delinquency rates, stagnant deposit growth, reduced loan demand, and increasing operational costs. This tough environment, though discouraging in some areas, occurred against the backdrop of a broader economy that remained resilient by traditional measures.

Key Economic Metrics:

- Unemployment: While unemployment has risen from historic lows, it remains relatively moderate, not yet signaling a significant labor market downturn.
- Inflation: Inflation continues to decline but remains above the Federal Reserve's target of 2%. This remains a point of concern, although progress has been made.
- GDP Growth: Despite concerns about an economic slowdown, GDP growth for 2024 is on track to land between 2.5% and 3%. This is notable, given that growth rates are stronger than what was experienced for much of the past two decades.

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Federal Reserve Actions:

In September 2024, the Federal Reserve cut interest rates by 50 basis points, more than the anticipated 25 basis points. This aggressive action provided a short-term boost to the economy and particularly benefited credit unions by improving the book value of their longer-term treasuries, reducing unrealized losses in investment portfolios.

Following this move, consumer confidence improved, and the previously stagnant housing market showed early signs of recovery.

> Excerpt from Jerome Powell - "Our economy is strong overall and has made significant progress over the past two years toward achieving our dual-mandate goals of maximum employment and stable prices. Labor market conditions are solid, having cooled from their previously overheated state. Inflation has eased, and my Federal

Open Market Committee colleagues and I have greater confidence that it is on a sustainable path to 2%. At our meeting earlier this month, we reduced the level of policy restraint by lowering the target range of the federal funds rate by 1/2 percentage point. That decision reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained in an environment of moderate economic growth and inflation moving sustainably down to our objective."

Preview of Q4 2024: Optimism with Caution:

Looking ahead, the rate cut delivered a much-needed stimulus. Mortgage refinances and auto loan demand are expected to rise, thanks to improved conditions in the housing and consumer sectors. Credit unions may benefit from this resurgence, but questions remain about the sustainability of the recovery.

One of the key issues heading into the fourth quarter is whether the Federal Reserve will implement additional rate cuts. Many economic indicators, including inflation projections, suggest that the Fed may adopt a more neutral stance, but further cuts are not off the table. GoWest's internal analysis forecasts inflation for 2024 to be around 2.1%, which aligns closely with the Fed's target, indicating potential for a pause in further rate movements. However, Board Governors' statements have suggested that additional rate cuts might be prudent.

Federal Stimulus and Economic Activity:

Additional economic stimulus, particularly federal funds yet to be deployed, will play a crucial role in supporting growth in the fourth quarter and into 2025. Notably:

- Chip Manufacturing Investments: Billions of dollars allocated for chip manufacturing are expected to be deployed, with a significant portion heading to GoWest states like Oregon, Washington, and Arizona. These investments will create jobs and stimulate local economies.
- Inclusiv Initiatives: Another key factor is the nearly $2 billion managed by Inclusiv, earmarked to support carbon-neutral projects. This funding could help credit unions expand their environmental lending portfolios while supporting broader sustainability goals.

What To Watch in Q4 2024:

- Interest Rate Policy: Monitor the Federal Reserve closely for signals of future rate cuts, which could further improve liquidity and lending conditions.
- Loan Growth: A resurgence in mortgage refinances and auto loans could help reverse the recent trend of stagnant loan growth, but it will depend on consumer confidence and interest rates.
- Delinquency Trends: Rising delinquency rates are a significant risk and should be monitored closely while focusing on member financial health initiatives.
- Operational Costs: Despite improved conditions in some areas, the cost of doing business remains high. Managing operational efficiency will be crucial to sustainable growth in Q4 and beyond.

In summary, while Q3 2024 posed challenges for credit unions, the Fed's decisive action in September and continued federal stimulus efforts offer cautious optimism for the fourth quarter. Ongoing concerns about delinquency, stagnant growth, operational costs and rising unemployment mean credit unions must remain vigilant as they navigate the close of 2024.

National Credit Union Association (NCUA)

The National Credit Union Administration (NCUA) held two important meetings during the third quarter of 2024, covering several key issues that will impact credit unions.

As we move forward, there is a degree of uncertainty surrounding the future leadership of the NCUA Board. Kyle Hauptman's term is set to expire in August 2025, while Chairman Todd Harper's term runs until April 2027. The federal election outcome could lead to a shift in the Chairmanship as well as NCUA priorities.

Regardless of the political landscape, some regulatory priorities are likely to remain. One is the agency's push for third-party vendor authority, which has been a long-standing goal for the agency. The NCUA continues to advocate for the ability to oversee third-party vendors in the credit union space, as it believes such authority is necessary to properly address operational risks. The NCUA is the only Federal financial regulator that does not have this authority.

Key 3rd Quarter Developments:

Interest Rate Ceiling - In July, the NCUA Board voted to maintain the 18% loan interest rate ceiling for federal credit unions, despite GoWest and many credit union leaders advocating for an increase. While the Federal Credit Union Act sets the maximum interest rate at 15%, the NCUA Board has discretion to raise the ceiling when conditions warrant. The Board has consistently voted to keep the cap at 18% for more than two decades, and the threshold is revisited every 18 months.

It's worth noting that this 18% limit applies to most loans, including standard collateral-backed loans. However, signature loans meeting specific requirements may have an interest rate ceiling of up to 28%.

Unlike federal credit unions, banks and most state-chartered credit unions do not face a federally mandated maximum interest rate. This regulatory difference remains a topic of debate within industry.

Incentive Based Compensation - The NCUA Board also approved an interagency incentive-based compensation rule for public comment in July. This proposed rule is mandated by the Dodd-Frank Act of 2010, but it has seen delays due to a lack of consensus among federal agencies. As such, while the NCUA has moved the proposal forward, it is unlikely to progress until all agencies come to an agreement. Nevertheless, we can expect a formal proposal in the future, as the rule remains a statutory requirement.

Succession Planning - Perhaps the most controversial action of the quarter was the Board's proposal of a revised succession planning rule. The proposed rule is significantly more prescriptive than the initial version, broadening the scope and placing more specific requirements on credit unions. This has generated considerable concern among credit union leaders, many of whom have expressed their objections through GoWest and other industry groups. GoWest submitted formal comments reflecting the concerns of many credit unions, pushing back on what is seen as regulatory overreach. In addition to the comment letter GoWest, along with credit union leaders from across the country, will join a call with the NCUA Chairman to further discuss concerns about the succession plan proposal.

Second Chance Employment - In September, the NCUA Board approved a final rule aimed at providing individuals with minor criminal offenses a second chance to work at credit unions. The new rule updates and replaces a previous interpretive ruling, allowing greater flexibility for employment opportunities while safeguarding the industry.

Credit unions are advised to review this new rule closely and consult with their bonding agents to ensure that employees eligible for hire under this regulation are also bondable, as this could impact risk management and liability.

Share Insurance Rule - The Board also finalized a rule that simplifies share insurance regulations. A key provision in the rule ensures that reciprocal deposits at credit unions receive similar treatment for insurance purposes as they do on the federal side. This move brings parity between credit unions and banks on this issue, which has been a long-standing concern for the industry.

The third quarter of 2024 brought several regulatory changes and proposals that will affect credit union operations, from interest rate caps to employment rules. Credit unions should stay engaged with GoWest and the NCUA to ensure their voices are heard, especially as key issues like succession planning and third-party vendor authority continue to evolve. As always, GoWest remains committed to keeping credit unions informed and advocating for policies that promote a fair and competitive regulatory environment.

Consumer Financial Protection Bureau (CFPB)

Throughout the third quarter, GoWest has remained at the forefront of advocating for credit unions as the Consumer Financial Protection Bureau (CFPB) continues to propose new rules and policies impacting the financial industry. Our focus has been on ensuring that the needs of credit unions are considered as the CFPB focuses on two major areas: Mortgage Servicing and Open Banking.

These regulatory changes have the potential to significantly impact credit unions and their members. GoWest, through ongoing discussions with the CFPB and direct engagement with member credit unions, has diligently worked to ensure the voice of the credit unions are heard and reflected in these policy discussions.

Mortgage Servicing

In July, the CFPB introduced a mortgage servicing rule designed to enhance protections for both borrowers and lenders. This proposed rule was based on the successes of COVID-19 forbearance programs that provided borrowers facing hardships alternative paths to avoid foreclosure. GoWest member credit unions proactively engaged with the CFPB's Mortgage Servicing experts, emphasizing their, member-focused approach that credit unions bring to mortgage servicing.

Leveraging extensive conversations with both the CFPB and credit unions, GoWest crafted a comment letter advocating for targeted amendments to the proposed rule. These recommendations include:

- **Adjusting COVID-era language** to reflect current market conditions.
- **Providing online mortgage servicing options** to better serve members.

GoWest submitted its comments by the September 9th deadline and has actively followed up with the CFPB to reinforce the importance of these changes for credit unions and their members.

Open Banking

As anticipated, the CFPB continued its focus on open banking policy with a focus on data access and transparency across the financial industry. The third quarter was defined by three key developments:

- **FDTA Joint Standards Proposal:** In collaboration with other federal regulators, the CFPB issued a proposal under the Financial Data Transparency Act (FDTA) to standardize financial data reporting across agencies.
- **Establishing Criteria for Recognition:** The CFPB established criteria for organizations seeking recognition as open banking standard setters. The qualifications for recognition include openness, balanced decision-making, consensus, due process, and transparency which any agency applying for recognition will be evaluated holistically for these criteria.
- **Open Banking Standard-Setting and Feedback for Recognition:** The CFPB is encouraging public feedback on applications for recognition with the Financial Data Exchange being the first to apply.

GoWest credit unions have advocated for standardized guidelines and a collaborative approach to open banking which does not add regulatory burden but creates greater efficiency for financial institutions. Credit union leaders have encouraged the Bureau to wait to finalize open banking rules until Congress enacts national data security standard.

On the Horizon

In July, the CFPB published its Supervisory Highlights, which examines various issues affecting loan servicing, account operations, and debt collection practices. This report provides valuable insights into the areas that will attract the CFPB's regulatory focus in the coming months. Below is a summary of the key topics addressed. GoWest is actively monitoring these developments to ensure credit unions can engage and advocate as these concepts are further developed.

- **Auto Loan Servicing:** The CFPB identified issues where borrowers were not informed that final payments needed to be made manually after autopay enrollment, leading to potential late fees.
- **Preauthorized Electronic Funds Transfers:** The CFPB observed instances where financial institutions did not consistently provide the required 10-day notice of varying amounts and dates for preauthorized transfers, as outlined by the Electronic Funds Transfer Act (EFTA).
- **Debt Collection:** The CFPB highlighted concerns related to the Fair Debt Collections Practices Act, including cases of incomplete debt notices, unclear representations, and communication with consumers outside of standard guidelines.

- **Deposit and Prepaid Account Management:** The CFPB noted areas for improvement in how institutions handle account freezes, provide periodic statements, and respond to consumer requests for information, ensuring compliance with consumer rights.

Federal Housing Finance Administration (FHFA)

During the third quarter advocates from GoWest states convened in Washington D.C. for the Fall Hike the Hill. At the FHFA, we had a positive dialogue with Deputy Director Josh Stallings and Principal Policy Advisory Rebecca Cohen regarding the core mission, affordable housing set aside, and access to the FHLB. Credit unions advocated for an incremental approach to modernization of FHLB—an institution that for 90 years has provided liquidity to financial institutions to support the housing market.

Areas of focus included:

- Community Financial Institution (CFI) designation – Credit union leaders spoke in favor of allowing credit unions to be designated as CFIs, a designation that currently only applies to FDIC-insured banks and were pleased to hear that the FHFA supports expanding the designation to include credit unions. Benefits of the designation include lower cost of borrowing, additional collateral that can be pledged to secure borrowings, and an exemption from the housing threshold requirements.
- Affordable Housing Program (AHP) Set Aside - Affordable housing is a critical issue for credit union members and communities across the country. Credit union leaders expressed a desire to drive more funds to AHP, while also sharing concerns that mandating larger set-asides could increase the cost of funds for financial institutions. In some years, a larger set aside might be appropriate, but in others, it may not be sustainable, making guidance preferable to strict regulations.
- FHLB Access - Credit unions strongly support expanding access to the FHLB, particularly for community-focused financial institutions and highly regulated entities that are dedicated to serving their members and communities. Many of these institutions may not meet the 10% requirement for housing-related investments, but they are putting significant dollars toward programs to help members become future first-time homebuyers. Credit union leaders also expressed concerns that if FHLB access were granted to entities that are not as highly regulated or examined, this would introduce added risk and potentially lead to FHLB losses, ultimately harming regulated entities.
- Other Areas of Focus – Credit union leaders shared their thoughts on a number of other potential rules that the FHFA is considering including changes to FHLB Board and management structure, owner occupied subsidy program, credit worthiness evaluation, unsecured credit limits, and establishing a minority census tract goal.

While advocates had a substantive discussion on key policy initiatives, the overarching theme was to ensure that whatever changes the FHFA makes to the FHLB result in expanded access to liquidity and ensure that borrowers are highly regulated.

Federal Reserve

Advocates who attended Fall Hike the Hill had an unprecedented meeting with the Fed Reserve Board Vice Chair Phillip Jefferson's senior policy staff. During the meeting credit union leaders effectively conveyed that a one-size-fits-all approach to interchange is contrary to Congressional intent and conflicts with the statute. Advocates strongly recommended a tiered approach that would ensure $10 billion-dollar financial institutions are receiving more per swipe transaction than a $3.5 trillion-dollar bank which has much lower transaction costs. Other items discussed included potential changes to excess share balances held by the Fed and a motor dealer vehicle rule, both of which could have impacts on credit unions.

Community Development Financial Institutions (CDFI)

In the third quarter, GoWest CDFI credit unions continued to demonstrate their commitment to economic development and financial inclusion. CDFI credit unions made significant progress in expanding access to essential services for underserved communities. Notable actions included a CDFI Roundtable meeting and the awarding by the CDFI fund of substantial Financial Assistance (FA) grants in the GoWest region. The roundtable highlighted ongoing efforts to advance Diversity, Equity, and Inclusion (DEI) and support the growth of credit unions in underserved areas. The financial assistance awards cover a broad range of credit union-led initiatives that will result in greater financial opportunity for the underserved.

Regulatory Advisory Committee

The six-state Regulatory Advisory Subcommittee will meet in person on **Sunday, October 13 from 1-3 pm Pacific and 2-4 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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