

Approved: February 15, 2011  
Date

## MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Forrest Knox at 4:00 p.m. on February 8, 2011, in Room 152-S of the Capitol.

All members were present except Representatives Hermanson and Grant, both of whom were excused.

### Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department  
Cindy Lash, Kansas Legislative Research Department  
David Wiese, Revisor of Statutes' Office  
Gary Deeter, Committee Secretary

### Conferees appearing before the Committee:

John P. Smith, Administrator, Kansas Department of Credit Unions

### Others attending:

See attached list.

The Chair welcomed John P. Smith, Administrator, Kansas Department of Credit Unions, who provided an agency overview (Attachment 1). He stated that the fee-funded department, authorized by the legislature in 1968, and with a current budget of \$949,000, provides regulation and supervision for the state-chartered Kansas credit unions, a total of 80 natural-person credit unions with assets of \$4.0 billion; Kansas also has one corporate and 21 federal credit unions. He explained that Kansas credit unions are insured by the National Credit Union Share Insurance Fund, which is administered by the National Credit Union Administration. He noted that a credit union is considered well capitalized if its net-worth ratio is 7% or above and that no Kansas chartered credit union ratio is below 8% in net worth.

To assure that every state-chartered credit union is financially stable, Mr. Smith said that examinations are conducted every 13 months (statutory requirement, every 18 months) using AIRES risk-focused software that results in CAMEL (Capital, Asset Quality, Management, Earnings, and Asset-Liability Management) ratings of 1 (least risk) to 5 (most risk); credit union CAMEL ratings have remained stable during the past 5 years with no Kansas credit union receiving a rating of 5, 3 received a rating of 4, 9 a rating of 3, 56 a rating of 2, and 14 a rating of 1.

Mr. Smith stated that Kansas credit union assets increased at an annualized growth rate of 3.6%; loan growth increased by 5.75%. Delinquency rates have remained unchanged at 1.36%. Home mortgages, which comprise 28% of total loans, currently have a delinquency rate of 1.02%, while business loans (5.03% of total loans) have a delinquency rate of 2.54%.

The January 27 minutes were approved as printed. (Motion by Representative Fawcett and seconded by Representative Proehl)

## CONTINUATION SHEET

Minutes of the House Financial Institutions Committee at 3:30 p.m. on February 8, 2011, in Room 152-S of the Capitol.

Mr. Smith responded to members' questions as follows:

- Banks, credit unions, and savings and loans all fall under the reporting requirements of the Bank Secrecy Act.
- Several incidents besides the \$5000 cash deposit trigger a Suspicious Activities Report.
- The new federal regulations may require additional training for examiners. But institutions with less than \$10 billion in assets are exempt from most of the regulations. Nevertheless, there may occur some “trickle-down” requirements.
- A credit union may be well capitalized but still have a CAMEL 3 or 4 rating if loan delinquency is high or the credit union has compliance issues.

Michael Baugh, Financial Examiner Administrator, responding to a question, said that the delinquency rate is higher for business loans because of several factors, but primarily due to the present economic climate. To another question he replied that the ARIES software is designed to show sensitivity to risk. Mr. Smith replied to another question that all credit union members pay the same insurance fees regardless of their CAMEL rating.

The meeting was adjourned by the Vice-Chair at 5:00 p.m. The next meeting is scheduled for Thursday, February 10, 2011.