

**Testimony by
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**Before the
U.S. House of Representatives
Subcommittee on Oversight and Investigations**

Hearing

**“Empowering Consumers:
Can Financial Literacy Education Prevent Another
Financial Crisis?”**

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Robert J. Dole Institute of Politics
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Chairman Moore, Ranking Member Biggert, and Members of the Subcommittee:

I am John P. Smith, Administrator, Kansas Department of Credit Unions. I appreciate the opportunity to appear today before the subcommittee. My credit union background includes twenty-one years as a volunteer credit union board member prior to appointments as a credit union regulator. In 1993 I was appointed by the Governor Joan Finney as Administrator of the Department of Credit Unions. In 1999 I was appointed by Governor Mel Carnahan as Director of the Missouri Division of Credit Unions. I returned to Kansas in 2006 to accept the appointment as Administrator, Department of Credit Unions from Governor Kathleen Sebelius.

The Kansas Department of Credit Unions (KDCU) is the state credit union financial regulatory agency authorized by the Kansas Legislature to provide for management, control, regulation and general supervision of state-chartered, Kansas credit unions.

KDCU is fully funded as a fee fund agency operating solely on the revenue produced through fees collected from state-chartered credit unions examined and regulated by the agency.

KDCU supervises and examines 82 natural person credit unions and 1 corporate credit union. As of March 31, 2010:

- Total assets of Kansas chartered credit unions: \$3,869,671,286.
- Total credit union members in Kansas: 538,983.
- Largest Kansas chartered credit union has assets of \$659,696,030.
- Smallest Kansas chartered credit union has assets of \$160,049.
- The 5 largest credit unions make up 44.27% of the total assets or \$1,573,087,798.
- The 10 largest credit unions make up 63.81% of the total assets or \$2,366,170,448.

Kansas also has 21 federal-chartered credit unions regulated and examined by the National Credit Union Administration (NCUA).

Share deposits in Kansas credit unions are federally insured through the National Credit Union Share Insurance Fund (NCUSIF), an arm of the NCUA.

In addition to examinations, the statutes and regulations provide for KDCU to grant new charters, merge and liquidate credit unions when necessary and handle consumer complaints.

Credit unions are member owned cooperatives. Their board and committees members are non-paid volunteers.

As a regulatory agency KDCU has no mandate by law to provide financial literacy education nor have we been asked to do so. We do recognize the importance of financial literacy through a variety of ways. The consumer resources section of our web site www.kansas.gov/kdcu/ has links to consumer protection laws and a brief description of each law.

Federal Trade Commission (FTC)

Regulation B – Equal Credit Opportunity
Regulation E – Electronic Funds Transfer Act
FCPR – Fair Credit Practice Rule
FDCPA – Fair Credit Reporting Act
HIDC – Holder in Due Course
Regulation M – Consumer Leasing Act
Regulation Z – Truth in Lending Act

National Credit Union Administration (NCUA)

BSA – Bank Secrecy Act
Regulation C – Home Mortgage Disclosure
Regulation CC – Expedited Funds Availability
FDPA – Flood Disaster Protections Act
TISA – Truth in Savings Act
Gramm-Leach-Bliley Act – Privacy of Consumer Financial Information

Housing and Urban Development (HUD)

RESPA – Real Estate Settlement and Procedures Act
FHA – Fair Housing Act

Federal Reserve

Regulation D – Reserves on Transaction Accounts

To prepare for the testimony today, several Kansas credit unions active in financial literacy education were contacted last week for information on their efforts to promote financial literacy. Here are details of the information received.

Educational Credit Union (ECU), Topeka, Kansas

In our response to your request regarding our credit union's efforts and commitment to the goal of increasing financial literacy among our membership, here are some details about our recent activities in that area:

- Save @ Schools – ECU was one of the first credit unions in the state to sign on with the State Treasurer’s office with the promotion of a formal Save @ Schools initiative. Our credit union has participated with as many as 13 local Topeka elementary schools by opening youth savings accounts for students and then returning to the schools on a frequent published basis throughout the school year in order to accept deposits to those accounts. The goal is to work with younger students to increase knowledge and understanding of building savings as a means of planning for the future. Our data indicates that ECU opened 555 Save @ Schools youth accounts, with current total savings accumulated of more than \$83,000.
- Money\$mart Camp – ECU staff members have participated in the Money\$mart Camp from the very first years of partnership with the State Treasurer’s office when the event was held at the Rock Springs 4-H camp. This camp is structured to reach the middle school age child as they begin to form their spending habits for the future, and focuses more on the wise use of credit and how to determine the difference between a “need” and a “want”. The day-long camps are now held on at least an annual basis, but are based in our local community with the hope that we can reach more children. ECU staff continue to donate, support, and volunteer with this event on an ongoing and annual basis, including one coming up in early September.
- Newsletter – As many credit unions do, nearly every quarterly newsletter mailed to our membership includes at least one article aimed at financial education and literacy. While we have no way of knowing how many read the article or heed the advice, we believe that it is important to continue to promote life-long financial learning as a means of helping consumers of all age make better financial decisions and choices. These articles are posted on our website then as well.
- Debt in Focus – About a year ago, ECU joined a beta program with the Filene Research Institute to develop and promote an online financial tool called Debt in Focus. The online tool was added to our website, and is designed to allow members (and non-members who find the site) to anonymously enter their current financial data and then compare themselves against peers and benchmarks for household financial performance. The site gives them tools and tips for increasing their individual financial situation, including suggested options for paying down debt more quickly in an effort to increase their discretionary household budget and their net worth. The site also allows a user to save the data and revisit the site periodically to track their progress and improvement.
- Women & Money – For the second year of this new program, ECU has co-sponsored and promoted the local Housing & Credit Counseling, Inc. Women & Money series. This six-week night class is designed for women of all ages, income and education levels and is designed to increase financial knowledge and decision making ability through informed money management. The course is designed with single mothers in mind, due to the stronger money management

- As probably every other credit union does, ECU uses every one-on-one opportunity available with our members to talk about wise financial choices. Many members applying for a loan or accessing another of our products or services ask questions and seek guidance with improving their net worth, reducing household budget expenses, improving their credit scores, etc. and we do everything reasonable during those interactions to help inform and educate members on financial concepts.

Credit Union of America (CUA), Wichita, Kansas

- This is the second school year with the student branch at Southeast High School. USD 259 is very supportive and involved with this program.
- We hire two students as CUA employees to work in the branch and they also work at our other credit union locations. Our first two student workers now have permanent positions with CUA following high school graduation. The student branch initiative created **jobs** and employment training, a win-win for CUA and the student.
- CUA has a student and faculty accessible location for member/student business and also has placed an ATM at Southeast High School.
- We are an active part of the curriculum at Southeast High School as well as other schools. We have conducted more than 12 financial literacy classes or programs in 2009 and plan to expand the number in future years.
- CUA's board of directors has made a commitment to fund the branch and program for both an initial trial period and long term basis based on community and student value knowing the revenue or value to CUA will likely never be there to support the costs.
- CUA has set up special student membership accounts and processes to better serve this unique membership/demographic base.

First Choice Credit Union (FCCU), Maize, Kansas

- This is the third year in operating the branch at Maize High School. We are planning for another branch in the new Maize High School in 2011.
- The high school credit union is staffed by a senior and a junior student supervised by a FCCU staff member. Students also work part time at regular FCCU locations.

- ATM dispenses only \$5. Otherwise the branch is full service.

Sunflower UP Federal Credit Union (SUPFCU), Marysville, Kansas

- Provides financial literacy education for parochial and public schools from K through 12 in Marysville, Kansas for the fifth year.
- Schools are visited one day per week. 50% participation in the parochial schools, 25% participation in the public schools.
- Most successful learning tool is students making deposits and watching their accounts grow in value.

K-State Federal Credit Union (KSFCU), Manhattan, Kansas

- Since 2004, when KSFCU partnered with then Kansas State Treasurer, Lynn Jenkins, and local schools we have been offering a youth financial literacy program called Save at School. Woodrow Wilson Elementary was the first school to offer the program in the 2004/05 school year. To date, we are operating in 6 elementary schools.
- The goal of the Save at School program is to teach students the importance of saving money and the concept of money management. Each school has an in-house credit union one morning per week, where 5th and 6th grade students are hired to manage and operate the business. Students may open an actual credit union account and make deposits at their in-house credit union. As part of the learning experience, educational materials on financial literacy are available, that can be presented by teachers or credit union personnel.
- We have several teachers that see the value in what we offer and have us back each year. They incorporate what we can teach the kids with, most often their math classes. We strive to get more and more time in front of the kids so that we actually have an opportunity to teach more than just showing the benefits of a savings account.
- Everything we do with the school and the children is 100% free; we have no fees of any kind for going into the schools teaching or for the onsite branch.

Promotion of Financial Literacy Outside of Schools

Credit unions with close ties with companies that are experiencing effects of the economic conditions often provide financial counseling to their members. The sponsor company of Cessna Credit Union recently reduced its workforce by over 55%. Cessna Credit Union made a concerted effort to buffer the impact of job loss by deferring payments, restructuring loans, offering a safe place to deposit severance or early retirement funds and offering financial education and counseling programs.

We have observed similar efforts in other credit unions. We encourage credit unions to become proactive if an economic downturn may affect their members financial ability to handle their financial obligations.

Encouraging Financial Literacy

While KDCU has no mandate under Kansas law to promote or provide financial literacy education, I support a role for KDCU in financial literacy.

The financial literacy of credit union members enhances KDCU's mission as the safety and soundness regulator. Fewer delinquent loans and bankruptcies improves the financial performance of the credit union, which influences the ability of that credit union to loan money at a competitive rate and pay improved dividends.

Concluding Suggestion

To be financially literate is a life-long venture. New financial products such as individual retirement accounts (IRAs), debit cards, different types of home mortgages, and home equity loans continue to be developed. While financial literacy education is part of the K through 12 educational systems, more could be done to promote life-long financial literacy to keep informed about new financial products and to budget for their proper use. With the current focus on the recent financial crisis, public policy makers have an opportunity to support and encourage financial institutions to provide financial education regarding consumer safeguards (such as overdraft protection) for their members/customers and the general public. While another crisis may not be prevented, the general public will be better prepared.

As a caveat, federal agencies should not pre-empt state consumer protections laws that offer greater protection than federal laws.

In adopting federal regulations implementing the Dodd–Frank Wall Street Reform and Consumer Protection Act, federal agencies must not over regulate and allow the marketplace to function. Additional regulations are a difficult burden on our smaller asset size credit unions.

I thank you for allowing me to present testimony on this important topic.