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TESTIMONY

OF

THE HONORABLE JIM NUSSLE
PRESIDENT AND CHIEF EXECUTIVE OFFICER
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BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

AT A HEARING ENTITLED,

"MAKING A FINANCIAL CHOICE: MORE CAPITAL OR MORE GOVERNMENT CONTROL?"

JULY 12, 2016

Testimony
Of
The Honorable Jim Nussle
President and Chief Executive Officer
Credit Union National Association
Before the
Committee on Financial Services
House of Representatives
Hearing Entitled,
"Making a Financial Choice: More Capital or More Government Control?"
July 12, 2016

Chairman Hensarling, Ranking Member Waters, Members of the Committee:

Thank you very much for the opportunity to testify at today's hearing. My name is Jim Nussle, and I am the president and chief executive officer of the Credit Union National Association (CUNA). CUNA represents America's credit unions and their more than 100 million members.

Credit unions play an important role in the financial lives of their members. With a mission to promote thrift and provide access to credit for provident purposes, credit unions were first established in the United States more than a century ago. As member-owned and not-for-profit cooperatives, credit unions are the original consumer protectors in the financial services sector. They are regularly commended for their high-quality, member-centric service; indeed, *Consumer Reports* recently identified credit unions as the highest rated sector they had ever reviewed.[1]

The purpose of my testimony today is to convey CUNA's views on Title I of Chairman Hensarling's Financial CHOICE Act. However, I would be remiss if I did not also discuss why this and other legislation seeking to address regulatory burden are so important to credit unions and the members that they serve.

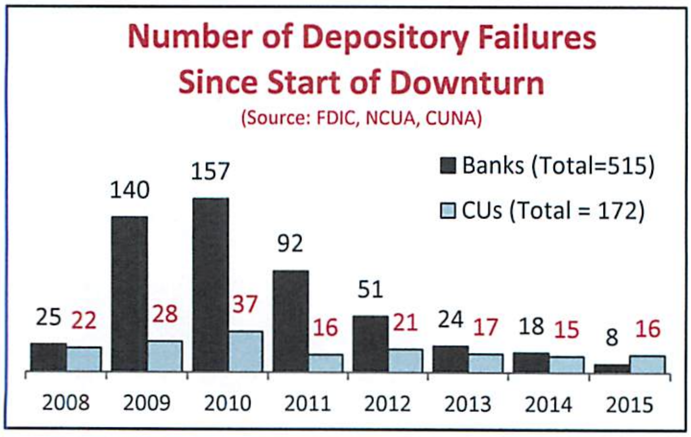
Credit Unions Fared Very Well in the Financial Crisis Because the Cooperative Model Militates Against Excess Risk-Taking

[1] Blyskal, Jeff, "Choose the Best Bank for You." Consumer Reports, available at: http://www.consumerreports.org/banks-credit-unions/choose-the-best-bank-for-you/ (Dec. 4, 2015).

Credit union boards of directors are generally uncompensated volunteer members of the credit union. This lack of compensation incentivizes them to ensure the credit unions are run for the benefit of the member owners. This lack of compensation incentivizes them to ensure that credit unions are run for the benefit of the member owners. The absence of stock options for senior management and board members, and the absence of pressure from stockholders to maximize profits ensures that management will eschew higher-risk, higher-return strategies and run credit unions for the benefit of members.[2]

As a result, credit union operations are less risky, and subject to less volatility over the business cycle. For example, from 1992 to 2015, the average annual net charge-off rate on credit union loans was 0.60%, with a standard deviation of 0.22%. In contrast, the similarly computed average at banks over the same period was 0.87%, with a much greater standard deviation of 0.59%.

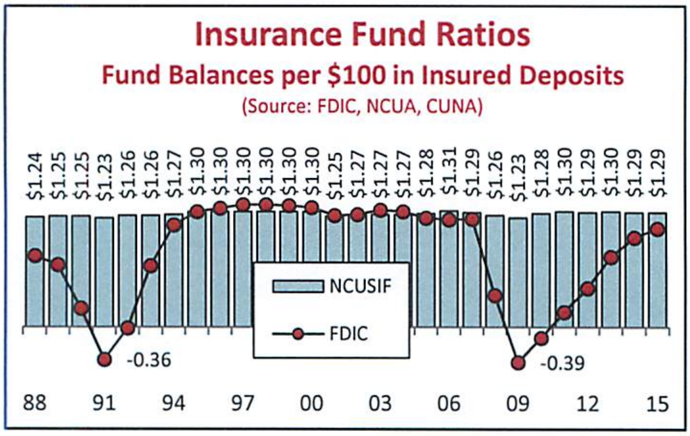
Because of this lower-risk profile, credit union failures tend to be much less common than bank failures. For example, at the beginning of the financial crisis there were 8,504 federally insured banks and 8,101 credit unions. Since the beginning of the financial crisis, credit unions reported a total of 172 failures (a 2.1% failure rate) and banks reported a total of 515 failures (a 6.0% failure rate).



[2] Edward J. Kane and Robert J. Hendershott, *The Federal Deposit Insurance Fund that Didn't Put a Bite on U.S. Taxpayers*, Journal of Banking and Finance, 20 (September, 1996), pp. 1305-1327. Kane and Hendershott describe how the cooperative structure of credit unions presents credit union decision makers with incentives that are strikingly different from those faced by a for-profit financial institution, making it less feasible for credit union managers to benefit from high-risk strategies.

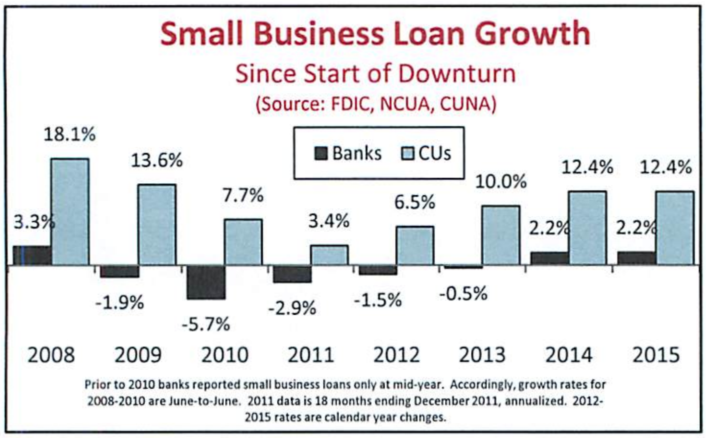
During the crisis, the bank deposit insurance fund operated in the red (for the second time in recent history), while the credit union insurance fund remained well funded—reflected in a fund ratio that has consistently remained above $1.20 per $100 in insured deposits.

Credit unions take on less risk, so they tend to be less affected by the business cycle. They therefore serve as an important counter cyclical economic force in local markets, softening the blow of financial downturns in local economies.



Recent history clearly demonstrates that—credit unions were able to continue lending during the recent financial crisis, while other financial institutions failed or had to curtail operations due to damaged balance sheets caused by their less risk-averse practices in the run-up to the crisis.

From June 2007, the onset of the financial crisis, to December 2015, small business loans at credit unions more than doubled—growing by over 130.0% or an average of 10.3% per year. In contrast, such loans at banks actually declined by 10.0% (or -1.2% per year).



Ever-Increasing Regulatory Burden Reduces Credit Union Members' Access to Safe and Affordable Financial Services from Cooperative Financial Institutions They Own

I have been CUNA's CEO for nearly two years, and a constant refrain I hear from our member credit unions is that they are being crushed by regulatory burden that has been imposed in response to a crisis they neither caused nor contributed to. Regulatory burden impedes credit unions' ability to fully serve their members and is the leading driver of credit union consolidation, which has accelerated since 2010 and is now at a record pace. While the top-line data show a healthy, strong and growing credit union sector, credit unions are hiring more compliance officers than loan officers. And, CEOs and volunteer board members tell us they would like to do even more for their members, but are often stifled by new regulatory requirements.

Shortly after I took the helm, CUNA was asked to testify before the Senate Banking Committee. At that hearing, Senators asked us to quantify the costs of regulatory burden on credit unions and we commissioned a study by an independent third-party that had operational expertise in credit unions and banks. (See Appendix I.) The researchers took several credit unions through an intensive process to develop a model to produce a credible estimate of what the regulations are costing credit unions and their members each year. It adds up to about $7.2 billion in 2014 alone, up from $4.4 billion in 2010. This is money that is not being put to use to benefit credit union members, but they're surely paying for it. If credit unions' regulatory burden costs were reduced, they would invest more in their members through better rates on savings and loans, stronger capital positions, and the development of alternative financial product and service delivery channels.

Credit union executives and volunteers have a hard time understanding why they must comply with the rules designed for the largest financial institutions and the abusers of consumers, and have an even harder time understanding why their elected representatives in Congress are not doing anything about it. So, we are here to engage in the process, not because we view the Financial CHOICE Act as a perfect bill and not because we believe it will solve all of the regulatory burdens facing credit unions, but because we think it is a good place to start the discussion on how to remove regulatory barriers so credit unions can more fully serve their members. We hope the Committee will engage in the process on a bipartisan basis.

Title I – Regulatory Relief for Strongly Capitalized, Well Managed Banking Organizations

Title I of the Financial CHOICE Act would create a path for qualifying credit unions and other banking organizations to operate with a reduced regulatory burden. Under Section 101, qualifying credit unions would need to maintain an average leverage ratio (net worth) of at least 10 percent. If a credit union meets this requirement and elects to operate under the provisions of Section 102 of the legislation, it would be exempt from certain provisions of the Federal Credit Union Act, and rules and regulations promulgated by the National Credit Union Administration (NCUA) that address capital or liquidity requirements or standards. The legislation includes processes for credit unions and the NCUA to follow in the event that a credit union's average net worth ratio falls below 10 percent; this process envisions the submission of a net worth restoration plan and provides for the immediate loss of election and corresponding regulatory relief benefits in the event the credit union's net worth ratio falls below 6 percent.

Section 103 directs the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency each to study how to design a requirement that banking organizations issue contingent capital with a market-based conversion trigger.

Section 104 directs the Governmental Accountability Office to study the benefits and feasibility of altering the current prompt corrective action rules and replacing the Basel-based capital ratios with the nonperforming asset coverage ratio as the trigger for specific required supervisory interventions.

Under the Federal Credit Union Act, credit unions are subject to statutory capital requirements. In order to be considered well-capitalized for the purposes of prompt corrective action, a credit union must maintain a leverage ratio of 7 percent. This is one percentage point higher than the requirement for banks. Unlike banks, most credit unions' only source of capital is the retained earnings of the credit union. With limited ability to raise capital and given the relatively conservative incentive strategy inherent in credit unions' cooperative structure, many credit unions operate with a leverage ratio in excess of 10 percent. To give you a sense of the portion of the credit union sector affected by this legislation, today 3,975 of the 6,078 insured credit unions have net worth ratios greater than 10 percent. This represents approximately 65 percent of credit unions that hold 62 percent of credit union assets and serve nearly 60 percent of credit union members. We believe many of these credit unions would take advantage of the regulatory relief provided under Section 102, which would include relief from, among other things, NCUA's regulations on interest rate risk, liquidity requirements, and the recently finalized risk-based capital requirements.

We appreciate that this legislation structures the higher capital threshold as an option, and not a requirement. We would resist efforts by Congress or the regulator to require credit unions to hold additional capital because it would take operational decisions out of the hands of credit unions and reduce the ability to lend to credit union members; further, such a requirement would be inappropriate and unnecessary for credit unions because they do not have a history of capital inadequacy. Nevertheless, while we strongly believe all credit unions should receive regulatory relief, providing relief to credit unions that have demonstrated a history of operating at higher capital levels and providing a process for remediation in the event that capital levels fall below 10 percent strikes an appropriate balance. It ensures the continued safety and soundness of the credit union, while at the same time removes barriers that keep credit unions from doing even more for their members.

This legislation recognizes the safe and sound practices in which credit unions already engage and provides incentives for all credit unions to consider maintaining a higher leverage ratio. This would provide an increased buffer against the National Credit Union Share Insurance Fund in exchange for reduced regulatory burden. While we are not in a position to speak on the suitability of this provision for other charter types, given the history and performance of America's credit unions, this option makes a lot of sense for credit unions. We note that several of the provisions in Section 102 would apply only to banks. While we believe that Congress should provide regulatory relief for all credit unions including those with a leverage ratio under 10 percent, within the constructs of this proposal, we encourage the Committee to include additional exemptions from other statutory requirements including (but not limited to) loan maturity limits (Section 1757(5) of the Federal Credit Union Act) and credit union service organization investment limits (Section 1757(5)(D) of the Federal Credit Union Act). Further, we ask the Committee to provide qualifying credit unions relief similar to NCUA's Regulatory Flexibility Program, which was discontinued by former NCUA Chairman Debbie Matz. These are items that NCUA has historically deemed to not pose a significant safety and soundness issue for well capitalized credit unions.

We also encourage the Committee to consider adding NCUA to the list of agencies tasked in Section 104 with conducting studies on contingent capital instruments. While most credit unions are limited to retained earnings to build capital, some credit unions have access to supplemental forms of capital through the low-income designation; further, NCUA is contemplating issuing a supplemental capital rule as discussed by the agency when it finalized its risk-based capital rule. We have contemplated the suitability of a contingent capital instrument in the context of supplemental capital for credit unions; as long as the banking regulators are studying the implication of a contingent capital instrument, it may be worth the effort for NCUA to do the same.

Other Titles of the Financial CHOICE Act

We are also currently reviewing the other Titles of the Financial CHOICE Act. We note that several provisions of Title III, VI and XI reflect legislative proposals that CUNA has supported in the past. There are also a small number of provisions with which CUNA has very serious concerns. We intend to communicate to the Committee our views on the remainder of the legislation very soon.

Conclusion

We appreciate that the Committee is considering legislation to provide meaningful regulatory relief for so many credit unions. We look forward to reviewing the remainder of the legislation and working with the Committee to remove statutory and regulatory barriers so credit unions can more fully serve their members.

On behalf of America's credit unions and their more than 100 million members, thank you very much for the opportunity to testify today.

Regulatory Burden Financial Impact Study

EXECUTIVE SUMMARY

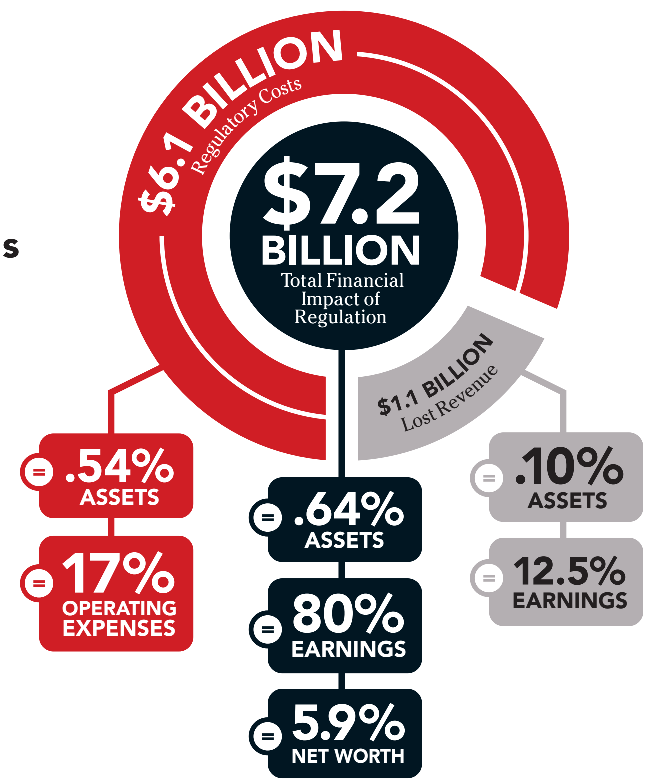
Credit unions recognize that they operate in a regulated industry and must bear reasonable costs of regulation. However, the total financial impact of regulation on credit unions and their members is high and has increased dramatically since the recent financial crisis.

With the support of state credit union Leagues, CUNA commissioned Cornerstone Advisors to perform a rigorous analysis of the current financial impact of regulation on credit unions, and how much it has changed since 2010.

Cornerstone Advisors conducted a two-phased study to gain an in-depth examination and quantify the impact of regulation at small, medium and large credit unions. The study gathered data in terms of increased costs, including staffing, third party expenses and capitalized expenses, and reduced revenue opportunities.

These financial impacts are considerable in terms of the scale of credit union operations.

Cost of Regulatory Burden to Credit Unions in 2014

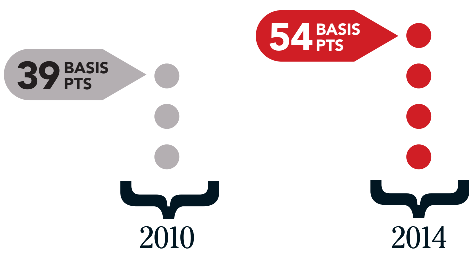


This summary was prepared by CUNA. Readers are encouraged to refer to the full study.

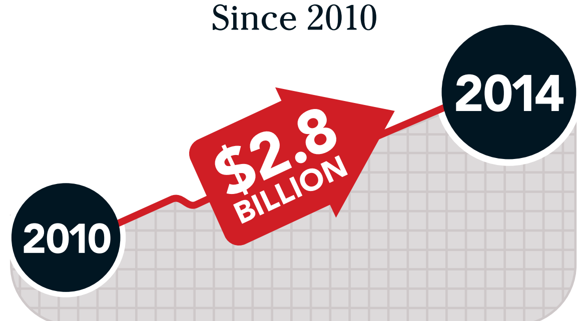
INCREASE IN REGULATORY IMPACT SINCE 2010

The regulatory cost of 54 basis points of assets in 2014 represents a 15 basis point increase from the 39 basis point cost the study found in 2010. This means that regulatory costs for credit unions in 2014 were $1.7 billion higher than they would have been without the changes that occurred from 2010 to 2014. Adding the 10 basis point reduction in revenues ($1.1 billion) yields an increase in total financial impact of 25 basis points ($2.8 billion), from 39 basis points to 64 basis points.

Regulatory Cost Increase
$1.7 Billion



Increase in Total Financial Impact
Since 2010

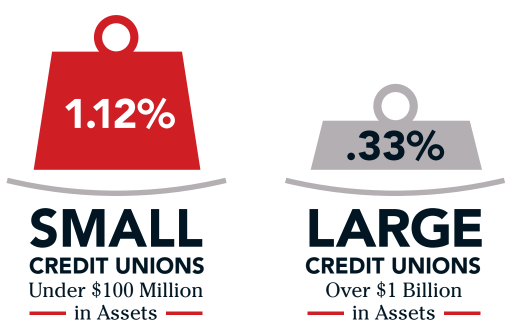


LOST REVENUE

The study considered how revenue has been influenced by regulation, especially by changes in regulation. Participants identified a number of business lines that had been affected by regulatory changes, primarily related to lending and interchange income.

Although, lending revenue has no doubt been affected by regulation, the amount is difficult to accurately quantify. Therefore, the only revenue reduction included in the study is that due to reduced interchange income as a result of the Durbin Amendment to the Dodd Frank Act. This means the study's $1.1 billion estimate for revenue reduction underestimates the actual amount.

Small Credit Unions Bear the Brunt of Regulatory Burden



Compares regulatory costs relative to assets

REGULATORY IMPACTS AND CREDIT UNION SIZE

The study found dramatic evidence of differential impacts by credit union size. Cost impacts were much stronger at smaller versus larger credit unions. There are basic fixed costs associated with complying with regulations, and at larger credit unions these costs can be spread over a larger asset base. In contrast, adverse revenue impacts were stronger at larger than smaller credit unions. This is because members of larger credit unions are more likely to generate interchange income by using a debit card from their credit union.

This summary was prepared by CUNA. Readers are encouraged to refer to the full study.

TYPES OF REGULATORY COST

The study collected data on three types of costs related to regulation: staff costs, third party expenses and depreciation of capitalized costs. For each cost category, care was taken to include only that portion of the costs that are driven by regulatory requirements. For example, for compliance staff, time spent on compliance with internal policies not required by regulation was not included as a regulatory expense.

The largest component of regulatory expense was for staff, at 74% of the total. This is not surprising as compensation typically accounts for about half of total credit union operation expenses.

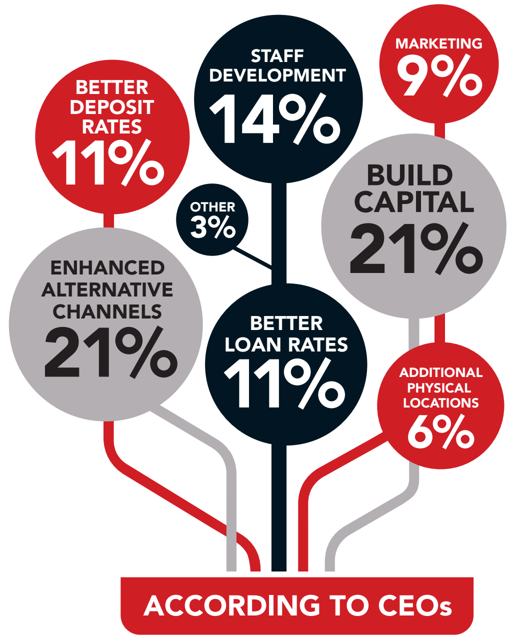
Of the staff costs driven by regulation, the largest component came in member-facing staff. This suggests that credit unions have to employ more such staff than otherwise, and/or that member facing staff have to divert much of their attention from serving members to complying with regulations.

This summary was prepared by CUNA. Readers are encouraged to refer to the full study.

STRATEGIC IMPACTS

The study solicited credit union CEOs' views on how the funds devoted to regulation would have been reallocated within the credit union had they not been drained by regulation. Better member pricing, better service delivery, and institutional strengthening topped the CEO's lists.

In addition to extensive data collection, the study solicited participating CEOs' viewpoints of where they had seen the greatest increase in regulatory impact in the areas of greater costs, reduced productivity, and reduced revenues. The greatest cost and productivity impacts occurred in compliance, mortgage and consumer lending and internal audit. The greatest revenue impacts were in mortgage lending, debit interchange and payments.



KEY THEMES

As a result of engaging with credit union executives over several months while conducting the study, Cornerstone Advisors analysts catalogued four key features of how credit unions view the impact of regulation:

UNCERTAINTY & AMBIGUITY around written rules complicates compliance.

INCONSISTENT INTERPRETATION of rules by examiners frustrates operations.

A STEADY STREAM of NEW REGULATIONS creates costly change management.

"ONE SIZE FITS ALL" rules are unfair and ineffective.

CONCLUSION

The study found that the costs that credit unions bear as a result of regulation, even when conservatively measured, are very high, and have increased substantially since the financial crisis and Great Recession. The burden is particularly egregious for smaller institutions.

This summary was prepared by CUNA. Readers are encouraged to refer to the full study.

Regulatory Financial Impact Study

Report of Findings

February 2016

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Cornerstone Advisors, Inc.
WHERE STRATEGY MEETS EXECUTION

Regulatory Financial Impact Study

Report of Findings

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Executive Summary

Credit unions operate in a regulated industry and recognize that there is a related cost of doing business. However, the level of cost that regulation imposes on credit unions is high (when compared to industry earnings and cost base), and has dramatically increased since the recent financial crisis and its aftermath.

While there is recognition in Congress of the adverse effects of regulation, there has been no hard data on the actual costs of regulation. Consequently, the Credit Union National Association (CUNA) commissioned Cornerstone Advisors to conduct the first-ever study to quantify the regulatory cost imposed on credit unions. This report summarizes the findings from the study and describes the impact on credit unions, their members and the communities they serve.

Cornerstone gathered detailed data from 53 credit unions nationwide on the financial impact of regulation today (as measured using 2014 results) as well as the increase in cost since 2010 (the beginning of the Dodd-Frank era.) The study measures financial impact in two ways:

1. **Costs** such as staff, technology and 3rd party support expenses incurred because of regulations

2. **Revenues** not earned because of regulations, such as lost loan production and lower noninterest income

While there is a wide range of regulations, the study focused on the collection of banking and non-banking (e.g., Affordable Care Act, IRS, etc.) regulations that have the highest impact rather than trying to quantify the impact of each and every regulation. We also employed a conservative approach to quantifying the financial impact of regulations on credit unions in the following ways:

- In the data collection process, we instructed credit unions to only include costs and reduced revenues they could reasonably quantify.

- We instructed credit unions not to allocate overhead or other ancillary costs based on the amount of staff time devoted to regulatory impacts.

- We excluded amounts that could not be validated or were incomplete.

Our primary findings are summarized below:

REGULATORY IMPACTS	ANNUAL IMPACT
Annual regulatory cost impacts on the credit union industry – 2014	$6.1 billion or 0.54% of assets
Lost revenues in the form of interchange income – 2014	$1.1 billion or 0.10% of assets
Total regulatory Financial Impact on the credit union industry – 2014	$7.2 billion or 0.64% of assets
Increase in staff time spent on regulatory activities since 2010	91%
Increase in regulatory cost impact since 2010	$1.7 billion or 0.15% of assets

The median regulatory cost impact was 54 basis points of assets, and the median reduction in revenue was 10 basis points. Applying those findings to total credit union assets in 2014 generates industry wide estimates of $6.1 billion in regulatory costs and $1.1 billion of lost revenue, for a total financial impact of regulation of $7.2 billion. This total regulatory financial impact represents 80% of 2014 credit union earnings (which was 0.80% return on assets) and 5.9% of 2014 industry net worth. The cost impact represents 17% of industry 2014 operating expenses, and the revenue impacts represents 12.5% of credit union earnings.

The estimated revenue impact actually understates the effect of regulation on credit union income. Many credit unions reported that new regulations had reduced loan volumes, especially in mortgages, but they had no way to quantify the amount of reduction. In keeping with our conservative approach to data collection, we did not include any estimate of reduced revenue from lower loan originations. Therefore, the $1.1 billion estimate of lost revenue understates the actual amount of revenue reduction due to increased regulation.

Of the 54 basis points of assets ($6.1 billion) devoted to regulatory costs in 2014, 15 basis points or $1.7 billion was an increase over regulatory costs in 2010, an increase of 39%[1]. It is important to note that we found substantial benefits from scale economies and the majority of the industry's growth has been at large credit unions. This concentration of growth likely understates the true industry-wide, additional cost of regulation since 2010. All of the revenue reduction was due to changes since 2010. Therefore, the increase in total regulatory impact from 2010 to 2014 was $2.8 billion.

The regulatory financial impact to credit unions affected all areas of the institution, with the biggest impacts in Risk Management, Member Services and Lending. The costs in Risk Management are primarily in the form of additional employees and increased legal & advisory expenses to comply with regulations. In Lending and Member Services, the impact represents increased time by member-facing staff on regulatory activities (and less time with members) and higher technology costs to ensure their systems supported new regulations. Credit union-wide, the equivalent of about one staff member's time for every 4 employees is spent on regulatory compliance.

1 The 39% increase is based on regulatory change in costs from 2010 to 2014 as a percentage of assets. This approach effectively excludes the industry's growth over the last 4 years and allows better measurement of the real impact of regulation since 2010 versus increases due to growth. (The median asset growth for participants was 27% from 2010 to 2014 vs the industry average of 23%) If the industry's growth rate is included in the calculation, the increase in regulatory costs is closer to $2.5 billion.

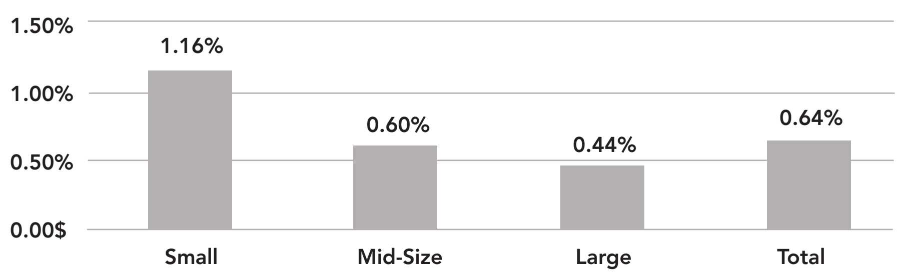
We also evaluated the results based on the size of the credit union:

- Small credit unions (Less than $115 million in assets)
- Mid-sized credit unions ($115 million to $1 billion in assets)
- Large credit unions (>$1 billion in assets)

When segmented by size, the results highlighted the disproportionate impact on smaller credit unions, as measured by the financial impact of regulation as a percent of assets as shown in the following chart. The median financial impact at the smaller credit unions at 1.16% of assets is two and a half times greater than the 0.44% median impact at larger credit unions. While the relative cost for large credit unions is lower, the dollar impact is significant. As an example, the median cost for a $1 billion institution equals $4.4 million compared to a $1.1 million regulatory cost at a credit union with $100 million in assets.

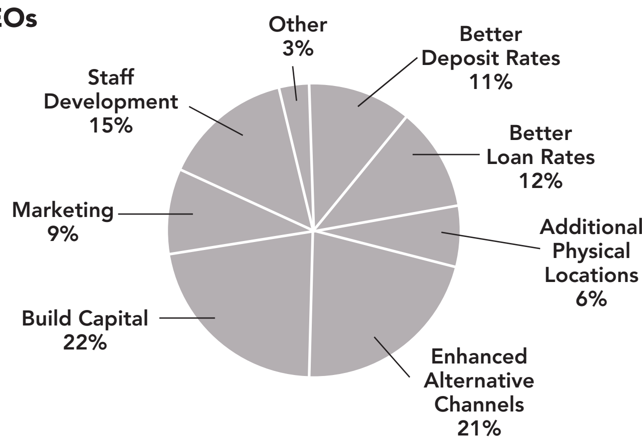
MEDIAN REGULATORY FINANCIAL IMPACT BY ASSET SIZE

(As a % of Assets)



We also asked Credit Union CEOs where the funds would have been reallocated if not spent on regulation. The vast majority of the reallocation focused on increasing member benefit — either in terms of better rates, lower fees, and / or enhanced products & services, as shown in the chart below.

REALLOCATION OF REGULATORY COSTS BY RESPONDENT CREDIT UNION CEOs



Our conservative estimate of the total financial impact of regulation on credit unions of $7.2 billion can serve as a benchmark against which policy makers can compare the benefits of regulation.

Assessment Approach and Overall Findings

Study Objectives and Approach

Cornerstone Advisors performed a two-phase study to quantify the financial impact of regulations on credit unions. The study focused on extensive data collection to ensure that findings and conclusions are fact-based and supported by analytical rigor.

Objectives and Scope

The study measured regulatory financial impact in two primary categories:

1. **Costs** such as staff, technology and 3rd party support expenses incurred because of regulations
2. **Revenues** not earned because of regulations, such as lost loan production and lower noninterest income

We summarize the findings in each of these categories and in the aggregate. In addition, we quantified the impacts into three groups based on asset size:

- Small credit unions (Less than $115 million in assets)
- Mid-sized credit unions ($115 million to $1 billion in assets)
- Large credit unions (More than $1 billion in assets)

The study covered all areas of the credit union and looked at regulatory costs as of today (using 2014 data — the most recent full year) as well as the changes to regulatory costs since the enactment of the Dodd-Frank Act (i.e., changes from 2010 to 2014).

While there is a wide range of regulations, the study focused on those banking and non-banking (e.g., ACA, IRS, etc.) regulations that have the highest impact. Rather than quantifying the impact of each and every regulation, we collected data based on the aggregate impact of all regulations for each function or department within a credit union.

Approach

We conducted the study in two phases:

Phase 1 – Initial Deep Dive Analysis of Three Credit Unions

Phase 2 – In-Depth Survey and Data Collection with 53 Credit Unions

Phase 1

The objective of Phase 1 was to identify the key regulations that had the most impact on the credit union industry, how those regulations affected credit union operations and how the effects differed based on the size of the institution. Three credit unions — one in each size group — participated in this Phase.

We conducted detailed interviews with management (including onsite visits), and reviewed credit union information & reports to identify the higher impact regulations that would form the basis for broader data gathering across the credit union industry as part of Phase 2.

The regulations that had the most impact centered on three main areas:

1. Lending (e.g., Card Act, Qualified Mortgages, etc.)

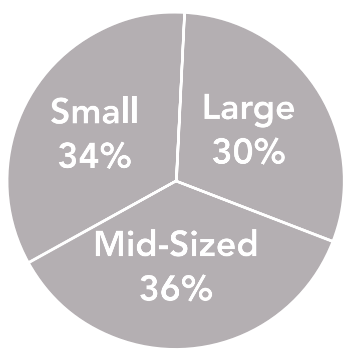
2. Non-interest income (e.g., Durbin, etc.)

3. Credit union-wide (e.g., IRS, Department of Labor, etc.)

Phase 2

Based on the findings from Phase 1, we sent an in-depth data collection survey to 53 credit unions nationwide. The respondents were evenly distributed across the three size groups:

SURVEY RESPONSE DISTRIBUTION BY ASSET SIZE



The survey covered the two primary impact categories:

1. Costs

2. Lost Revenues

The Cost category captured regulatory staff costs in the credit union. These staffing costs are defined as staff hired specifically to deal with regulatory compliance as well as staff time for other staff to perform regulatory-related activities. In addition, we captured technology and 3rd party service provider costs related to regulatory compliance across the entire credit union. We recognize that not all staff and non-staff costs are regulatory-related. As such and to be conservative, the cost estimate excluded costs related to non-regulatory activities (i.e., good business practice). The survey measured the amount of time that credit union staff (e.g., lenders, branch personnel, operations, risk management, etc.) spent on regulatory responsibilities versus their primary roles. As an example, time and resources to conduct reviews for adherence to internal underwriting policies are related to good business practices and processes and are thus not counted as regulatory costs.

We did not include any ancillary costs associated with the staff time driven by regulatory requirements such as occupancy costs or workstations for that staff. We included no allocation of overhead expenses.

Finally, the survey considered Lost Revenues from products and services no longer offered to members due to regulation as well as lower pricing (especially in interchange income) that reduced a credit union's ability to offer the breadth of products / services, better rates, and/or lower fees to members. Although several types of revenue reduction were cited by credit unions, especially in the area of reduced lending due to new regulations, the only revenue reduction that we included in the data analysis was lower interchange fee income. This is because credit unions were unable to definitively quantify the amount of reduced lending.

We reviewed the survey results, and incomplete information was discarded to ensure data completeness and consistency. In addition, information from the credit union's call report supplemented the survey responses to ensure data integrity and accurate size groupings. (See appendices for additional information on respondent demographics, an overview of the data collection & validation process and the survey sent to credit unions.)

Overall Findings

In this section we summarize the overall findings, first in terms of total financial impact, and then for each of the major components of the impact. In the following section, we provide more detail on the findings.

The median total financial impact of regulation for cost and revenue impacts equals 0.64% of assets with regulatory costs representing the bulk of the impact (0.54% of assets), and lost revenue making up the remainder at 0.10% of assets as shown in the chart below:

MEDIAN CURRENT FINANCIAL IMPACT BY IMPACT TYPE

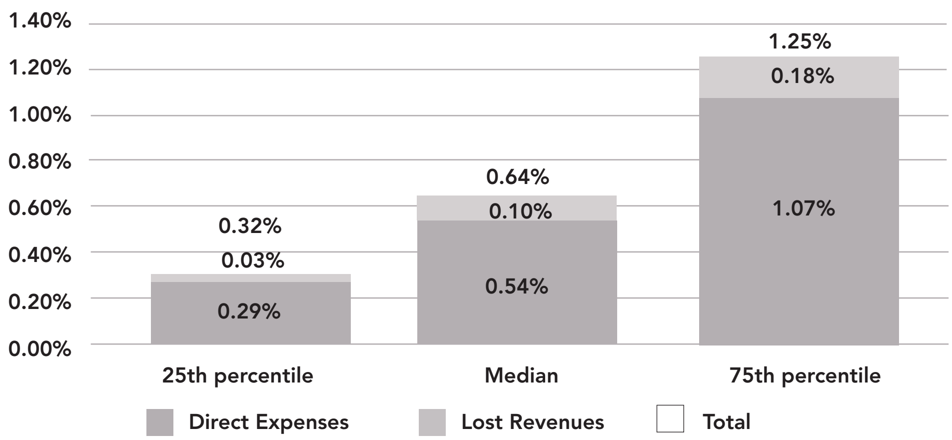
(As a % of Assets)

The median amount of 0.64% represents a significant portion of the 2014 industry net income or Return on Assets (ROA) of 0.80%. Even if the impact of Lost Revenues is excluded, the cost impact is about 68% of overall industry earnings and about 5% of the industry's $123 billion in net worth — representing a significant portion on a credit union's resources. The 0.54% cost impact industrywide equates to over $6 billion annually, and represents about 17% of the industry's $34.8 billion in operating expenses

The amount of regulatory financial impact relative to assets varies considerably around the 0.64% median as shown in the chart below. For a quarter of the credit unions studied, the total impact amounts to 0.32% of assets or less. However, for a quarter of credit unions, the impact of regulation represented at least 1.25% of assets. Most of this variation is driven by differences in the cost component as opposed to revenue impact.

ANNUAL REGULATORY FINANCIAL IMPACT BY IMPACT TYPE

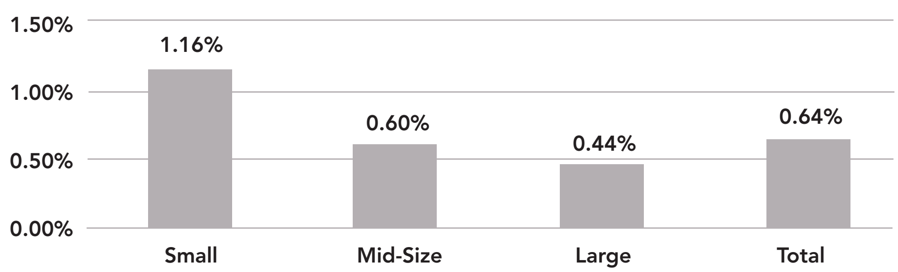
(As a % of Assets)



This dispersion is attributable to the varying impacts based on the size of the institution. One common theme throughout the findings is that, relative to asset size, small and mid-sized credit unions carry a disproportionately higher cost as illustrated in the chart below. However, even though the financial impact as a percent of assets is relatively lower for larger credit unions, the dollar amounts are substantial. As an example, the median cost for a $1 billion institution equals $4.4 million, compared to $1.16 million regulatory impact at a credit union with $100 million in assets.

MEDIAN REGULATORY FINANCIAL IMPACT BY ASSET SIZE

(As a % of Assets)

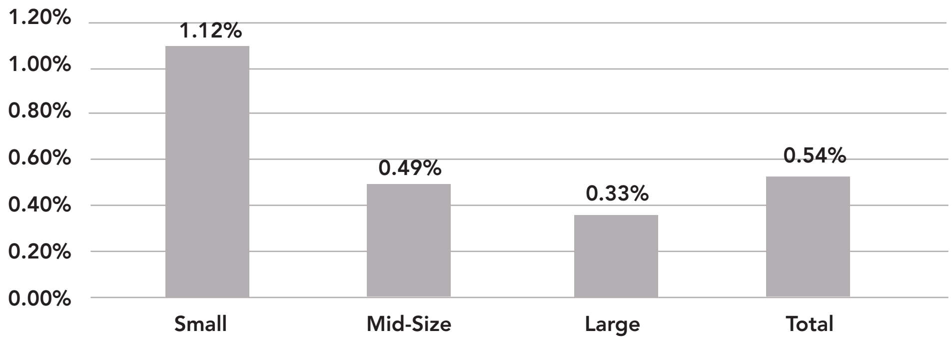


Cost Impact

The median regulatory cost impact is 0.54% of assets, which equates to $6 billion annually and is 17% of total industry operating expenses. The cost impact overall and by asset size is shown in the chart below and highlights how the impact skewed much higher for smaller credit unions, where the median impact is over three times higher for small credit unions (1.12% of assets vs 0.33% for large credit unions.)

REGULATORY COST IMPACT - OVERALL AND BY ASSET SIZE

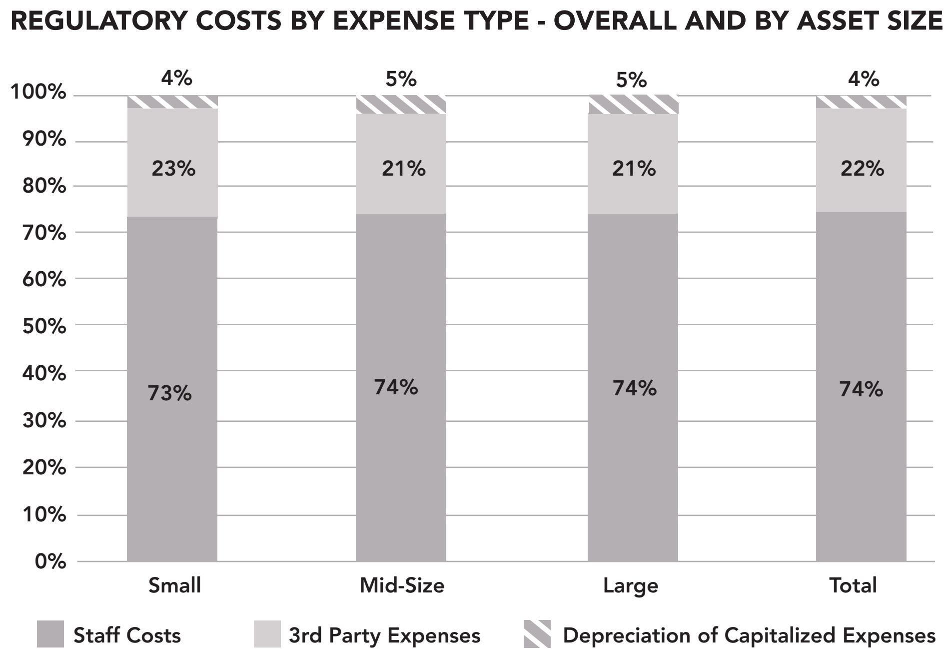
(As a % of Assets)



As context, statistics released by the NCUA for 2014 showed the average Return-on-Assets ratio (ROA) and Expense-to-Assets ratio for credit unions with $10 million to $100 million in assets as 0.37% and 3.65%, respectively. The median regulatory cost for a small credit union of 1.12% exceeded the average earnings of this size group and represented about 31% of its operating expenses. The impacts are slightly lower for mid-sized credit unions (NCUA grouping of $100 million to $500 million), but still substantial (80% of 0.61% ROA.) These credit unions do not expect their regulatory expenses to be zero, but their current levels are substantial and have increased dramatically over the past several years.

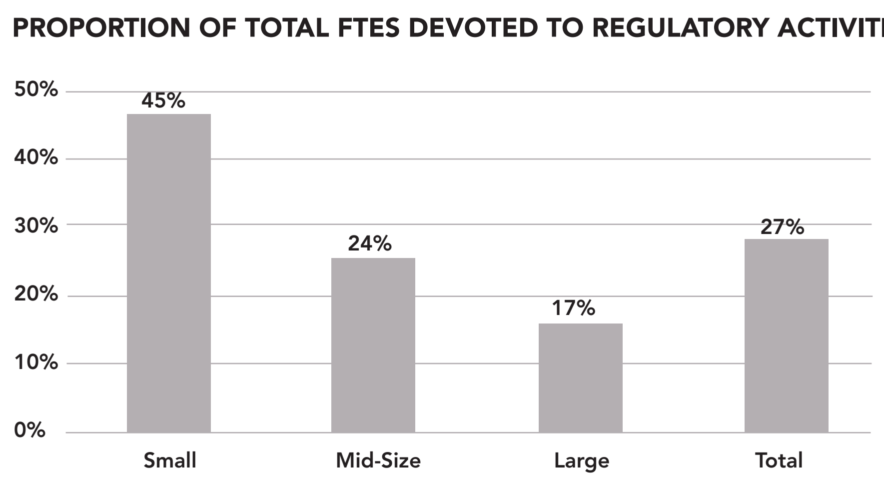
Large credit unions have lower relative impact because of their scale (e.g., more members and assets to spread the cost.) However, the absolute dollar amounts are still substantial. A $1 billion credit union with median regulatory cost of 0.33% would equate to over $3 million of regulatory-related expenses. Again, this represents a significant amount of dollars that could be reallocated to better serve members, improve savings or loan rates, reduce fees, or build capital.

When reviewing the most prevalent expenses, the majority represents staff costs across the entire credit union (about three-quarters of annual regulatory costs regardless of credit union size). 3rd party expenses include costs such as technology, consultants and outsourced services to meet regulatory requirements, while capitalized expenses are primarily technology spending that is amortized into earnings. The distribution is similar across asset sizes and highlights the need to attract qualified staff to keep up with and manage new regulations, as well as the level of change in technology and processes to comply with new regulations.



Staff Costs

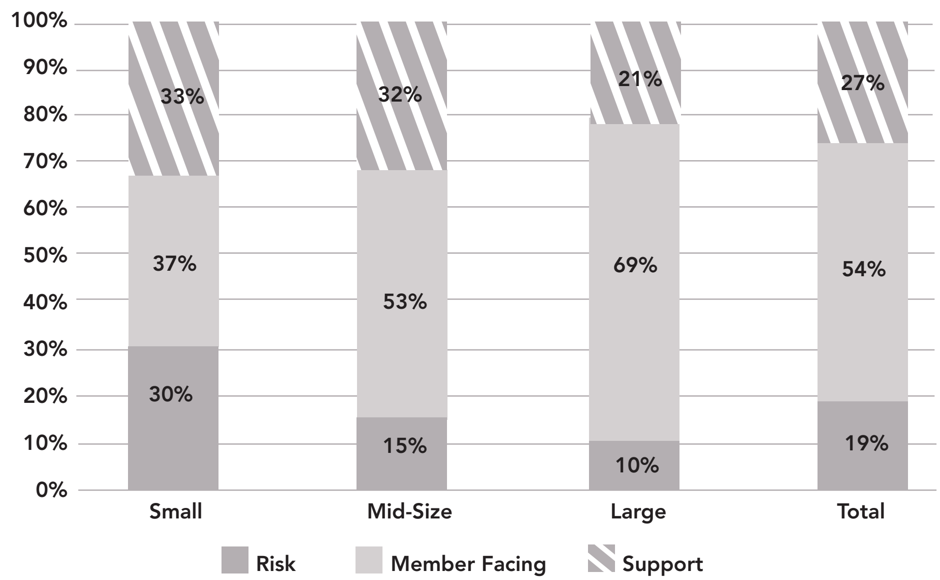
While staff cost is the largest component of regulatory costs, we also wanted to understand the impact relative to overall credit union staffing levels. The chart below shows median values for the proportion of total Full Time Equivalent (FTE) staff in the credit union that are devoted to regulatory activities. Overall, about one in four FTEs focused their time on regulatory compliance.



There are significant differences among the three asset classes, with smaller credit unions devoting almost half of their staff time to dealing with the impacts of regulations. Large credit unions have the scale to better absorb regulatory expenses in general, but this is especially true as it relates to staffing. A significant part of this is due to technology investments that can be made to increase the efficiency of several regulatory-related processes — investments that smaller credit unions often cannot afford.

Regulatory staff cost is not confined to the Risk area (e.g., compliance, internal audit, enterprise risk management, etc.) In fact, areas outside of Risk bear the largest regulatory staff costs. From a departmental perspective, over half of the regulatory staff impact occurs in member-facing groups such as branches, call centers and lenders, as shown in the chart below. While this is somewhat expected given regulatory consumer protections, the amount of re-directed activities toward regulatory compliance is substantial and reduces the amount of time that these member-facing employees spend in solving member needs and problems. This results in either reduced service levels and/or increased headcount. Support areas such as deposit and loan operations, finance, and marketing are impacted primarily by the disclosure and reporting requirements imposed on credit unions.

STAFF COST DISTRIBUTION BY STAFF TYPE - OVERALL AND BY ASSET SIZE



The distribution of staff costs among Risk, Member Facing and Support varies by credit union size. Compared to their larger counterparts, small credit unions experienced a lower proportion of regulatory staff time in member facing areas, and correspondingly more in the other two categories, particularly in risk areas. This higher mix of Risk staff costs for smaller credit unions highlights their lack of scale in this area. In addition, while their proportion of member-facing regulatory staff is lower, it has an outsized impact on small credit unions' ability to provide basic member services given their overall smaller staff levels. For larger credit unions, their more complex lending mix (particularly in mortgage) and the related regulations account for the higher relative staff costs in member-facing areas.

Lost Revenues

In interviews and on the survey, credit unions described substantial reductions in revenue because of lost loans that otherwise would have been made and on noninterest income lost due to regulatory actions, particularly as it relates interchange income.

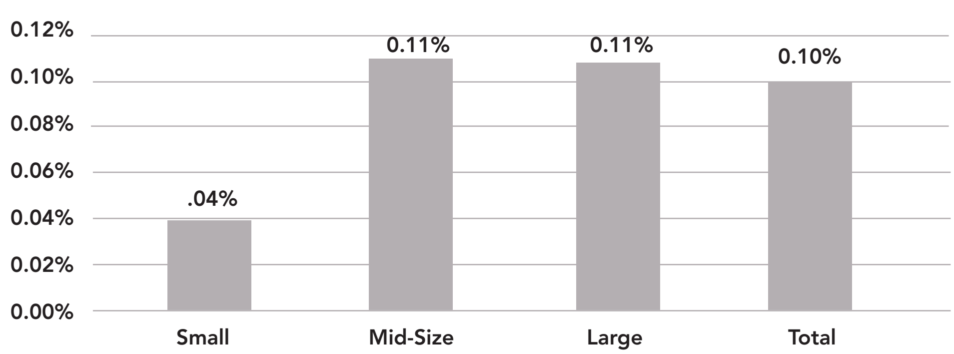
Smaller credit unions indicated significant negative revenue impact as regulatory requirements in areas like mortgages, open-ended lending and international wires forced them to terminate these products and services. The lost revenues are effectively a proxy in this case for a lower level of services to members. Credit unions in low income designated areas are most impacted as these are the type of products and services that members in those communities need.

However, despite identifying the fact that lending volumes and services were reduced, many of the respondent credit unions found it difficult to estimate by how much. In keeping with our conservative approach, although we note that the impact is likely substantial, we did not quantify it.

The area where we could quantify lost revenues was interchange income — which equated to about 10 basis points of credit union assets, as shown in the following chart. The Durbin Amendment had a direct impact on financial institutions over $10 billion in assets, but also created consequences that negatively impacted credit unions under $10 billion in assets. Specifically, the amendment created more competition among card processors (e.g., PINless debit, PIN Authenticated Visa Debit (PAVD)), resulting in lower average fees for both PIN and signature transactions. For this impact, we calculated lost revenues by applying the difference in the average transaction fees between 2010 and 2014 to the current transaction volume. While innovation and competition is generally positive, the positive impact has accrued to merchants at the cost of credit unions and ultimately members — in terms of lower capital and fewer investment dollars available to support member growth and needs. In this particular case, larger credit unions had the greater impact given the higher penetration and usage of debit cards by their membership.

LOST INTERCHANGE FEE INCOME - OVERALL AND BY ASSET SIZE

(As a % of Assets)

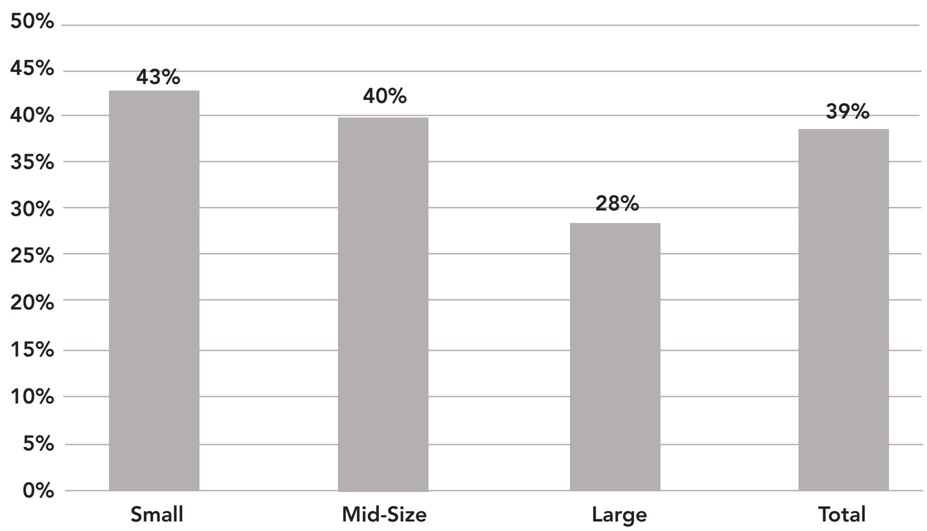


Increased Regulatory Financial Impact Since 2010

In addition to understanding the total regulatory financial impact today, the study also looked at how the financial impact has changed since 2010 when the Dodd-Frank Act was passed. The intent is to highlight how much additional financial impact credit unions incurred when their fundamental business models and mission have not changed much in that time frame.

Regulatory cost impact rose from 0.39% in 2010 to 0.54% in 2014, a 39% increase since 2010 – a large increase given the long history of credit unions and the short time from the Dodd-Frank Act to today. Again, smaller credit unions had the highest percentage increase (43%) due to lack of scale, as shown in the chart below.

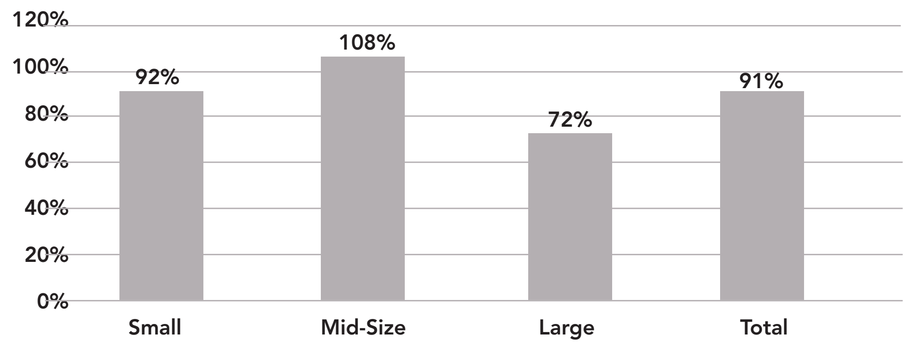
% INCREASE IN REGULATORY COST IMPACT SINCE 2010



To put this increase in context, total industry assets and expenses only increased 21% and 16%, respectively, from 2010 to 2014, while the industry operating expenses as a percent of assets actually decreased from 3.19% in 2010 to 3.05% In other words, the industry's efforts to be more efficient and productive has been significantly offset by the higher regulatory costs.

Staff cost is the most significant contributor to the increase in regulatory costs. The total staff time spent on regulatory compliance almost doubled since 2010 (91%), as shown in the chart below. Again, the increase in the burden was greatest for small and mid-sized credit unions. The double-digit average annual increase over the last 4 years impacted all credit unions regardless of size and far exceeded credit union growth rates during that same period.

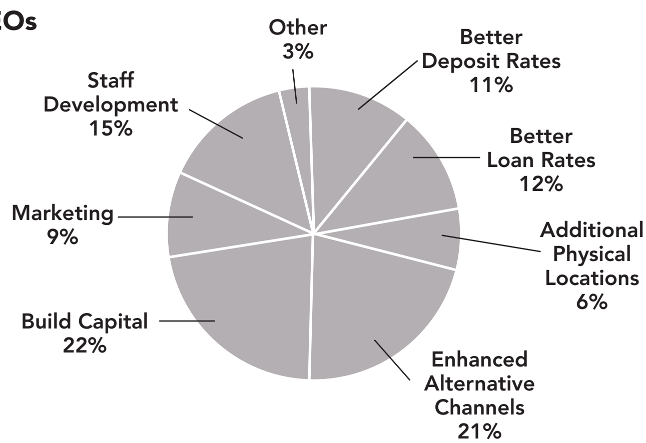
CUMULATIVE CHANGE IN REGULATORY FTES - 2010 TO 2014



Membership and Community Impacts

The resources to support the current regulatory cost could be re-directed to other uses that would benefit the member and the community. We asked the CEOs of the respondent credit unions where they would reallocate those resources, and the vast majority of the responses centered on providing better products / services and rates & fees to members. For larger credit unions, community giveback is also a high priority. The distribution of their responses is summarized in the following chart.

REALLOCATION OF REGULATORY COSTS BY RESPONDENT CREDIT UNION CEOs



Conclusions

The overall regulatory financial impact on the credit union industry is over $7.2 billion, with $6.1 billion (or 85% of the total impact) in costs. This is equivalent to 80% of industry earnings and 5.9% of net worth. The cost component of the financial impact equals 17% of industry expenses. All credit unions recognize that they are in a regulated industry and there will be a cost. However, the level of cost that regulations and regulators imposed has dramatically increased since the financial crisis and its aftermath. Annual regulatory costs as a percent of assets increased 39% since 2010 with higher staff and staff time devoted to regulatory activities making up most of that increase.

The percentage cost relative to credit union asset size is heaviest on smaller credit unions. However, the impact in absolute dollars is much higher for larger credit unions. These dollars would be redeployed to better rates / fees and products & services for members as well as community development.

There is no consensus on which regulations impose the greatest cost on credit unions. However, based on free form comments by respondents, four key themes emerged around the greatest causes of their current cost, especially over the past few years:

- Uncertainty and ambiguity around written rules
- Inconsistent application / interpretation of regulations by examiners
- Steady stream of regulations that create high levels of change management (e.g., death by a thousand cuts)
- One size fits all approach to regulation

These themes and the higher regulatory costs today underscore the increased risk in several areas:

- **Operational** – greater complexity in process and higher level of process change and training required
- **Compliance** – more and continuous regulations to track, monitor and incorporate into business processes
- **Strategic** – diverts resources from core mission and reallocates resources away from core business activities

The findings from this study will provide policymakers, credit unions and other stakeholders with the facts to perform a more robust cost-benefit assessment of the regulations (passed and pending) to determine what is an appropriate level of regulatory cost in light of credit unions' current level of regulatory cost and credit unions' mission of community and member service.

Detailed Findings and Conclusions

This section covers more in-depth results for each of the two major regulatory financial impact categories: Costs and Lost Revenues. In addition, it also addresses Strategic Impacts as they relate to resource allocation decisions.

SECTION	DESCRIPTION
Costs	Regulatory-related Staff and 3rd party expenses incurred throughout the major functional areas of the credit unions.
Lost Revenues	Revenue reductions as a result of regulations.
Strategic Impacts	Impacts to the credit union through the viewpoint of the CEOs. Insight on how resources would have been allocated if not for regulatory cost.

The regulatory financial impact estimates are based on data from systems of record from participants and conservatively calculated into quantifiable costs. Outlying data that appeared to be unrealistic due to the abnormally high financial impact was removed from the aggregate data in this study. To further demonstrate the full extent of regulatory financial impact, the study captured specific examples to explain impacts on credit unions and their members in addition to the conservatively quantified estimates. (See appendices for an overview of the data collection & validation process as well as free form comments and themes from respondents to illustrate examples.)

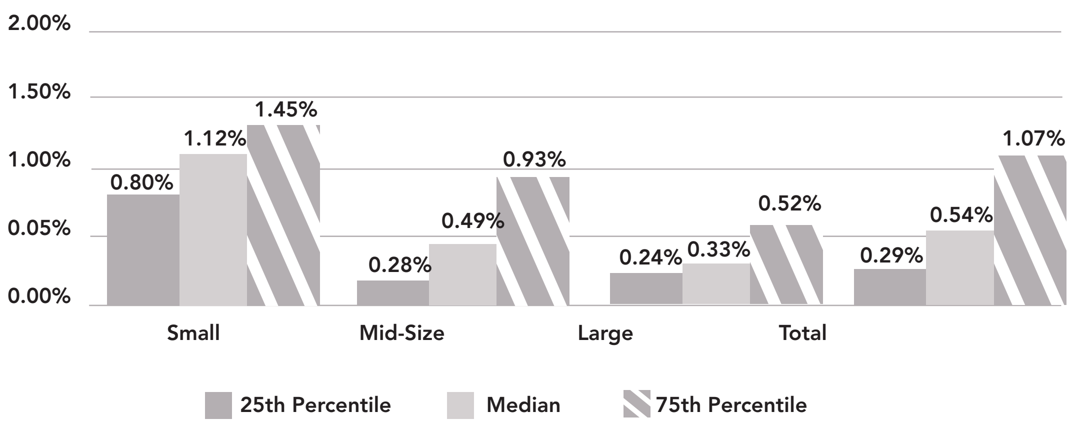
Our industry-wide estimates of the dollar cost and lost revenue impacts of regulation are derived by applying the medians of these impacts (expressed as a percentage of assets) at the study's subject credit unions to total assets for the credit union industry.

Cost Impact

Regulatory costs represent 0.54% of assets or $6.1 billion in cost, per the chart below. Scale does matter as seen in the higher relative impact of regulatory costs on smaller credit unions. The median ratio of regulatory costs to assets falls from 1.12% for small credit unions to 0.54% for large credit unions, as shown below. Even the cut-off point marking the lowest 25% of small credit unions in terms of regulatory cost (0.80% of assets) is higher than the cut-off for the top 25% of large credit unions (0.52% of assets.) In other words, over three quarters of small credit unions have higher ratios of regulatory impact to assets than the cutoff for the 25% of large credit unions with the highest ratios of impact to assets.

ANNUAL REGULATORY COST IMPACT - OVERALL AND BY ASSET SIZE

(As a % of Assets)



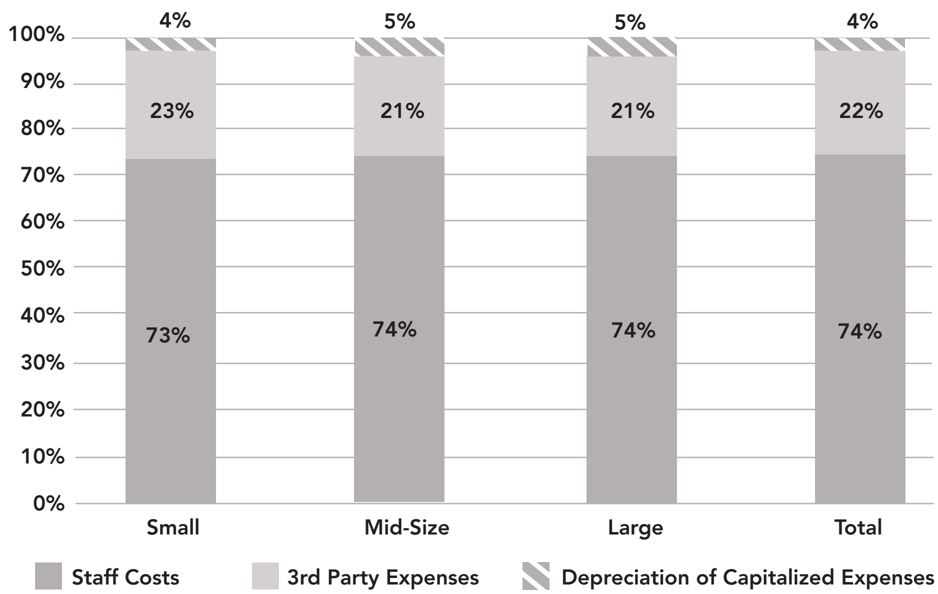
To estimate the cost amounts, we collected regulatory-related expenses across a variety of functions for the full calendar years of 2010 and 2014. We used the 2014 expenses to calculate the current total impact of regulatory cost, while using the 2010 data as a reference to determine how much regulatory expense changed over the last five years since implementation of the Dodd-Frank Act. The data collection also included both aggregate spending and the annual amortization & depreciation for capitalized costs as part of the study.

Regulatory costs are comprised of three primary types of expenses:

- Staff costs
- 3rd party expenses
- Amortization / depreciation for capitalized costs incurred between January 1st, 2010 and December 31st, 2014.

Per the chart below, staff costs make up about three-quarters of the total regulatory costs, with the mix very similar across asset sizes.

REGULATORY COSTS BY EXPENSE TYPE - OVERALL AND BY ASSET SIZE



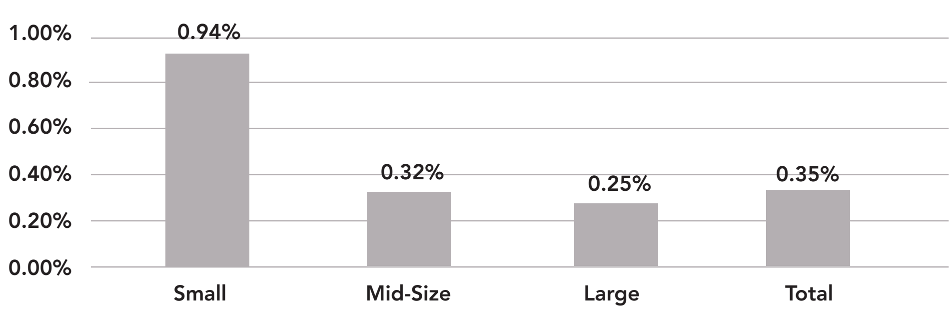
The following is a detailed review of each of the three cost components.

STAFF COSTS

Regulatory staff costs equate to about $3.9 billion annually, or 0.35% of assets. As a recurring theme, the impact is disproportionately higher for smaller credit unions as staff members usually perform multiple roles including regulatory compliance and these credit unions often cannot afford dedicated regulatory staff. For larger credit unions, the staff necessary to cover necessary regulatory activities can be spread over a larger asset base. The median regulatory staff cost for small credit unions (0.94% of assets) is nearly three and four times larger than mid-sized and large credit unions, respectively.

TOTAL REGULATORY STAFF COSTS - OVERALL AND BY ASSET SIZE

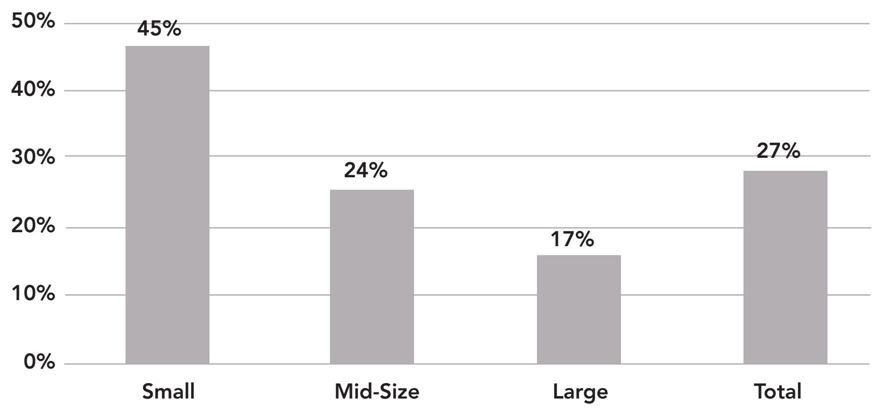
(As a % of Assets)



**Median costs for sub-categories may not add up to the median total cost for the combined category.*

Small credit unions are doubly impacted as they lose interaction time with members and often cannot afford to bring additional branch, lending or member service staff to offset the lost interaction time. This is seen in the chart below where almost half of the small credit union staff time is dedicated to regulatory activities. For the entire study group, about one in four FTEs focus their time on regulatory compliance.

PROPORTION OF TOTAL FTES DEVOTED TO REGULATORY ACTIVITIES



The study calculated staff costs by estimating the amount of staff and staff time dedicated to regulatory-related activities across all credit union functions and translating that time into cost amounts based on each credit union's average salary and benefit expense. We used three general classifications for the analysis:

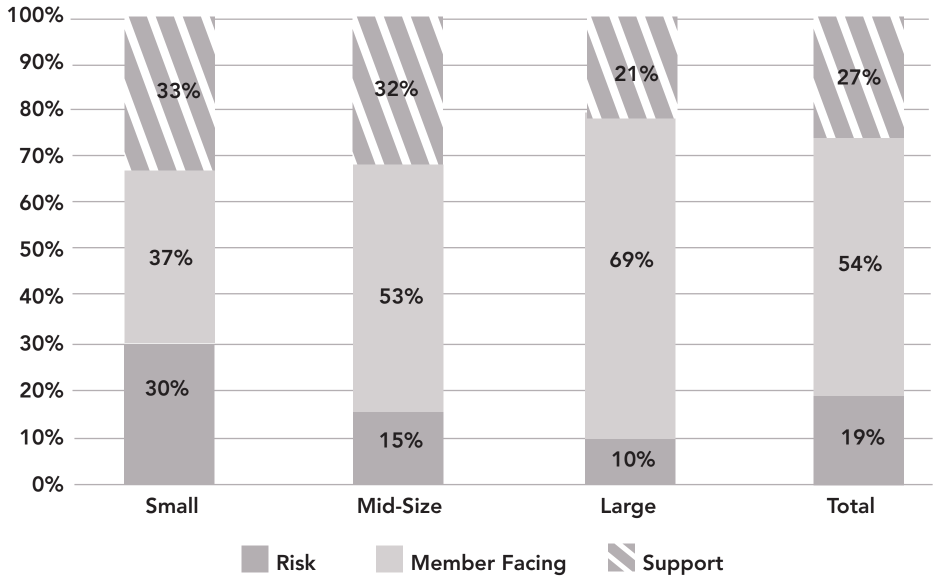
1. **Risk Management staff:** Employees who perform the following functions typically associated with regulation – Compliance, Internal Audit, Bank Secrecy Act (BSA) / Anti-Money Laundering (AML), Enterprise Risk Management (ERM), Vendor Management

2. **Member-Facing Staff:** Employees who interact directly with members (e.g., tellers, branch and lending staff) or support a channel that directly interacts with a member (e.g., online banking)

3. **Support Staff:** Employees who do not typically interact directly with members and support the member-facing staff (e.g., finance)

The chart below shows the distribution of staff regulatory costs across the three staff groups, by credit union size and overall. Just over half (54%) of staff costs are incurred in the member facing areas, which not only impacts productivity, but also the credit union's ability to serve its members. Just over a quarter (27%) of regulatory staff costs are in risk management, and just under a fifth (19%) are in support areas.

STAFF COST DISTRIBUTION BY STAFF TYPE - OVERALL AND BY ASSET SIZE



Risk Management

Our definition of Risk Management includes the following functions:

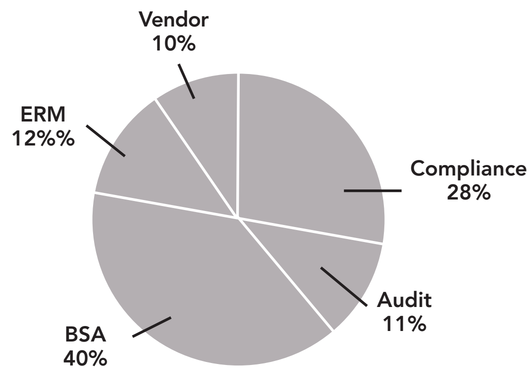
1. General Compliance
2. Internal Audit
3. Bank Secrecy Act (BSA) / Anti-Money Laundering (AML)
4. Enterprise Risk Management (ERM)
5. Vendor Management

The Risk Management staff cost (quantified using salary and benefits) dedicated to regulatory-related activities made up a sizeable contribution to the total staff cost for all credit unions, making up 19% of total regulatory staff costs as shown in the above chart. As with other regulatory related costs, Risk Management staff costs have a disproportionate impact on small credit unions relative to assets. The median Risk Management regulatory staff expense as a percent of assets for small credit unions (0.23%) is five and ten times higher than those of mid-sized (0.05%) and large credit unions (0.02%), respectively. Scale is a significant factor in achieving Risk Management staff leverage.

Not all Risk Management staffs' time is spent on regulatory compliance. Their responsibilities also relate to oversight of general business practices and policies, and their time spent on these activities is excluded from the regulatory cost estimates.

The distribution of regulatory staff costs across the various Risk Management functions is similar regardless of asset size and is shown in the chart below. Bank Secrecy Act and Anti-Money Laundering and General Compliance take up the bulk of staff expense in Risk areas.

DISTRIBUTION OF REGULATORY DIRECT STAFF EXPENSE BY RISK MANAGEMENT FUNCTION



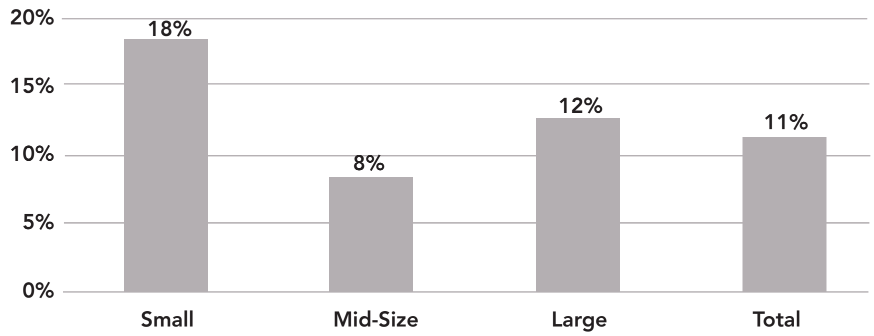
The staff time devoted to BSA compliance is the most significant category, with 40% of the total. Unlike other Risk Management functions, close to 100% of a BSA employee's time is related to regulatory requirements. It is common for financial institutions to centralize this function as much as possible to achieve scale to minimize the impact on other employees such as branch personnel.

Member-Facing Staff

The member-facing staff is the largest contributor to regulatory staff costs, accounting for 54% of total regulatory staff costs — with the highest proportion at larger institutions (69%), which have larger branch networks and staff as well as more member-facing lending personnel. The cost for member-facing staff equals $2.1 billion in cost, or 0.19% of assets (54% of the overall median regulatory staff costs of 0.35% of assets.) This amount does not include the impact of lower usage of products and services due to less sales and service time spent with members.

When looking at how the amount of regulatory time compares to overall work time, more than 1 in 10 overall or total credit union staff are member-facing staff focused on regulatory requirements rather than serving members. The following chart shows the equivalent member-facing staff performing regulatory activities as a percent of the total credit union staff.

MEMBER-FACING REGULATORY STAFF AS A % OF CREDIT UNION STAFF - OVERALL AND BY ASSET SIZE



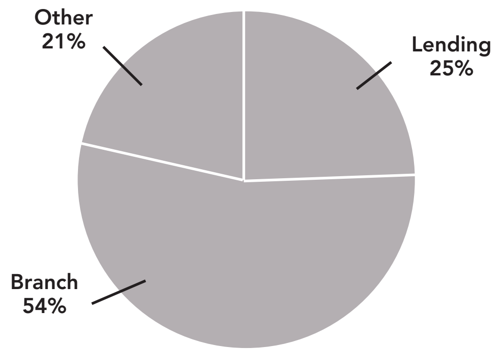
Similar to the Risk Management staff, small credit unions have the highest proportion of member–facing staff performing regulatory tasks. At the credit unions, these activities are typically a portion of an employee's job, and the time on regulatory activities would likely be reallocated from member-facing activities like servicing and sales. As such, these may be considered more "soft costs" that may not show up in earnings, but still have significant economic impact. In addition, these smaller credit unions often cannot afford to hire additional member-facing staff to replace the lost member interaction time.

Within member-facing staff, we grouped them into three general functions:

1. **Lending:** Mortgage, consumer and business lending originations
2. **Branch:** All staff located at branches
3. **Other:** Combination of other activities such as collections, call center and retail administration

The highest portion of member-facing staff costs is in the branches with 54% of the cost as shown below, and this was consistent among all asset classes.

MEMBER-FACING REGULATORY STAFF BY FUNCTION

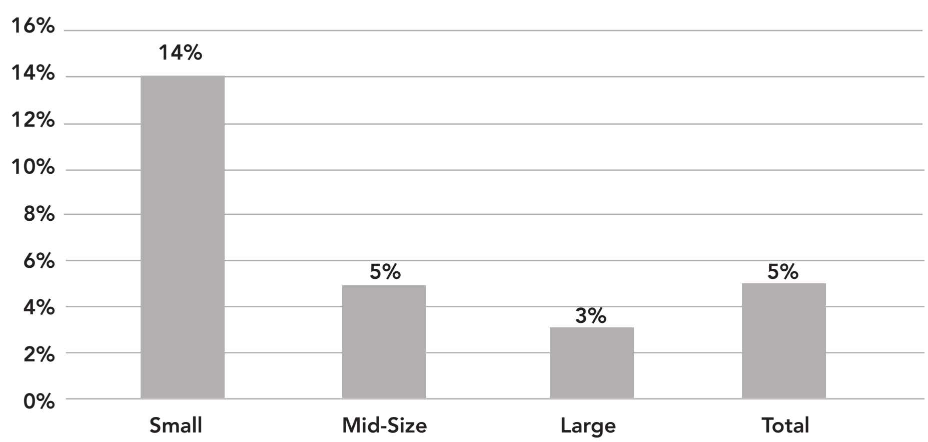


Although the overall allocation was roughly the same regardless of asset size, there was a slight difference observed within the Lending function. Large credit unions reported more regulatory related staff in mortgage originations, while small and mid-sized credit unions showed more allocated to consumer loan originations. This is due to differences in the credit unions' business model and their lending focus, with smaller credit union being less active in mortgage lending.

Support Staff

The staff cost for support staff equals $1.0 billion in cost, or 0.09% of assets (27% of overall median regulatory staff costs of 0.35% of assets). Again, small credit unions have a higher portion of support staff dedicated to regulatory activities (14%) vs the overall median of 5%. The following chart shows the support staff performing regulatory tasks as a percent of the total credit union staff.

SUPPORT REGULATORY STAFF AS A % OF TOTAL CREDIT UNION STAFF

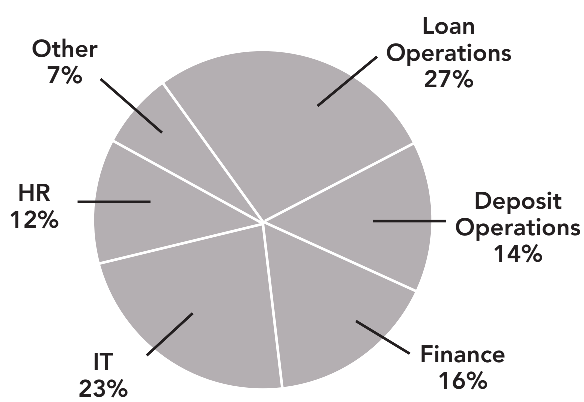


While the difference between small and large credit unions is significant for member-facing staff, it is even more so for support staff. The spread in terms of regulatory staff as a percentage of total credit union staff between large and small credit unions is 11 percentage points (3% vs 14%) for Support staff vs only a 6 percentage point difference for member-facing FTE (12% vs 18%). Support functions are typically more scalable operationally and this translates into the larger difference in the results above. In addition, the scalability is aided by investments in technology that larger credit unions can afford more than their smaller peers.

It would appear the activities associated with regulatory compliance are more easily absorbed in back office, non-member facing positions due to the benefit of scale as described above. In other words, it is better to consolidate regulatory activities wherever possible away from the member so there are more opportunities for member-facing staff to interact with members.

Regardless of asset size, the two largest support areas related to regulatory cost are Loan Operations, which consists of mortgage, consumer and business lending servicing, and Information Technology, as shown in the following chart.

SUPPORT REGULATORY STAFF BY FUNCTION



Loan Operations deal with collections and servicing regulations, while the IT departments focus on implementing new regulatory requirements (e.g., reporting, new controls, etc.) within existing systems or implementing new systems to comply. For example, one participant estimated that approximately 20% of the software releases are related to regulatory and IRS items. Moreover, each release required two staff members to perform testing and updates for 2 – 3 weeks. While the IT employee time dedicated to regulatory related tasks is included in this category, the lost opportunity and delays to perform updates for business applications and its impact is not a quantifiable part of the study.

3RD PARTY EXPENSES

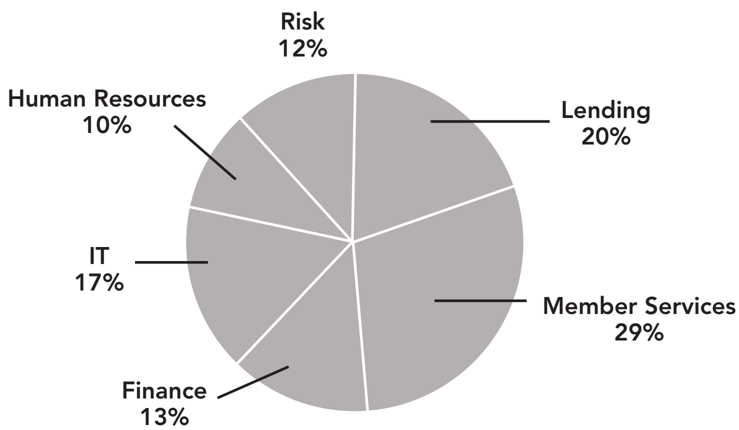
3rd party expenses are the second largest cost category after staff costs, and equate to about $1.3 billion annually, or 0.12% of assets (22% of overall median regulatory costs of 0.54% of assets.) The 3rd party expenses spanned the entire credit union and covered activities such as Bank Secrecy Act, mortgage originations, online / mobile / ATM support, disclosures, legal and training. (Note that overhead costs such as workstations, supplies, etc. for additional regulatory-related staff are not included in the expense cost calculations due to the study's conservative approach, even though these are real costs related to regulation.)

Survey participants provided 3rd party expense data for almost 30 sub-functions (See Appendix for more details). The following table describes the six broad groups used for analyzing 3rd party expenses, along with the description for each:

PRIMARY FUNCTION	REGULATORY EXPENSE SUB-FUNCTIONS
Lending	• Mortgage Originations and Servicing • Consumer Lending Originations and Servicing • Business Lending Originations and Servicing • Credit Administration • Collections • Other Lending Expenses
Member Services	• Branches • Retail Administration • Call Center • Online, Mobile and ATM • Disclosures • Deposit Operations
Finance	• Finance • Asset Liability Management (ALM)
Information Technology (IT)	• IT Expenses (e.g., application updates)
Human Resources	• Human Resources Expenses (e.g. Affordable Care Act Compliance, Department of Labor Reporting) • Internal Training (e.g., Training Materials) • External Training (e.g., Conferences, Seminars)
Risk	• Compliance • Audit • BSA / AML • Enterprise Risk Management (ERM) • Vendor Management • Legal

The distribution of 3rd party expenses across each of the groups is shown in the following chart.

DISTRIBUTION OF REGULATORY 3RD PARTY EXPENSES BY FUNCTION



The distribution is roughly the same across the three asset size groups. Member Services required higher 3rd party expenses primarily driven by the cost of updating and sending disclosures & branch-related expenses. Although the Finance group was the third lowest proportion of 3rd party expenses, the cost of regulatory reporting compliance was highly emphasized by CFOs — particularly for large credit unions where it accounted for 60% of Finance's regulatory expenses.

CAPITALIZED COSTS

The annual amortization and depreciation expenses for capitalized regulatory costs represent a small component of regulatory costs. These costs are generally technology investments (e.g., licensing fees, computer hardware, etc.) that are amortized over a five year period.

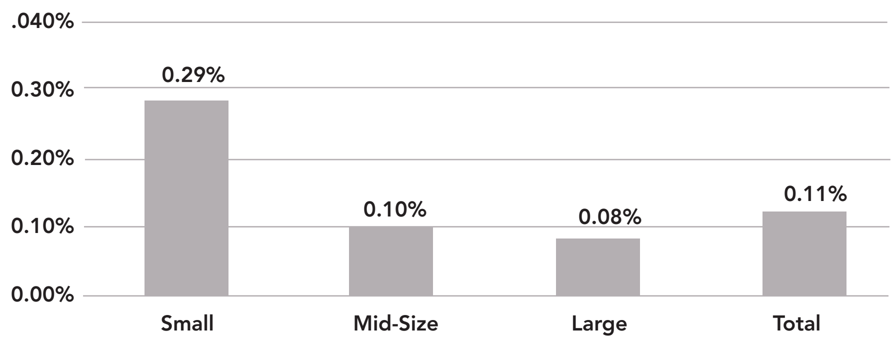
These costs equate to about $225 million annually, or 0.02% of assets (4% of overall median regulatory cost of 0.54% of assets.) While the annual expense is low, the actual capital expenditure outlay from 2010 — 2014 is significant. Per the chart below, total regulatory capital expenditures over the last 5 years equal 0.11% of 2014 assets, or $1.2 billion dollars.

Although survey participants provided capitalized costs incurred between 2010 and 2014 for regulatory compliance across the same set of nearly 30 sub-functions as previously referenced, only the annual amortization / depreciation is included in the regulatory costs for 2014. In other words, only one-fifth of regulatory capital expenditures incurred from 2010 to 2014 are included in the annual regulatory costs amounts.

Capitalized costs relative to assets vary considerably by credit union size. They are substantially higher for small credit unions in part due to the fixed costs related to hardware and some software licenses. For example, a server will generally cost the same across all credit unions regardless of size. In fact, the absolute cost may sometimes be higher for smaller institutions since they do not benefit from volume discounts.

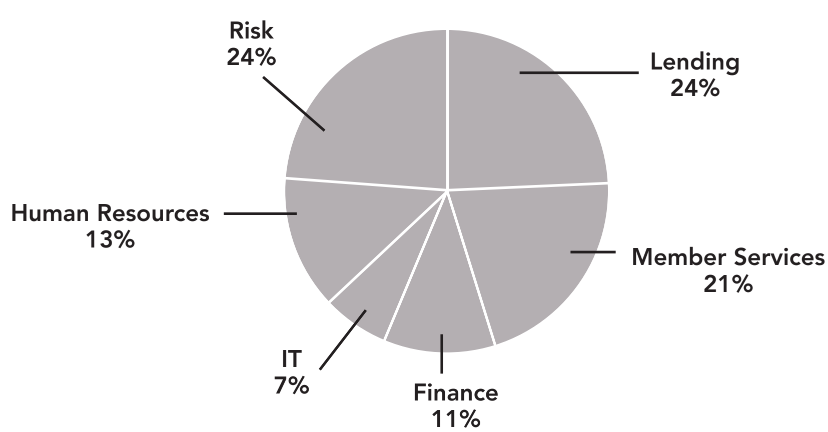
TOTAL CAPITALIZED COSTS FROM 2010-2014 - OVERALL AND BY ASSET SIZE

(As a % of 2014 Assets)

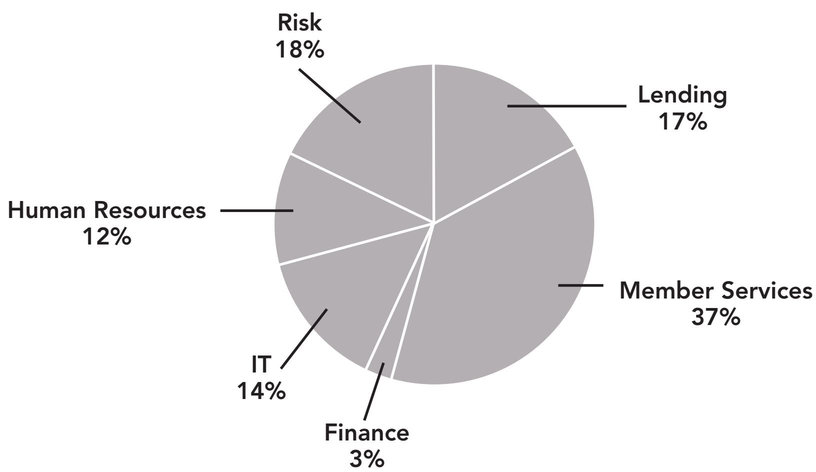


Capitalized costs are grouped into the same six categories as the 3rd party expenses. The distribution of these costs varies by credit union size, as shown in the following charts. The largest credit unions spent a considerable amount of capital expenditures in Lending given their broader and larger lending operations. In total, 25% of the large credit union respondents reported investments of over $2 million between 2010 and 2014. On the flip side, the proportion of funds invested in Member Services and Risk decreased with asset size due to scale. The relatively higher expenses in the Risk category for small and mid-sized size credit unions relate to investments for compliance, audit and BSA / AML where they combined to represent the majority of the spending in this area. Discontinuing some products and services (given lower relative volumes) to avoid making the required investments contributed to lower non-Risk investments for smaller credit unions.

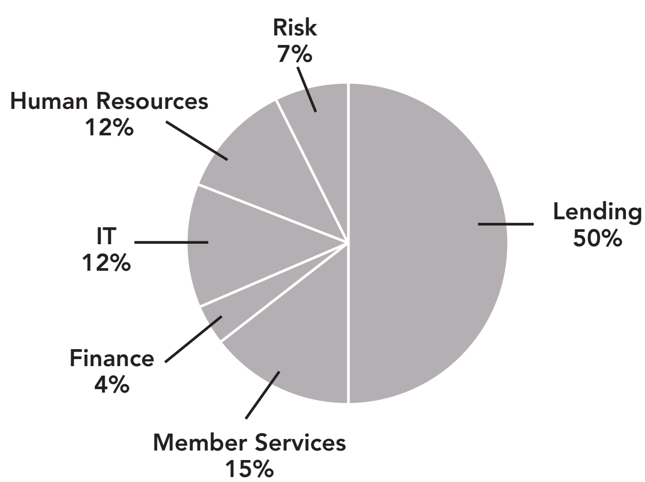
DISTRIBUTION OF CAPITALIZED COSTS BY FUNCTION - SMALL CREDIT UNION



DISTRIBUTION OF CAPITALIZED COSTS BY FUNCTION - MID-SIZED CREDIT UNION



DISTRIBUTION OF CAPITALIZED COSTS BY FUNCTION - LARGE CREDIT UNION



Lost Revenues

The survey looked at several sources of lost revenues across credit unions and how the extent of any reductions varied widely based on size, strategy and member base. The study focused on the most notable sources of lost revenue based on feedback in Phase I of the study. The primary sources are as follows:

- Interchange Income
- Qualified Mortgage (QM) Originations
- Multi-Feature Open-End Lending (MFOEL) Originations
- Member Business Lending (MBL) Originations
- Non-Sufficient Funds (NSF) / Overdraft (OD) Income

Although many credit unions described reductions in various types of lending brought about by new regulations, very few were able to quantify the impact. The impact on Non-Sufficient Funds (NSF) / Overdraft (OD) Income is driven primarily by member behavior rather than any specific regulations. The one exception is Regulation E's impact on courtesy pay adoption given confusion by both credit union staff and member as to rules and applicability. However, the impact could not be quantified reasonably. We also asked participants to provide revenue reductions incurred by Wealth Management, Insurance and Mortgage (if a separate affiliate), but results showed minimal impact in these areas.

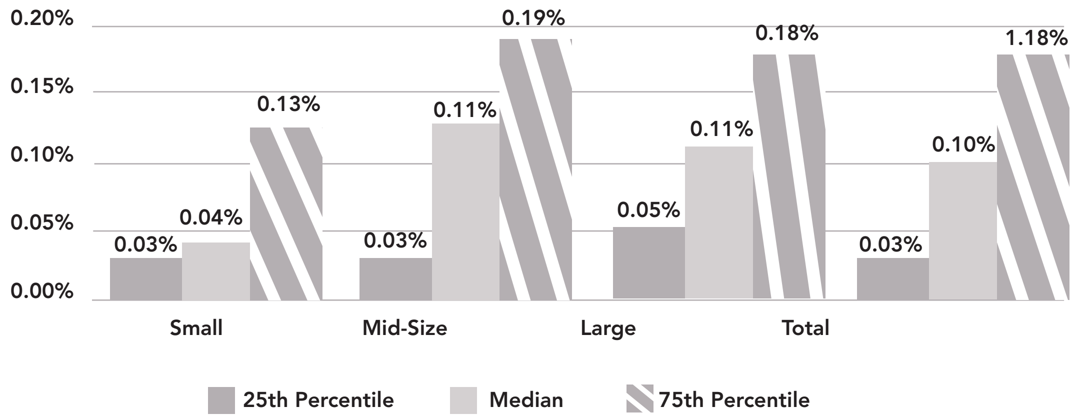
Based on the difficulty of quantifying most of these effects, and to be conservative in our estimates, the only revenue stream we quantified for lost revenue is interchange income. Our results therefore understate the actual amount by which regulations have reduced credit union revenue.

INTERCHANGE INCOME

The only quantifiable contributor to Lost Revenues included in the study is lower interchange fees. The quantifiable impact of Lost Revenues is 0.10% of assets, or $1.1 billion. This represents 13% of 2014 industry earnings. The analysis used point of sale (POS) transactions and the proportion that are PIN vs signature as provided by the survey participants. It also utilized debit card interchange fees taken from a Federal Reserve study, "Average Debit Card Interchange Fee by Payment Card Network", revised as of May, 2015. Large credit unions generally had more detail regarding interchange transactions than smaller credit unions. Therefore, the total amount of revenue reduction in this category is primarily found in the large credit unions where the data was available. The following chart shows the lost interchange revenues as a percent of assets.

LOST INTERCHANGE FEE INCOME - OVERALL AND BY ASSET SIZE

(As a % of Assets)



The Durbin Amendment had a direct impact on financial institutions over $10 billion in assets, but also created unintended consequences that negatively impacted credit unions under $10 billion in assets. Specifically, the amendment created more competition among card processors (e.g., PINless debit, PIN Authenticated Visa Debit (PAVD)), resulting in lower average fees for both PIN and signature transactions. For this impact, we calculated lost revenues by applying the difference in the average transaction fees to the current transaction volume. While innovation and competition is generally positive, the positive impact has accrued to merchants at the cost of credit unions and ultimately members — in terms of lower capital and fewer investment dollars available to support member growth and needs.

It should be noted that total interchange revenues have actually increased through higher card usage volumes to offset the lower per-transaction fee. The lost revenues represent the revenues the credit unions would have earned at the historical rates vs the current lower rates.

REDUCTION IN ORIGINATIONS & OTHER SERVICES

As described above, the survey sought to estimate lost loan originations across mortgages, consumer loans and member business lending (MBL) due to regulations related to Qualified Mortgages (QM), Open-Ended Lending (e.g., CARD Act) and the MBL cap. While several credit unions reported a reduction in originations in one or more of the loan types above, over half of the survey participants (68%) did not report a reduction in originations for one of three reasons:

1. The product was never offered
2. The credit union was not comfortable estimating a fair decrease
3. The impact on originations was considered to be minimal

Any reported impacts were relatively minor. In other words, there is a real impact to individual members who are no longer offered these loan products or could not qualify under the new rules, but the overall impact to the membership is relatively low. (While both survey respondents and the industry as a whole have been vocal about regulatory impacts to member lending, we asked participants to withhold from providing a quantifiable estimate in lost originations if they were not able to do so with reasonable accuracy — consistent with the conservative approach of this study.)

Although the total impact is small, it is critical to note there are individual credit unions where the impact is significant. For example, a large MBL originator very confidently reported a loss of $150 million in business loans per year, which equates to over $6 million in lost revenue. The MBL cap severely limited business growth on what they observe to be a relatively low risk portfolio.

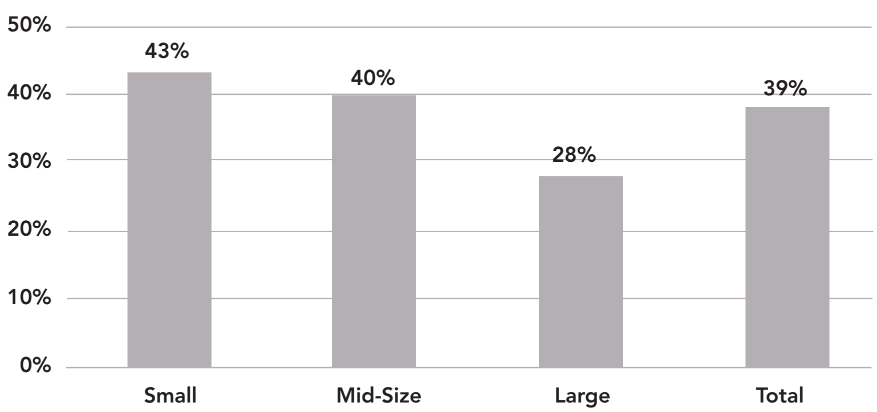
How Regulatory Impact Has Changed from 2010 to 2014

Regulatory changes have put both pricing pressure on revenues while increasing the regulatory requirements around core business processes such as lending, credit administration and financial reporting.

The cost impact of regulation has risen considerably as regulations and more in-depth examinations have been implemented since 2010 — in terms of both external spending and more staff and staff time spent on regulatory compliance. (This analysis excludes any capitalized costs that occurred over the last 5 years.) Regulatory cost impact rose from 0.39% in 2010 to 0.54% in 2014, a 39% increase since 2010 — a large increase given the long history of credit unions and the short time from the Dodd-Frank Act to today.

To put this increase in context, total industry assets and expenses only increased 21% and 16%, respectively, from 2010 to 2014, while the industry operating expenses as a percent of assets actually decreased from 3.19% in 2010 to 3.05%. In other words, the industry's efforts to be more efficient and productive has been significantly offset by the higher regulatory costs.

% INCREASED IN REGULATORY COST IMPACT SINCE 2010

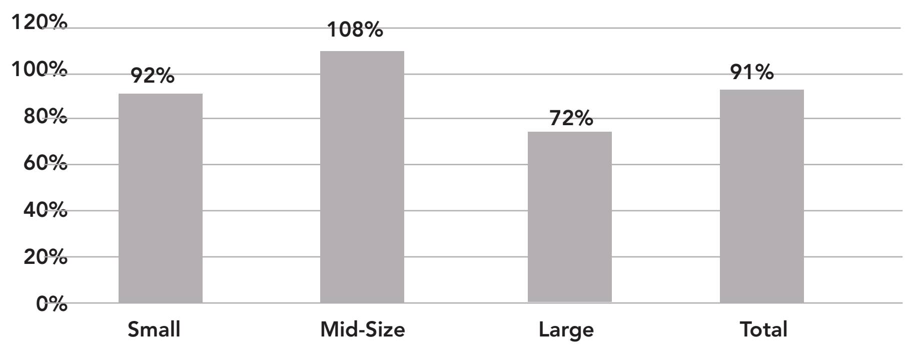


The increase is highest for small credit unions (43%) given the lack of scale. Although large credit unions have the advantage of scale and may have the lowest percentage increase, they incurred the largest total dollar increase over the last 4 years. As an example, a $1 billion credit union would have been incurring about $2.6 million annually in regulatory-related costs as of 2010 (based on the study's median calculation). However, that amount would have increased to about $3.3 million by 2014 to remain compliant. In absolute terms, the $700,000 increase for large credit unions is more than double the dollar increase of a small credit union. (A $100 million credit union's regulatory cost would have increased $340,000 — from $760,000 in 2010 to $1.1 million in 2014.)

STAFF INCREASES: 2010-2014

Since 2010, credit unions nearly doubled the FTE for regulatory activities as shown in the chart below. This increase covered both additional staff as well as more time from existing staff spent on regulatory activities. As an example, mortgage processors spend more time on disclosures and other mortgage regulations, with the credit union bringing in more processors to handle the current business (vs hiring a dedicated mortgage compliance person). In other words, the impact was additional headcount and lower productivity.

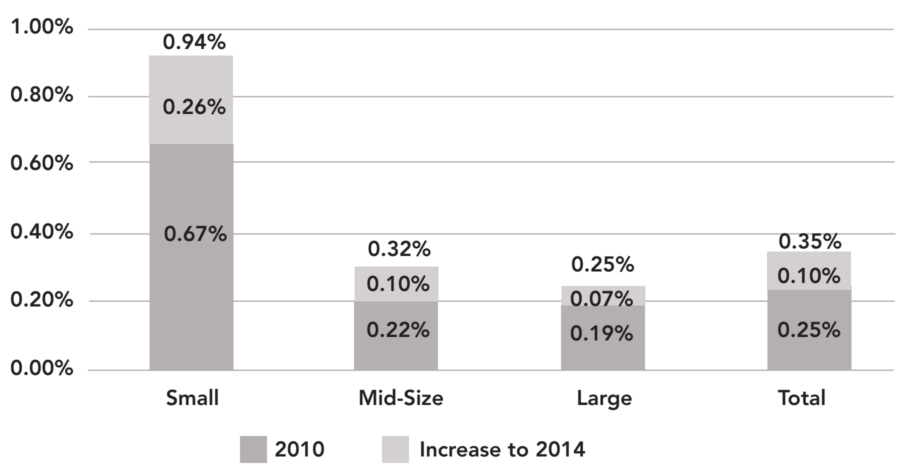
CUMULATIVE CHANGE IN REGULATORY FTEs - 2010 TO 2014



Moreover, the benefits of scale for support staff played a critical role in limiting the total staff increases for larger credit unions, as shown in the following chart where the increase is 0.26% of assets for small credit unions compared to 0.10% and 0.07% for mid-size and large credit unions, respectively.

CHANGE IN STAFF COSTS SINCE 2010 - OVERALL AND BY ASSET SIZE

(As a % of Assets)



Regardless of scale, the net increase in staff impact has been a significant hardship for all credit unions. A $1 billion credit union would have incurred an additional $1,000,000 in salary and benefits costs per year since 2010 (based on the ten basis point increase from 2010-2014).

Strategic Impacts

In addition to the extensive data collection, the survey solicited respondent CEOs' viewpoints of where they saw the greatest increases in regulatory impacts in terms of increased expenses, reduced revenues, and reduced productivity. We also asked CEOs how their credit unions would have potentially reallocated the resources if those resources were not spent on regulatory activities.

PERCEIVED VS REAL IMPACTS

The perceived impacts to the credit union are nearly unanimous regardless of the asset size. The top three rankings are as follows:

Direct Expenses

1. Compliance

2. Mortgage Lending

3. Internal Audit / Risk Management

Productivity Impacts

1. Compliance

2. Mortgage Lending

3. Consumer Lending

Lost Revenues

1. Mortgage Lending

2. Debit Cards

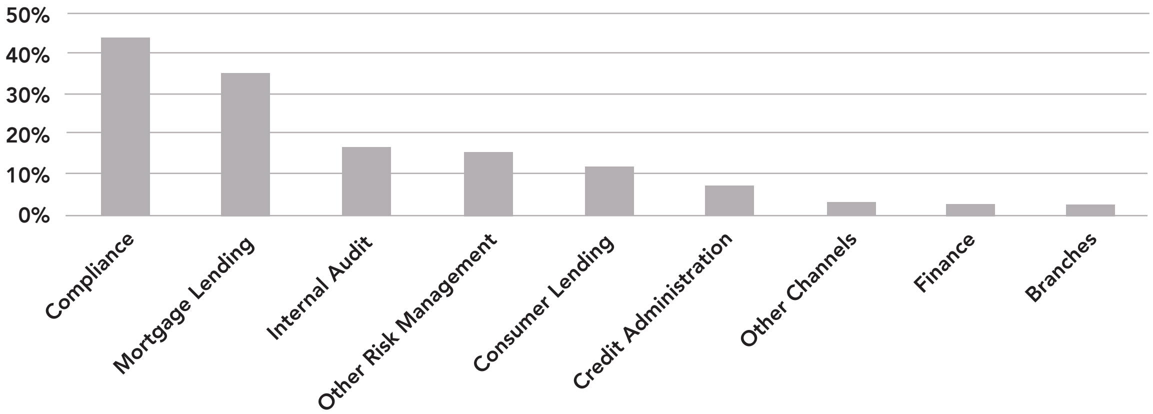
3. Payments (e.g., NSF, courtesy pay)

There was very little difference when comparing CEO responses across asset classes. The most notable difference was that the large credit union CEOs ranked Mortgage Lending as the highest impact in all three categories. This reflects mortgage lending being a significant part of large credit union's business model, while Compliance costs are more easily absorbed due to scale. The lost revenue related to Debit Cards is directly related to the significant decrease in interchange revenues felt across the industry, as discussed in the Lost Revenues section.

The results of their responses are summarized in the following charts.

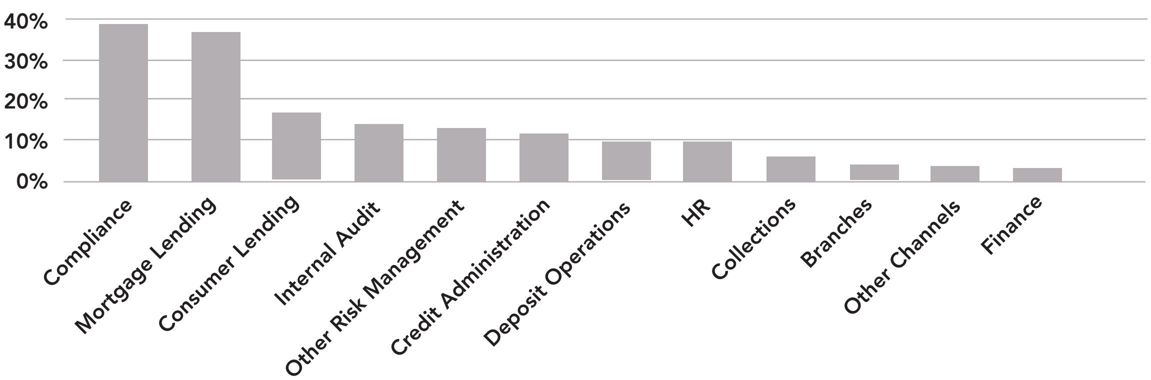
AREAS WITH HIGHEST REGULATORY EXPENSES

(Based on # of CEO selections)



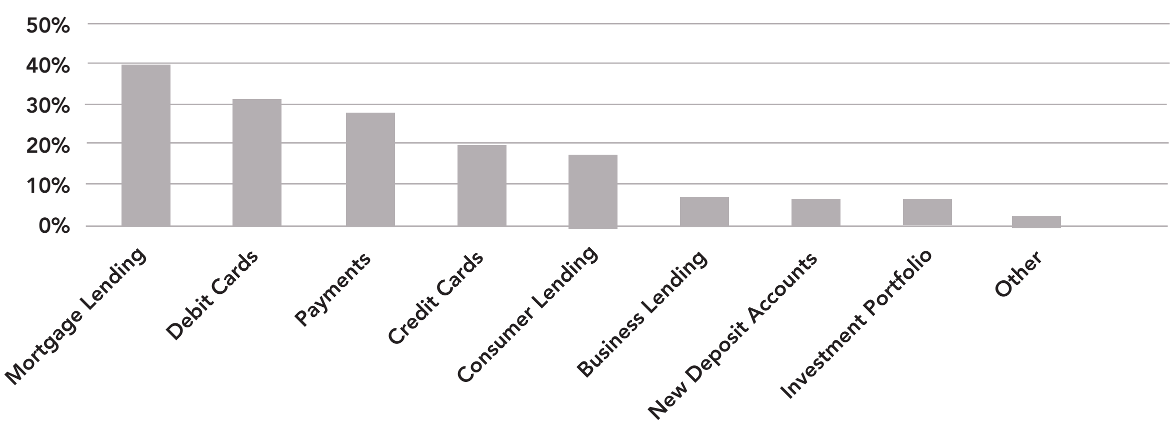
AREAS WITH GREATEST PRODUCTIVITY IMPACT

(Based on # of CEO selections)



AREAS WITH MOST LOST REVENUES

(Based on # of CEO selections)

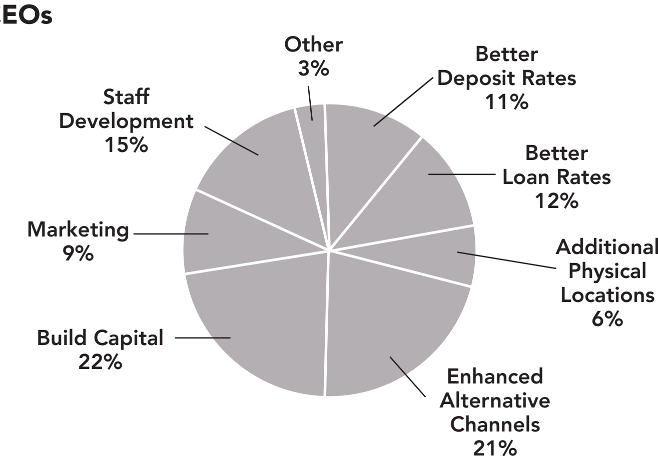


The rankings from the CEOs aligned well with the quantified results described elsewhere in this report. The notable exception is that lost mortgage revenues are much more significant in CEO estimation than the data analysis. However, it should be noted that, although many respondents reported reduced originations due to new rules, they are not able to precisely estimate the amount of reduction. Therefore, the results are excluded from the Lost Revenues estimate.

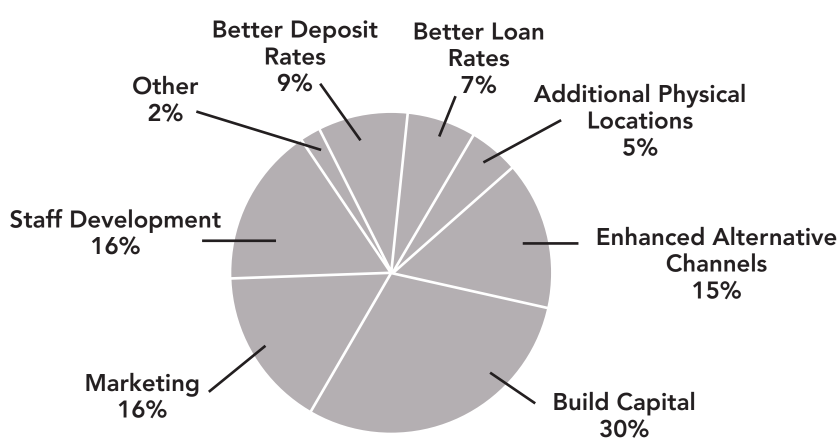
REALLOCATION OF RESOURCES

When it came to how resources would have be reallocated, all credit unions focused on providing value to members and their communities — either through better rates, lower fees or enhanced products, services & delivery channels for convenience. The differences are in which member "value levers" they wanted to focus on. The following charts show how the resources spent on regulatory changes from the last five years would have been allocated based on survey responses from CEOs.

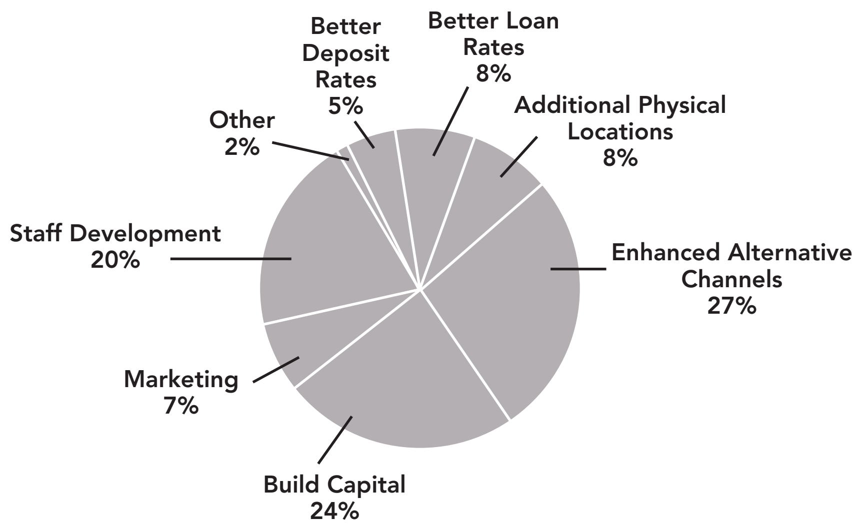
REALLOCATION OF REGULATORY COSTS BY RESPONDENT CREDIT UNION CEOs



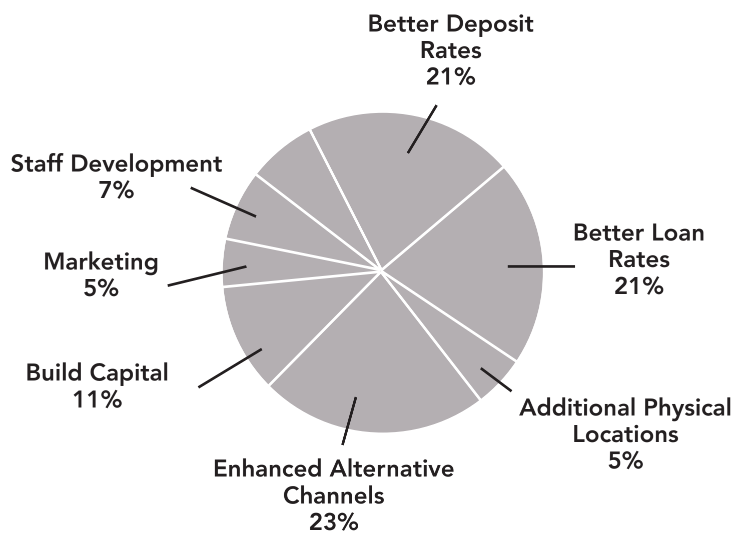
REALLOCATION OF REGULATORY COSTS - SMALL CREDIT UNION CEOs



REALLOCATION OF REGULATORY COSTS - MID-SIZED CREDIT UNION CEOs



REALLOCATION OF REGULATORY COSTS - LARGE CREDIT UNION CEOs



While the bulk of the reallocations directly benefit members, small and mid-sized sized credit unions focused a significant portion of their reallocation on building capital to support lending, safety & soundness, and future investments for member benefit. In other words, building capital benefits members indirectly. Expanding into new channels was an important category for all credit unions to meet member needs and their changing behaviors.

KEY PARTICIPANT COMMENTS AND THEMES

In addition to soliciting CEOs views on where regulatory impacts had increased the most, and how resources devoted to regulation might have been otherwise invested, the survey provided several opportunities for respondents to enter free form comments to clarify data and to provide context on regulatory impacts. Their key comments are summarized below:

Volume of Regulations

- "From RBC to derivatives, there is constant stream of new proposals that must be evaluated and responded to."
- "Increasing complexity in rulemaking in general requires more resources to analyze and interpret new rules."
- "Increasing regulations are requiring more 3rd party validations/studies to provide the needed documentation for examiners."
- "Prior to 2014 each department head was in charge of compliance that dealt with their own area of responsibility. In 2013 the increase in regulation became too great to handle this way, so a full time compliance officer was hired."
- "Regs change our strategic prioritization and requires frequent re-staging of critical projects. Changes often need to happen at our 3rd party vendors which puts our planned upgrade/ enhancement requests at risk."

IT / Vendor Management

- "Our core processor implemented a yearly "regulatory" fee."
- "I have found that the examiners know even less than a small shop does about cyber security."
- "IT spends many hours each month and every year supporting the many requirements of vendor risk management."
- "We were unable to upgrade an ATM to make it compliant with ADA. This ATM was at our one branch which, to save money has had its hours open cut. The ATM was sorely needed but could not be left in service or we could have been fined for it."

Specific Regulations

- "When changes are made to Reg Z, Reg CC, etc we are required to change many down line reporting and operational dashboards. This tends to take precedence over other revenue-producing work."

- "Due to changes in Reg Z, we discontinued the MFOEL product and replaced it with a different product. It took 780 staff hours to decipher the changes and determine the appropriate course of action."
- "Reg E immediately comes to mind in terms of increased training time for our call center employees."
- "Concentration risk limits are in theory just a guideline, however regulators have pushed to tighten the guidelines creating additional consequences like lower loan to share ratios and slower capital growth."
- "BSA/AML Compliance administration is evolving into its own "animal""
- "There is a growing burden related to BSA/CIP regulatory practices that is unfair to credit unions and applicable members both. While the regulations are clear on what is (or is not) required, regulators in practice create an unnecessary and unwarranted burden for credit unions who attempt to effectively serve this demographic of their membership."
- "Health care premiums have increased substantially and we feel it is due to ACA."

Lending

- "Limits on our ability to do modifications have certainly impacted the number of modifications we have been able to do, ultimately resulting in higher charge offs when there may have been a chance to repair the member issue in advance."
- "During 2014, the credit union experienced 5 months of not being able to originate construction and development loans with over $25 million in lost loan opportunities." (due to MBL cap)
- "All loans are close ended except kwik cash lines of credit. Too much hassle from examiners on the open end so we quit doing them."
- "The Card Act requires us to verify income before extending credit of any kind. We are no longer able to offer secured credit cards to members who are unemployed, even though there is no risk for either the member or the credit union. In 2014 roughly 320 secured card applications were declined for income verification reasons."
- "Operate in low income, credit challenged area. Need to bring on escrow accounting or pay a third party in order to comply with non-QM lending."
- "Do not originate non- QM loans and these were loans that we may have been willing to do prior to the change in regulation."
- "NCUA advised us to discontinue [non-QM loans] due to the regulatory burden."

- “Allowance for Loan loss disclosure changes and the new CECL model are all items that add clarity to valuation however they are considerably late and are very much reactionary at this time. Additionally, there is very little guidance as to the purpose and the expected impact of the CECL model, however there are several expenses associated with CUs trying to learn now in anticipation of changing models in the coming months/years.”
- “Bankruptcies are so complex & unclear that the ordinary employee can no longer manage them. Even attorneys can’t give clear answers as CFPB complicates bankruptcies.”

Regulatory Exams

- “We used to spend about a week for each examination and audit, now with the heightened focus on financial institutions, the areas of examination and audit have expanded to the point where preparation now takes nearly 1 month of time from the relevant parties to have a useful examination.”
- “Not knowing a specified time table well in advance causes huge scheduling issues for the smaller credit unions. Vacation schedules get upended, totally inefficient when a person with primary responsibility is not available and the NCUA wants to lower CAMEL ratings due to inadequate answers because the primary person was not there to answer fully.”
- “The biggest frustration is the annual review expectations of the regulators on regs such as BSA/AML. We would prefer to risk rate them so if the last audit was clean, …..we would not audit annually. Wastes audit resources that could be used on higher risk areas.”

KEY THEMES

Based on respondent comments, we have identified several key themes as they relate to credit unions' views on the causes and drivers of regulatory costs. There was no consensus on which regulations imposed the most cost increase on credit unions. However, four key themes emerged around the greatest causes of their current impact, especially over the past few years:

- Uncertainty and ambiguity around written rules
- Inconsistent application / interpretation of regulations by examiners
- Steady stream of regulations that create high levels of change management (e.g., death by a thousand cuts)
- One size fits all approach to regulation

Rule Ambiguity and Uncertainty

While the intent of the rules is generally understood, the specifics needed for implementation are often ambiguous with clarifications often coming in piecemeal fashion. Mortgage disclosures are an example. Credit unions need to spend time and resources on re-work to ensure compliance — and (in some instances) realize later that the regulation does not apply to them. The lost productivity and the likely use of external resources to understand new rules contribute to a higher impact.

Examiner Rule-Making

The ambiguity in regulations creates situations where examiners develop their own interpretations of the rules. While this is expected, it is the inconsistency of scope and interpretations among examiners that creates the effect felt by credit unions. The inconsistency mainly manifests itself in situations where examiners have moved from "safety and soundness" to "managing the business". This occurs when examiners extend beyond findings to prescriptive actions which may not be aligned with best practices or not take into account the trade-offs associated with a prescribed action (i.e., disconnect between real world applicability to the desired outcome.) As an example, at one credit union in our study, an examiner told the credit union to take down its active production systems so that back-ups systems could be properly tested. While testing of back-ups is a good business practice, shutting down production systems to do so is not necessary, and is in fact a bad business practice because of the extremely high risk it creates. While there was good intention, the credit union felt a conflict on how to best comply with the examiner's prescribed action. In this case, one aspect of operational risk was traded-off for higher operational risk in another area as well as higher reputation risk if members can't access their accounts when the production systems are temporarily down.

Steady Stream of Regulations

Credit unions recognize that there will be regulations given the industry they operate in. However, the increased stream of new requirements from multiple sources (e.g., Congress, CFPB, NCUA, state regulators) over the last 5 years resulted in the increased costs from 2010 as discussed earlier. What compounds the impact is the lack of coordination across banking regulations that creates confusion on priorities and overlaps. This does not take into account non-banking regulations that impact all companies (e.g., Affordable Care Act, IRS rules changes, etc.) As an example, disclosures are constantly evolving in terms of the number of disclosures and their respective requirements. This requires multiple functions to be involved for one change (e.g., IT, training, legal, marketing, etc.) and is not the "simple" change that regulation had anticipated.

This "death by a thousand cuts" distracts from the credit union's core mission — which is to help members and the community….the very thing that many of the regulations are intended to do.

One Size Fits All

While regulations sometimes do take into account threshold size for applicability, the current regulatory environment is very much one size fits all without taking into account the underlying business model and inherent risks of a credit union. While this is readily seen in terms of impact to smaller credit unions, even larger credit unions are impacted. The relevance of a given regulation will vary across credit unions, but the level of effort to analyze and implement is often the same — creating unequal effects across credit unions. "One Size Fits All" also creates unintended consequences. The CARD Act was intended for credit cards but it effectively eliminated Multi-Feature Open Ended Lending (MFOEL) for some credit unions because of the costs to comply. This reduced member products especially for those who are credit-worthy. While some new products were introduced to replace MFOEL, it required incremental resources from the credit union while decreasing service levels to members.

Surveyed credit union executives strongly believe that regulations are often written with a "least common denominator" mindset to protect the public from the small minority of poorly managed or unethical institutions. They believe the trade-off is that it creates an unduly high cost for credit unions whose mission is to help members and whose impact ultimately crowds out net worth that could be passed on to consumers in terms of more competitive pricing and or incremental services.

Member Impacts

Although the main purpose of the study was to quantify the financial cost placed on credit unions due to regulation, the cost ultimately impacts members — either directly or indirectly. Some examples are referenced throughout the report to provide additional context to both credit union and member impacts. In addition to previous illustrations, other impacts include discontinued products and services, increased fees, and general inconvenience. While these implications are not quantified, the credit union participants regularly expressed frustration with the effects felt by members and offered a wide variety of examples.

The most prevalent scenarios relate to the increased cost placed on applying for a mortgage. The limitations on QM may disqualify creditworthy members from obtaining a mortgage that the credit union would certainly make otherwise. Small and mid-sized credit unions in particular had to turn members away because they cannot afford to keep these non-QM loans on their portfolio. The additional rigor placed throughout the process also resulted in costs being passed on directly to members such as increased fees for appraisals. Small credit unions in particular were also forced to stop offering some products such as HELOCs due to the additional regulatory cost associated with supporting them. The greater compliance requirements lengthen the loan processing time and add application requirements for a member – effectively creating a regulatory cost on them, which is clearly not the intent for many of the mortgage regulations.

Another issue that was often referenced as an unintended impact to members was international remittances. Five percent of respondents that offered international remittances in the past discontinued the service altogether when new regulations came out while others increased the fees. For survey respondents still offering remittances in 2014, the average fee to members increased from $35 to $50 per transaction to cover the costs of additional compliance.

Lastly, the overall time required for members to perform their banking activities has continued to increase. The above examples of applying for a mortgage and sending an international remittance take considerably more time to complete (if the product / service is offered). Credit unions also noted how long it takes to open a new member account. One credit union in particular has made multiple attempts to streamline the process, but still documented an increase in processing time from 25 minutes to 40 minutes per application today.

See previous section for free form comments from respondents.

Conclusions

The overall regulatory financial impact of regulation on the credit union industry is $7.2 billion as of 2014, with $6.1 billion in costs and $1.1 billion in lost revenue. Due to the study's conservative approach when faced with a lack of adequate data, the $1.1 billion figure for reduced revenue very likely understates the actual amount. The overall amount is equivalent to 80% of industry earnings and 5.9% of 2014 industry net worth. The cost component represents 17% of industry 2014 operating expenses. Credit unions recognize that they are in a regulated industry and there will be a cost. However, the level of cost that regulations and regulators imposed has dramatically increased since the financial crisis and its aftermath. Annual regulatory costs have increased by 39% since 2010 and staff time devoted to regulatory activities almost doubled in the same period. This higher cost has increased operational, compliance, and strategic risks to credit unions.

The percentage cost relative to asset size is heaviest on smaller credit unions. However, the impact in absolute dollars is much higher for larger credit unions. Surveyed credit union CEOs indicated these dollars would be redeployed to better rates, lower fees, and enhanced products & services for members as well as community development.

The findings from this study will provide policymakers, credit unions and other stakeholders with the facts to perform a more robust cost-benefit assessment of the regulations (passed and pending) to determine what is an appropriate level of regulatory cost in light of credit unions' mission of community and member service.

AREA FOR FURTHER STUDY

One of the areas that could benefit from additional study is lending. CEOs highlighted reduced lending as one of the highest areas of regulatory impact. Determining the extent of the reduction in lending was beyond the scope of this study, and therefore our estimates understate the cost. Policymakers and credit unions would benefit from a rigorous analysis of the impacts on lending from recent regulations — both in terms of total volume and the different impacts across different member segments.

Regulatory Financial Impact Study

Appendix 1

APPENDIX 1 – RESPONDENT PROFILE AND DATA ANALYSIS APPROACH

This Appendix details the demographics of the participants as well as the data gathering and validation processes.

RESPONDENT DEMOGRAPHICS

Phase 1

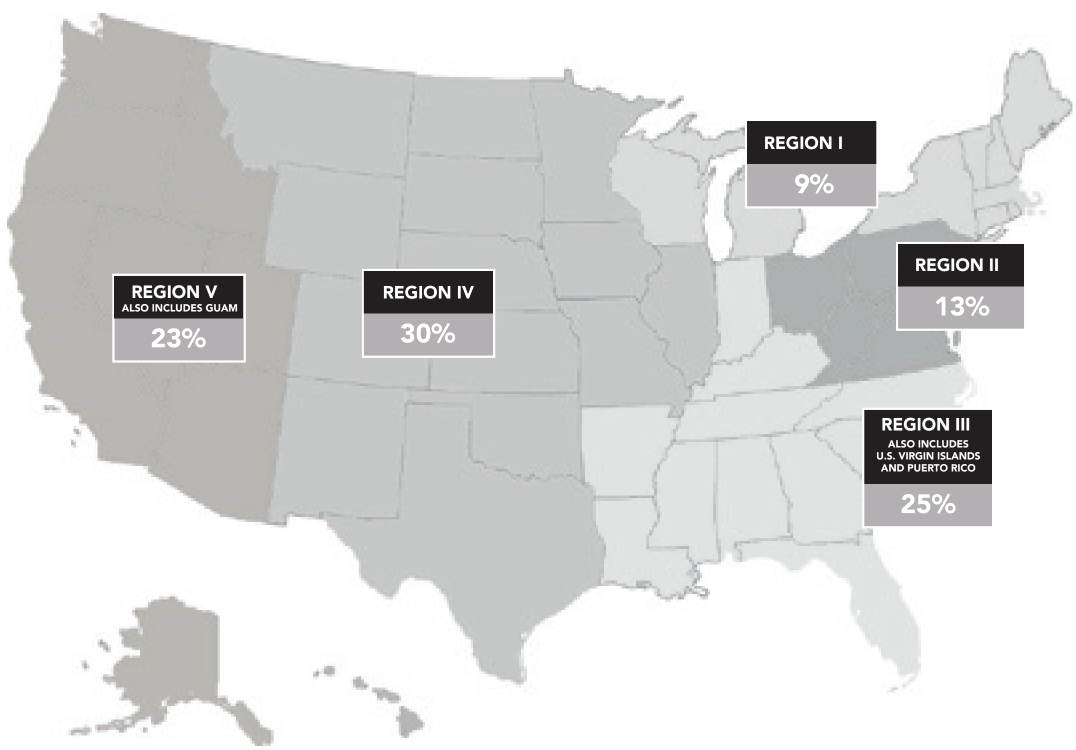
Three credit unions were interviewed for the research in the first phase of the study. The three credit unions were of varying sizes in order to better understand the regulatory impacts felt relative to assets and ensure detailed data collection in the second phase would be relevant to all credit unions.

The smallest credit union is located in the Midwest and had just over $60 million in assets as of 2014. The mid-size credit union is located in the Southeast and had over $650 million in assets. Lastly, the largest credit union interviewed is also located in the Midwest with approximately $1.5 billion in assets.

Phase 2

An in-depth data collection survey was received from 53 credit unions with headquarters across 28 states. A geographic overview of the locations is shown below.

SURVEY RESPONDENT LOCATION BY NCUA REGION

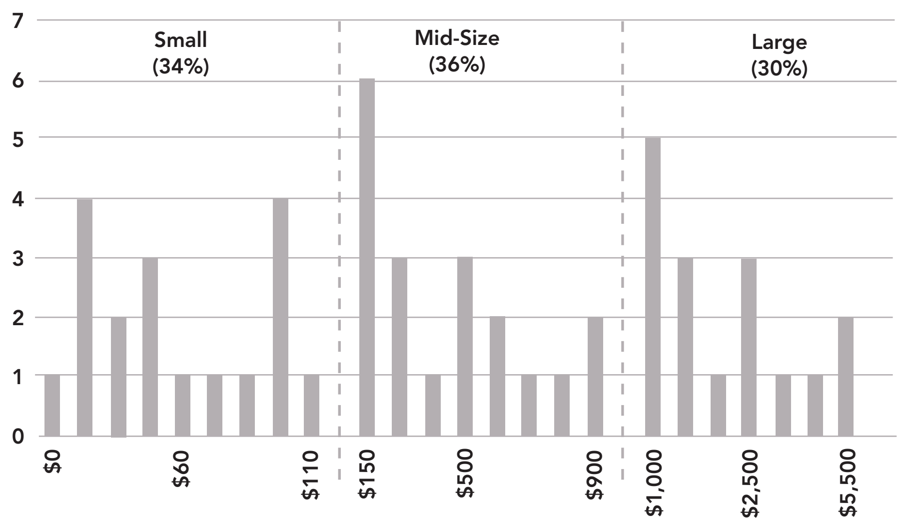


The respondents were evenly distributed across the three size groups based on 2014 year-end assets:

- Small credit unions (Less than $115 million in assets)
- Mid-sized credit unions ($115 million to $1 billion in assets)
- Large credit unions (>$1 billion in assets)

The distribution of the respondents is shown below.

DISTRIBUTION OF SURVEY RESPONDENTS BY ASSETS (millions)



** There were five credit unions with assets between $100 million and $115 million. We defined the small credit union group to include these credit unions because they have far more in common with peers less than $100 million in assets than those with upward of $1 billion. This is supported by other demographic data collected such as the number of employees and members. The business strategies, challenges and opportunities — including those related to regulations — are subsequently more appropriate to analyze as a small, rather than mid-sized, credit union for purposes of the study.*

Surveyed credit unions had a combined $50 billion in assets with over 11,000 full-time equivalent (FTE) employees as of 2014. The median asset size for the population was $293 million while the median number of FTEs was 110. Although one credit union had less than $500 thousand in assets, all other credit unions ranged from $15 million to nearly $6 billion.

The surveyed credit unions serve over 2.5 million members (assuming minimal overlap) with the median reported number of members being over 21,000 as of 2014. Equivalent data from year-end 2010 was also collected to account for changes in assets and members. Most survey participants experienced growth from year-end 2010 through 2014 with a total median asset and member growth of 27% and 23%, respectively. This compares to asset and membership growth rates for all credit unions over the same period of 25% and 10%, respectively.

DATA COLLECTION AND VALIDATION

This describes our approach to data gathering and validating the survey responses. It includes our steps to identifying the appropriate survey questions and approach to validating information. Lastly, it demonstrates our efforts to ensure data integrity and consistency as well as the support process to respondents as they completed the survey.

Phase 1 Research

The three Phase 1 credit unions volunteered to participate and offered considerable staff time to onsite interviews for about two days each. Executives and various subject matter experts provided explanations on how products, services and general business functions were affected by existing regulations.

They also provided clarity on regulations that did not impose significant cost on the organization. Additionally, the volunteers supplied a considerable amount of detail through documentation such as financial reports, strategic plans and project lists. All of the information was reviewed to determine the most appropriate and valuable data that could be collected to represent the credit union industry as part of Phase 2.

Phase 2 Data Collection and Volunteer Education

Data for the study was collected through an online survey. Several steps were taken to ensure data integrity and conservative, accurate results. These efforts spanned throughout the second phase of the study including before and after the survey was available.

To start, a webinar was conducted for credit unions that expressed interest in participating in Phase 2. Part of the session was dedicated to expressing the purpose of the study and expected time commitments. This provided an opportunity for potential volunteers to fully understand the scope and level of effort so they would invest the staff resources necessary to produce accurate information. Based on this webinar, several credit unions elected not to participate because they were not able to provide the level of rigorous data gathering that we needed.

A survey guide was also created with details for all survey sections as well as several examples. Upon release of the survey and survey guide, a second webinar was hosted for credit union volunteers. The purpose was to walk through each section of the survey, answer questions and re-emphasize the conservative approach. In particular, there was a clear message that any request for estimates should only be fulfilled if they felt confident in supplying a reasonable and justifiable answer.

The survey was launched in August and participants had 6 weeks to submit their responses. We provided phone and email support for credit unions to answer any questions during the survey period.

The data for the quantifiable expense and staff costs were collected across nearly 30 sub-functions of the credit unions. We requested this information throughout eight sections of the survey as shown below.

SURVEY SECTION	SUB-FUNCTIONS
Risk Management and Compliance	• Compliance • Internal Audit • Bank Secrecy Act / Anti-Money Laundering • Enterprise Risk Management • Vendor Management • Other Risk and Compliance
Lending	• Mortgage Originations • Mortgage Servicing • Consumer Lending Originations • Consumer Lending Servicing • Business Lending • Business Servicing • Collections • Credit Administration • Other Lending
Member Services	• Branches • Retail Administration • Call Center • Online, Mobile and ATM
Deposit Operations	• Deposit Operations
Finance	• Accounting / Finance • Treasury / Asset Liability Management
Information Technology	• Information Technology
Legal	• Legal
Human Resources	• Human Resources • Training

The data was aggregated throughout the study to quantify total 3rd party, capitalized and staffing costs. However, the grouping of sub-functions varied depending on the purpose of the calculation. For example, staff costs were consolidated into only three main categories of Risk, Support and Member-Facing. This was fewer than the six categories (Risk, Lending, Member Services, Finance, IT and Human Resources) created for 3rd party expenses due to the different investments observed between the two types of costs.

Data Cleaning

Upon closure of the survey, the information was reviewed and cleaned over a period of 3 weeks. Outliers were identified both relative to peers and relative to its business model. For example, a credit union with a combined estimate of 5 FTEs dedicated to regulatory tasks would be captured as an outlier if they only had 8 total employees even though 5 FTEs is well within the norm for the small credit union asset range. Credit unions with outlier data were contacted in order to validate the responses, better understand why it is accurate or collect updated information if appropriate.

All data was scrubbed prior to calculating expense and revenue impacts. The data scrubbing primarily consisted of removing remaining outliers from the final data set. It should be noted that some outliers were removed even if they were verified by the credit union. This was done in order to ensure the final results would fairly and conservatively represent the broader industry and not be skewed by any unique scenarios. As an example, data for one small credit union indicated nearly 100% of its staff was dedicated to regulatory tasks. However, this was a unique scenario because they relied on assistance from their volunteer board and others in the community where possible.

Lastly, removing outlier data was also done in a conservative manner. This resulted in one of two impacts to the credit union results. For the first impact, such as for interchange, the value would simply be excluded from 25th percentile, median and 75th percentile calculations. The other impact would be the same as a zero value when calculating the overall impact for a given credit union. For example, outlier external training costs would not be included in the total 3rd party expenses; thus lowering the reported regulatory expenses for that credit union.

CALCULATIONS AND METHODOLOGY

There are multiple options to aggregating the many reported data points into a single cost of regulation. Our approach to calculating total impacts and the breakdowns of the two major categories throughout the study primary took a "top down" view of the impacts by focusing on the overall financial impact on a given institution. At the highest level, the total financial impact of regulation is a combination of the two primary categories: Costs and Lost Revenues. This study calculated the total median cost by calculating the median value of the two categories separately and adding them together. This method was selected because it was the clearest identification of how the individually calculated components affect the total impact.

The two main categories were calculated using the combined impacts of their sub-categories. For example, costs are made up of 3rd party, staff costs and capitalized expenses. The median value for the category was calculated by adding the impact of the three sub-categories for each credit union and finding the median of the total. The difference in approach was adopted because this method best represents the experience of the credit union industry. There is a direct relationship between each of the sub-categories that is better normalized when viewing them in aggregate. To continue on the cost example, a credit union may rely more heavily on vendors for audit and compliance purposes, which would increase the 3rd party expenses. However, this would decrease the need for staff and, therefore, have lower staff expenses. Adding the individual elements together prior to calculating total impacts by quartile would account for differences in credit union strategy.

The same approach is applied to all sub-categories of impact. The approach was necessary at the lowest level of detail because there were nearly 30 data points (relatively high number of degrees of freedom) for cost impacts that would require a much larger sample population for more in-depth analysis. For example, the 3rd Party Expenses were a combination of expenses across six main categories (e.g., Lending, Member Services, Finance), but each of those may have also had sub-categories (Lending contains nine data points including mortgage, consumer, business, etc.).

Lastly, some survey questions were asked to provide context, but excluded to avoid "double counting." For example, one question in the survey asked for the amount of time spent explaining Regulation D to members. However, we assume this time would be accounted for in the functional FTE estimates that were used to calculate regulatory costs. While this may not necessarily be true, excluding the additional time is consistent with our approach of being conservative whenever there was uncertainty.

Regulatory Financial Impact Study

Appendix 2

SURVEY TO THE CREDIT UNIONS

A copy of the survey provided to the credit unions for data collection is available as a separate document.

CUNA Regulatory Burden Survey

Participant Information

Participant Information:*

Your Name: ____

Your Email Address: ____

Name of your institution: ____

Headquarters Location:

[Select State]

NCUA Charter Number: ____

Please select which section to complete:*

If you are unable to finish the section during a single session, click on the link at the top of the page that says "Save and Continue Survey Later". After providing your e-mail address you will be sent a link in an email that you can use to return at your convenience.

( ) Section 1 - Overall Regulatory Impact

( ) Section 2 - Risk Management and Compliance

( ) Section 3 - Lending

( ) Section 4 - Member Services

( ) Section 5 - Deposit Operations

( ) Section 6 - Finance

( ) Section 7 - Information Technology

( ) Section 8 - Legal

( ) Section 9 - Human Resources (HR) and Training

Overall Regulatory Impact

1) Of the items listed below, please estimate the top THREE areas that have experienced the greatest INCREASE IN OPERATING EXPENSES over the past five years due to increased regulatory burden. Rank them from 1 through 3, with 1 being the greatest INCREASE IN OPERATING EXPENSES.

________Compliance

________Internal Audit

________Other Risk Management (excluding Compliance and Internal Audit)

________Mortgage Lending (excluding home equity loans) – originations and servicing

________Consumer Lending (including home equity loans) - originations and servicing

________Finance (including Treasury)

________Credit Administration (including appraisals)

________Branches

________Other Channels (call center, mobile, online, ATM, etc.)

________Deposit Operations

________Collections

________Human Resources (including Training)

________Other: (If Other, please explain below.)

Comments:

2) Of the items listed below, please estimate the top THREE areas that have experienced the greatest REDUCTION IN REVENUE over the past five years due to increased regulatory burden. Rank them from 1 through 3, with 1 being the greatest REDUCTION IN REVENUE.

________Mortgage Lending (excluding home equity loans) – originations and servicing

________Consumer Lending (including home equity loans) - originations and servicing

________Payments (NSF, courtesy pay, etc.)

________Debit Cards

________Credit Cards

________New Deposit Accounts

________Member Business Lending

________Credit Union's Investment Portfolio

________Wealth Management and Insurance

________Other: (If Other, please explain below.)

Comments:

3) Of the items listed below, please estimate the top THREE areas that have experienced the greatest REDUCTION IN PRODUCTIVITY (e.g., longer cycle times, more time spent on lower value-added activity, etc.) over the past five years due to increased regulatory burden. Rank them from 1 through 3, with 1 being the greatest REDUCTION IN PRODUCTIVITY.

________Compliance

________Internal Audit

________Other Risk Management (excluding Compliance and Internal Audit)

________Mortgage Lending (excluding home equity loans) – originations and servicing

________Consumer Lending (including home equity loans) - originations and servicing

________Finance (including Treasury)

________Credit Administration (including appraisals)

________Branches

________Other Channels (call center, mobile, online, ATM, etc.)

________Deposit Operations

________Collections

________HR (including Training)

________Other: (If Other, please explain below.)

Comments:

4) Imagine that there had been NO INCREASE in regulatory burden over the past five years. Where would the additional financial and people resources that have been spent on complying with the increased burden of regulations have been allocated instead? (Please allocate to a total of 100%)

________Build capital

________Better deposit rates

________Better loan rates

________Invest in branches

________Invest in new channels like online / mobile

________Employee development

________Marketing

________Other: (Explain Below)

Comments:

Risk Management and Compliance

1) Do you have a separate Compliance department?

( ) Yes

( ) No

If yes, how many FTEs were in that department in 2010 and 2014, and how much of their time was devoted to regulatory activities?

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
Compliance	____________________ ____________________	____________________ ____________________	____________________ ____________________	____________________ ____________________

Comments:

If not, estimate the FTEs that performed Compliance work in 2010 and 2014, and the amount of time devoted to regulatory activities (See Survey Guide for definitions).

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
Compliance	____________	____________	____________	____________

Comments:

2) Do you have a separate Internal Audit department?

( ) Yes

( ) No

If yes, how many FTEs were in that department in 2010 and 2014, and how much of their time was devoted to regulatory activities? (See Survey Guide for definitions)

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
Internal Audit	____________	____________	____________	____________

Comments:

If not, estimate the FTEs that performed Internal Audit work in 2010 and 2014, and the amount of time devoted to regulatory activities (See Survey Guide for definitions).

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
Internal Audit	____________________ ____________________	____________________ ____________________	____________________ ____________________	____________________ ____________________

Comments:

3) Do you have a separate BSA / AML department?

( ) Yes

( ) No

If yes, how many FTEs were in that department in 2010 and 2014:

	Total 2010 FTEs	**Total 2014 FTEs**
BSA/AML	____________________ ____________________	____________________ ____________________

Comments:

If not, estimate the FTEs that performed BSA/AML work in 2010 and 2014 (See Survey Guide for definitions):

	Total 2010 FTEs	**Total 2014 FTEs**
BSA/AML	____________	____________

Comments:

4) Do you have a separate Enterprise Risk Management (ERM) department?

( ) Yes

( ) No

If yes, how many FTEs were in that department in 2010 and 2014, and how much of their time was devoted to regulatory activities? (See Survey Guide for definitions)

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
ERM	____________	____________	____________	____________

Comments:

If not, estimate the FTEs that performed ERM work in 2010, and the amount of time devoted to regulatory activities (See Survey Guide for definitions).

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
ERM	______ ______	______ ______	______ ______	______ ______

Comments:

5) Do you have a separate Vendor Management department?

( ) Yes

( ) No

If yes, how many FTEs were in that department in 2010 and 2014, and how much of their time was devoted to regulatory activities? (See Survey Guide for definitions)

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
Vendor Management	______ ______	______ ______	______ ______	______ ______

Comments:

If not, estimate the FTEs that performed Vendor Management work in 2010 and 2014, and the amount of time devoted to regulatory activities (See Survey Guide for definitions):

	Total of FTEs 2010	**% of total 2010 FTE time that was Regulatory Related**	**Total of FTEs 2014**	**% of total 2014 FTE time that was Regulatory Related**
Vendor Management	______	______	______	______

Comments:

6) For these functions, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for <u>all 5 years</u> between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
Compliance	______	______	______	______	______
Internal Audit	______	______	______	______	______

BSA / AML	________________ ________________	________________ ________________	________________ ________________	________________ ________________	________________ ________________
Enterprise Risk Management	________________ ________________	________________ ________________	________________ ________________	________________ ________________	________________ ________________
Vendor Management	________________ ________________	________________ ________________	________________ ________________	________________ ________________	________________ ________________
Other Risk and Compliance	________________ ________________	________________ ________________	________________ ________________	________________ ________________	________________ ________________

Comments:

7) Please estimate the impact of making adjustments after a new regulation is initially formalized. New regulations create a dynamic environment for many reasons: uncertainty about applicability to the credit union, lack of specificity that requires additional modification by regulators, varying interpretations by examiners, changes to the regulation even after a compliance date is set, etc. How much internal effort do you typically incur annually to "re-work" <u>after a regulation is first finalized?</u>

Estimated % of regulatory-related resource hours spent on re-work: ____

Estimated % of new regulations where re-work is required: ____

8) The above questions cover the main areas previously identified as having the most regulatory burdens. Please share with us any significant regulatory burden in the Risk Management and Compliance area that we did not cover above.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

Lending

1) For the following functions, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	**% of total 2010 FTE time that was Regulatory Related**	**Total 2014 FTEs**	**% of total 2014 FTE time that was Regulatory Related**
Mortgage Originations (excluding 2nd lien / home equity loans)	______ ______	______ ______	______ ______	______ ______
Mortgage Servicing	______ ______	______ ______	______ ______	______ ______
Consumer Lending Originations (including 2nd lien / home equity loans)	______ ______	______ ______	______ ______	______ ______
Consumer Lending Servicing	______ ______	______ ______	______ ______	______ ______
Business Lending	______	______	______	______

	______	______	______	______
Business Servicing	______ ______	______ ______	______ ______	______ ______
Credit Administration (including appraisals)	______ ______	______ ______	______ ______	______ ______
Collections	______ ______	______ ______	______ ______	______ ______

Comments:

2) For these functions, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for <u>all 5 years</u> between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
Mortgage Originations (excluding home equity loans)	______ ______	______ ______	______ ______	______ ______	______ ______

Mortgage Servicing	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Consumer Lending Originations (including home equity loans)	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Consumer Lending Servicing	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Business Lending	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Business Servicing	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Credit Administration (including appraisals)	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Collections	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________
Other Lending	____________ ____________	________________ ________________	_____________ _____________	________________ ________________	_________________ _________________

Comments:

3) Under the Qualified Mortgage (QM) rules, have you discontinued or reduced making loans that would have met YOUR underwriting criteria, but that do NOT meet QM requirements? (Select One)

( ) Yes, we have discontinued or reduced non QM loans

( ) No, we still make these loans as before

Please estimate the number and dollar amount of additional loan originations you WOULD HAVE MADE if you had not discontinued or reduced non-QM lending.

Estimated originations ($) of "Lost" Non-QM loans per month: ____

Estimated # of "Lost" Non-QM loans per month: ____

Comments:

4) Do you offer Multi-Feature Open End Lending (MFOEL) to members? (Select One)

( ) Yes

( ) No

If not, did you discontinue the product in the last 5 years and why? (Select One)

( ) Yes

( ) No

Comments:

For those <u>still offering</u> MFOEL, please estimate how much regulations (e.g., Reg Z, CARD Act) have decreased average monthly origination volumes:

Estimated originations ($) of "Lost" MFOEL loans per month: ____

Estimated # of "Lost" MFOEL loans per month: ____

Comments:

For those <u>no longer offering</u> MFOEL, please estimate how much monthly loan volume you lost:

Estimated originations ($) of “Lost” MFOEL loans per month: ____

Comments:

5) Do you offer Member Business Lending (MBL)?

( ) Yes – We offer MBL

( ) No – We do not offer MBL

Are you subject to the 12.25% of assets MBL cap?

( ) Yes – We are subject to the cap

( ) No – We are not subject to the cap because we are grandfathered or have a low income designation

Please estimate how much the Member Business Lending (MBL) cap reduced monthly originations ($) in 2014 either because your credit union is nearing the cap or the cap discourages investment in this area?

____

Comments:

6) The above questions cover the main areas previously identified as having the most regulatory burden. Please share with us any significant regulatory burdens in the Lending area that we did not cover above.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

Member Services

1) For the following functions, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	**% of total 2010 FTE time that was Regulatory Related**	**Total 2014 FTEs**	**% of total 2014 FTE time that was Regulatory Related**
Branches	______ ______	______ ______	______ ______	______ ______
Retail Administration	______ ______	______ ______	______ ______	______ ______
Call Center	______ ______	______ ______	______ ______	______ ______
Online, mobile, and ATM	______ ______	______ ______	______ ______	______ ______

Comments:

2) For these functions, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for all 5 years between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
Branches	____________ ____________	____________ ____________	____________ ____________	____________ ____________	____________ ____________
Retail Administration	____________ ____________	____________ ____________	____________ ____________	____________ ____________	____________ ____________
Call Center	____________ ____________	____________ ____________	____________ ____________	____________ ____________	____________ ____________
Online, mobile, and ATM	____________ ____________	____________ ____________	____________ ____________	____________ ____________	____________ ____________

Comments:

3) What was your annual debit interchange income in 2010 and 2014?

	2010	2014
Total Point of Sale debit transactions (See Survey Guide)		
Total Interchange income		

Comments:

4) For debit cards, what was your split between PIN transactions and signature transactions in 2010 and 2014? Each column should equal 100%

	2010	2014
% of PIN debit transactions		
% of signature debit transactions		

Comments:

5) Do you offer international remittance services to members? (Select One)

( ) Yes – We offer international remittance services

( ) No – We do not offer international remittance services

If not, did you discontinue the service in the last 5 years and why? (Select One)

( ) Yes – We discontinued this service in last 5 years

( ) No – We've never offered this service

Comments:

Please estimate how much the international remittance rules have reduced monthly remittance volumes either because your credit union no longer offers these services or the rules discourages significant volumes in this area?

Estimated # of monthly remittances "lost" due to the existence of the remittance rules:

____

Comments:

What is the fee that you charged your members per international remittance in 2010 and 2014? Please provide an amount for years when the service was offered and "NA" if it was not offered in that year.

	2010	**2014**
Fee charged to members for an international wire / remittance	______________________ ______________________	______________________ ______________________

Comments:

6) What was your NSF and OD income in 2010 and 2014?

	2010	**2014**
Annual NSF income	______________________________ ______________________________	______________________________ ______________________________
Annual OD income	______________________________ ______________________________	______________________________ ______________________________
Annual Combined NSF / OD	______________________________ ______________________________	______________________________ ______________________________

Comments:

7) Please estimate the impact of savings account withdrawal limits (i.e., Reg D)?

	Estimated monthly impact
Estimated monthly number of transfers from savings or money market accounts that were denied due to withdrawal limits	____________________ ____________________
Estimated FTE hours spent monthly explaining Reg D to members	____________________ ____________________

Comments:

8) Privacy rules limit the sharing of information between affiliated companies, which impacts cross-sell capabilities and effectiveness. Please estimate how much privacy and related regulations resulted in lost or lower revenues?

	Estimated Annual revenue impact
Wealth management / investment management	______________________ ______________________
Insurance	______________________ ______________________
Mortgage (if mortgage is a separate affiliate)	______________________ ______________________

Comments:

9) What is your estimated cost of sending required regulatory disclosures?

	2010	**2014**
Mailing and printing costs for required disclosures	______________________ ______________________	______________________ ______________________
# of members at year end	______________________ ______________________	______________________ ______________________

Comments:

10) The above questions cover the main areas previously identified as having the most regulatory burden. Please share with us any significant regulatory burdens in the Member Services area that we did not cover above.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

Deposit Operations

1) For the following function, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	% of total 2010 FTE time that was Regulatory Related	Total 2014 FTEs	% of total 2014 FTE time that was Regulatory Related
Deposit Operations	________ ________	________ ________	________ ________	________ ________

Comments:

2) For the following function, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for all 5 years between 2010 and 2014?

	Total 2010 3rd Party Expense	% of total 2010 3rd Party Expense that was Regulatory Related	Total 2014 3rd Party Expense	% of total 2014 3rd Party Expense that was Regulatory Related	Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014
Deposit Operations	___	___	___	___	___

Comments:

3) Please share with us the top three areas of regulatory burden that impact Deposit Operations.

	Area of Regulatory Burden	Comments
1	___	___
2	___	___
3	___	___

Finance

1) For the following functions, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	**% of total 2010 FTE time that was Regulatory Related**	**Total 2014 FTEs**	**% of total 2014 FTE time that was Regulatory Related**
Accounting / Finance	____________ ____________	____________ ____________	____________ ____________	____________ ____________
Treasury / ALM	____________ ____________	____________ ____________	____________ ____________	____________ ____________

Comments:

2) For these functions, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for <u>all 5 years</u> between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
Accounting / Finance	____________ ____________	________________ ________________	____________ ____________	________________ ________________	________________ ________________
Treasury / ALM	____________ ____________	________________ ________________	____________ ____________	________________ ________________	________________ ________________

Comments:

3) Please share with us the top three areas of regulatory burden that impact Finance.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

IT

1) For the following function, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	% of total 2010 FTE time that was Regulatory Related	Total 2014 FTEs	% of total 2014 FTE time that was Regulatory Related
IT	____________	____________	____________	____________

Comments:

2) For the following function, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for all 5 years between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
IT	______ ______	______ ______	______ ______	______ ______	______ ______

Comments:

3) Please share with us the top three areas of regulatory burden that impact IT.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

Legal

1) For the following function, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	% of total 2010 FTE time that was Regulatory Related	Total 2014 FTEs	% of total 2014 FTE time that was Regulatory Related
Legal	________	________	________	________

Comments:

2) For the following function, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for all 5 years between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
Legal	______ ______	______ ______	______ ______	______ ______	______ ______

Comments:

3) Please share with us the top three areas of regulatory burden that impact Legal.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

Human Resources

1) For the following functions, how many FTEs were employed in 2010 and 2014? What percent of that total FTE time was devoted to performing "Regulatory Related" work (see Survey Guide) for each function?

	Total 2010 FTEs	**% of total 2010 FTE time that was Regulatory Related**	**Total 2014 FTEs**	**% of total 2014 FTE time that was Regulatory Related**
HR	______ ______	______ ______	______ ______	______ ______
Training	______ ______	______ ______	______ ______	______ ______

Comments:

2) For these functions, how much was spent on 3rd Party Expense in 2010 and 2014? What percent of the spending was devoted to performing "Regulatory Related" work (see Survey Guide)? What was the total of capitalized spending on 3rd parties that was "Regulatory Related" for all 5 years between 2010 and 2014?

	Total 2010 3rd Party Expense	**% of total 2010 3rd Party Expense that was Regulatory Related**	**Total 2014 3rd Party Expense**	**% of total 2014 3rd Party Expense that was Regulatory Related**	**Aggregate Capitalized Spending that was Regulatory Related from 2010 through 2014**
HR					
Training					

Comments:

3) How much external spending on training did you incur in 2010 and 2014 and what portion of training expense was spent on regulatory training (new, update, refresher)?

	2010	**2014**
Total External Training Spending		
Estimated % of external training spending for regulatory training		

Comments:

4) On average, what is the estimated <u>annual training days</u> per employee focused on regulatory training and in total?

	2010	**2014**
Total training days per employee	____________________ ____________________	____________________ ____________________
% training days that is Regulatory training	____________________ ____________________	____________________ ____________________

Comments:

5) How much has the Affordable Care Act (ACA) increased costs to your credit union annually?

Annual Increased Cost per Employee from ACA: ____

Comments:

6) The above questions cover the main areas previously identified as having the most regulatory burden. Please share with us any significant regulatory burden in the Human Resources / Training area that we did not cover above.

Additional Regulatory Burden: ____

Comments:

7) The above questions cover the main areas previously identified as having the most regulatory burden. Please share with us any significant regulatory burdens in the Human Resources / Training area that we did not cover above.

	Area of Regulatory Burden	**Comments**
1	___	___
2	___	___
3	___	___

Thank You!