

# EXECUTIVE SUMMARY OF SUNSET STAFF REPORT

## Credit Union Department

Project Manager: Merrell Foote

*Full Report Here*  
[sunset.texas.gov](https://sunset.texas.gov)

For more than a century, Texans have benefitted from state-chartered nonprofit, member-owned credit unions, many of which provide affordable financial service options in rural or economically disadvantaged communities. Texas-chartered credit unions have fared well under the state's regulatory framework — of the 45 states that regulate credit unions, Texas ranked second in number of state-chartered credit unions, fourth in credit union membership, and sixth in total assets in 2019.

This regulatory structure has changed significantly since the Texas Legislature enacted the state's chartering laws in 1913. Initially, the Legislature limited state-chartered credit unions to serving rural communities, but soon granted them authority to operate statewide to meet a growing demand for their services. The Texas Department of Banking regulated them until 1969, when the Legislature created the Credit Union Department in response to increasing competition and regulatory friction between credit unions and banks. In 2009, the Legislature gave the department self-directed semi-independent (SDSI) status, a coveted designation that authorizes state agencies to set their own fees, budgets, and performance measures outside of the legislative appropriations process. This Sunset review of the department is the first since it gained SDSI status.

As required by the Texas Sunset Act, the review examined whether the department's functions are still needed and if the current organizational structure is the most effective and efficient approach. Sunset staff gave particular consideration to the Finance Commission of Texas, which oversees three other SDSI agencies that regulate banks and other types of financial institutions and occupations. The Legislature has considered moving the department to the Finance Commission nine times in the past four decades, through Sunset reviews, proposed legislation, interim studies, and other evaluations. Sunset staff again found that transferring the department to the Finance Commission would have no benefit at this time and the current organizational structure is the best option.

**Restructuring the  
department would have no  
benefit at this time.**

Sunset staff also concluded the department is generally well-run, but identified several opportunities to improve operations, handling of complaints, and

communications with the industry and the public. Further, some of the department's funding policies and procedures do not align with best practices or make the most effective use of the department's SDSI status.

The following material highlights Sunset staff's key recommendations for the Credit Union Department.

## **Sunset Staff Issues and Recommendations**

### **ISSUE 1**

#### **The Department Lacks Key Data and Processes to Ensure Adequate Resolution of Regulatory Complaints.**

The department receives about 300 complaints against Texas-chartered credit unions each year but does not maintain adequate data to effectively track, analyze, and report complaint dispositions and trends. More robust data tracking and trend analysis would help the department identify and resolve specific issues affecting credit unions and their members and improve its rules, examination processes, and regulatory communications. The department also could more clearly explain its regulatory jurisdiction and investigation procedures and outcomes to minimize credit union members' confusion about the types of complaints the department has authority to address.

#### **Key Recommendations**

- Require the department to track more comprehensive complaint and enforcement data to support analysis and guide regulatory activities.
- Direct the department to regularly analyze and report on complaint and enforcement data and trends.
- Direct the department to establish clear procedures for processing and investigating all complaints it receives.
- Direct the department to more clearly communicate its authority, processes for investigating complaints, and complaint determinations.

### **ISSUE 2**

#### **The Department Should More Effectively Use Its SDSI Status to Provide Adequate Resources and Improve Operations.**

Overall, the department has used its SDSI status in a responsible manner, but its operating fee assessment process and reserve fund policies do not align with best practices of other SDSI agencies. The department should also identify ways to improve its financial controls and operational processes with an independent audit program. Directing the department to streamline its fee assessment process and develop better oversight tools would provide more consistent fees; an adequate financial cushion for unexpected expenditures and capital projects; and greater accountability to state policymakers, the commission, and the industry.

**Key Recommendations**

- Direct the commission to implement a more streamlined and reliable fee assessment policy and process.
- Direct the commission to update its reserve fund policy to address long-term capital funding needs and maintain an adequate reserve balance.
- Direct the commission to implement an independent audit process for the department.

**ISSUE 3****Texas Has a Continuing Need for the Credit Union Department.**

Texas benefits from having a strong credit union industry and the current organizational structure is the most efficient and effective approach to regulation at this time. The department should improve its communications, especially on federal regulatory changes that affect Texas-chartered credit unions, and establish clearer boundaries with the credit union industry.

**Key Recommendations**

- Continue the Credit Union Department for 12 years.
- Require the department to develop a process for notifying credit unions about federal regulatory changes that override state regulations.

**Fiscal Implication Summary**

These recommendations would not have a fiscal impact to the state because the department is an SDSI agency exempt from the legislative appropriations process. These recommendations also would not have a significant fiscal impact to the department or the credit unions it regulates, since the department could address them with existing resources. Further, the department could use existing reserve funds set aside to pay for audits to fund an independent audit program.

