

THE VALUE OF CREDIT UNIONS

Credit unions are not-for-profit financial cooperatives. No matter the size or what services a credit union offers – its structure remains the same with a focus to serve consumers. This focus on consumers benefits the entire community and financial services, including those who are not credit union members.

- Credit unions do not pay the federal income tax on profits because profits are **returned back** to member-owners, who pay taxes on those profits.
- Credit unions **DO** pay taxes. Missouri state chartered credit unions pay state income tax at the same rate as other financial institutions in the state. Credit union members pay taxes on dividends (interest) that their accounts earn. Federal credit unions pay real property taxes, tangible personal property taxes and payroll taxes for their employees.

Consumer Benefits

A tax on credit unions would be a tax increase for millions of credit union members.

- Consumers nationwide benefit to the tune of \$10 billion EACH YEAR because of credit unions' tax status.
- More than 100 million Americans use credit unions to conduct financial services, including 1.4 million members in Missouri.
- The credit union benefit is also felt by non-members, who experience greater consumer choice and better access to mainstream financial services due to competition.

Credit unions actively work to fulfill their mission, established by Congress in 1937.

- During and following the financial crisis, Americans saw credit unions as a safe haven in the financial services sector. Credit unions continued to lend to consumers, homebuyers and small businesses when other lenders were unable or unwilling to do so.
- Credit unions serve all of their members, including low-income consumers who are often neglected by traditional financial institutions or targeted by predatory lenders.
- Credit union members see this benefit in terms of lower rates on loans, lower fees on services, and higher returns on deposits.

Eliminating the credit union tax status eliminates credit unions.

Credit unions are an important choice for consumers to conduct their financial services. Taxing credit unions takes this option away from consumers, and will drive up the cost of financial services for all.

Credit Unions Request to Missouri's Members of Congress:

- Recognize the unique role of credit unions in the financial services sector and be outspoken in their support of the credit union tax status.
- Tax reform legislation should not eliminate or alter the credit union tax status.

REGULATORY BURDEN AND THE NEED FOR REGULATORY REFORM

Credit unions did not cause the financial crisis and consistently engage in safe lending practices, but the significant growth in regulatory burden following the crisis has placed barriers in credit unions' ability to fully and efficiently serve consumers. Credit unions ask Congress to support these regulatory relief efforts

Eliminate Privacy Notice Confusion Act (H.R. 601 and S. 423)

The Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act, requires financial institutions to give annual privacy notices each year, even if their privacy policies have not changed. H.R. 601 and S. 423 would require credit unions and other financial institutions to provide information to their members only when a change occurs.

Community Lending Enhancement and Regulatory Relief Act of 2015 (CLEARR Act) (H.R. 1233)

- Requires a review of capital requirements of mortgage servicing assets (MSA) under the proposed risk based capital rule by the NCUA and a delay in implementation.
- Treat mortgages held in portfolio at credit unions as qualified mortgages for purposes of the Consumer Financial Protection Bureau's (CFPB) mortgage lending rules.
- Amend exemption of small services of mortgage loans from Section 6 of Real Estate Settlement Procedures Act (RESPA) and exempts credit unions that service 20,000 or fewer mortgages.
- Amend Truth in Lending Act (TILA) to exempt higher risk mortgages from property appraisal requirements.
- Eliminates annual privacy notices and only requires notification when privacy policies have changed.

NCUA Budget Transparency Act (H.R. 2287) would require the National Credit Union Administration (NCUA) to publish a draft budget on an annual basis and hold a public hearing (with notice and opportunity for public comment before the Board determines how funds are spent).

Risk-Based Capital Study Act of 2015 (H.R. 2769) would require the NCUA to conduct a study on capital requirements for credit unions and delay the implementation of any rule or regulation addressing risk-based capital for credit unions for 120 days after the report is issued.

Consumer Financial Product Safety Commission (H.R. 1266) would replace the Consumer Financial Protection Bureau (CFPB) director with an independent Financial Product Safety Commission, expanding the leadership to a five member board instead of a single director.

Helping Expand Lending Practices (HELP) in Rural Communities Act (H.R. 1259)

H.R. 1259 would direct the CFPB to establish an application process determining whether an area should be designated as a rural area if the CFPB has not designated it as one.

Credit Union Advisory Council at the CFPB (H.R. 1195)

Would establish a small business advisory board at the CFPB and codify CFPB's existing credit union and community bank advisory councils.

Financial Institutions Customer Protection Act of 2015 (H.R. 766) limits the ability of Federal banking regulators to pressure a depository financial institution to terminate a specific customer account or to otherwise restrict or discourage a depository institution, such as a bank or credit union, from entering into or maintaining a financial services relationship with a specific consumer unless certain criteria is met.

Portfolio Lending and Mortgage Access Act (H.R. 1210) would treat mortgages held in portfolio at credit unions and other mortgage lenders as qualified mortgages for purposes of the Consumer Protection Financial Bureau's (CFPB) mortgage lending rules.

Financial Institutions Examination Fairness and Reform Act (H.R. 1941) will facilitate transparency and improve consistency in the examination process; provide a resource for financial institutions to express concern about their examination experience; and establish an independent adjudicatory process for the appeal of material supervisory determinations.

MEMBER BUSINESS LENDING

NCUA Member Business Loan (MBL) Rule

The National Credit Union Administration's (NCUA) MBL Rule is up for comment through August 31, 2015. Credit unions support the effort to modernize the MBL regulation, which would provide much needed flexibility in running an MBL program.

Credit Union Small Business Jobs Creation Act (H.R. 1188)

The Credit Union Small Business Jobs Creation Act could provide \$16 billion in additional capital for small businesses. It lifts the member business lending cap from 12.25% to 27.5% of total assets for credit unions that fit certain specifications.

Credit Union Residential Loan Parity Act (H.R. 1422)

Allows loans for 1-4 unit, non-owner occupied residential properties to be exempt from the MBL cap, bringing parity with bank standards that classify these loans as residential real estate rather than business loans.

Veteran Member Business Loans (H.R. 1133)

H.R. 1133 would exempt business loans to veterans from the credit union restriction of MBLs. Currently, credit union lending to members is limited to 12.25% of the credit union's assets. This would enhance lending to veterans who want to start or finance a small business and create more access to business loans without changing the 12.25% cap.

CAPITAL REFORM

Capital Access for Small Businesses and Jobs Act (H.R. 989)

Access to supplemental capital is a tool to enable credit unions to enhance their service to members without jeopardizing the strong capital cushion that provides safety and soundness.

- By law – not regulation, as is the case for other insured depositories – credit unions must maintain a 7% net worth (or leverage) ratio in order to be considered “well capitalized” and specifies that only retained earnings constitute net worth. All other U.S. depository institutions and credit unions in other countries are permitted forms of supplemental capital.
- The legislation would maintain credit unions' not-for-profit cooperative structure, because no voting rights will be conveyed to contributors of supplemental capital.
- NCUA would determine the forms of supplemental capital offered for purposes of the statutory capital requirements.

MORTGAGE ISSUES AND ACCESS

The Dodd-Frank Act created a “qualified mortgage” (QM) definition, implemented by the Consumer Financial Protection Bureau (CFPB). This category of loans requires that lenders must make good faith efforts to determine a borrower's ability to repay, and the absence of certain loan features that can be harmful. Credit unions did not perpetrate the abuses that lead to regulatory requirements aimed at curbing those practices, and should be exempt. The CFPB's QM and ability-to-repay, along with HMDA, TILA/RESPA, appraisal rules, loan officer compensation rules and servicing rules are having an impact on consumer access to credit and choice in the marketplace. There is concern that a growing number of credit unions will exit the mortgage market due to the significant growth in regulatory requirements regarding mortgages.

Homebuyers Assistance Act (H.R. 3192) will provide a reasonable hold-harmless period for enforcement of the Consumer Financial Protection Bureau's TILA-RESPA Integrated Disclosures (TRID) rule for those that make good-faith efforts to comply.

Mortgage Choice Act (H.R. 685) The CFPB's “ability-to-repay” rules limit points and fees for qualified mortgages to 3% of the loan amount. Affiliated land title fees are included in the cap, but fees charged for the same service by unaffiliated companies are excluded from the cap. This limits consumer choice without justification. Consumers can benefit if a credit union can provide a comparable service to the member for a lower price. The rule does not allow this option and the credit union member bears the cost. H.R. 685 would modify the definition of points and fees.

Portfolio Lending and Mortgage Access Act (H.R. 1210)

Would allow residential mortgages held in portfolio by the original creditor to be deemed “qualified mortgages” (QMs) under the Consumer Financial Protection Bureau (CFPB).

FEDERAL HOME LOAN BANK MEMBERSHIP ELIGIBILITY PARITY

A proposed Federal Housing Finance Agency (FHFA) rule would require ALL Federal Home Loan Bank (FHLB) member credit unions to hold 10% of assets in “residential mortgage loans” on an ongoing basis. However, FDIC-insured banks with less than \$1 billion in total assets are exempt from the 10% requirement. Credit unions ask Congress to support parity with banks on membership regulations.

Preserving Capital Access and Mortgage Liquidity Act of 2015 (H.R. 2473) would provide parity for credit unions by including them in the definition of community financial institutions under the Federal Home Loan Bank (FHLB) Act.

PROTECTING CONSUMERS FROM DATA BREACHES

Data breaches are a continued and growing problem, affecting consumers and financial institutions alike. In Missouri, credit unions have been hit hard with both regional and nationwide retailer data breaches. Action is needed.

Here are some facts about data breaches and how it affects credit unions and the consumers served by credit unions:

- When data breaches occur, credit unions and other financial institutions bear the actual costs of the breach. This includes not only the cost of fraud, but the expenses of helping the consumer – blocking transactions, reissuing cards, increased staffing at call centers and monitoring consumer accounts.
- Retailers that accept electronic payments are NOT subject to the same stringent data security standards as financial institutions under the Gramm Leach Bliley Act (GLBA).
- Millions of consumers' personal financial information has been compromised as a result of merchant data breaches, highlighting the need for retailers to fall under standards similar to GLBA.
- The Target breach cost credit unions a minimum of \$30.6 million, and the Home Depot breach resulted in nearly \$60 million in costs. Credit unions have not been reimbursed a dime for either of these breaches.
- EMV (chip and pin) cards will not prevent all data breaches. It is a tool, but not the save-all solution. (For example, the Target breach would not have been prevented by using EMV technology.) The most effective option is making sure all parties involved in electronic payments systems are held to the same standards to protect consumer data.

Data Security Act of 2015 (S. 961 and H.R. 2205)

Both of these bills include key provisions to address data security concerns. These provisions are supported by Missouri's credit unions. These include:

1. Strong national data protection and consumer notification standards with enforcement provisions.
2. Mandates a federal notification requirement for merchants to be comparable with those of credit unions.
3. Removes the patchwork of inconsistent state laws and regulations in favor of a federal standard, while also allowing states with more stringent data protection requirements to enforce them.
4. Gives credit unions the ability to inform members about information regarding the breach, **including where it occurred.**



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