

Proposed Amendments to the Michigan Credit Union Act

MCUL Compliance Conference
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The Working Group

Helping Credit Unions
Serve, Grow and Remain Strong.

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- Chuck Holzman

- Your MCUL & Affiliates Team.



What is a credit union? MCL 490.102(I)

“Domestic credit union” means a cooperative, nonprofit entity organized under this act for the purposes of encouraging thrift among its members, providing a variety of financial services to its members, and providing an opportunity for its members to use and control their own money on democratic basis in order to improve their economic and social condition.



Proposed Amendments

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1. Regulatory Relief
1. Member Services
2. Exam Improvements
3. Empowering Boards of Directors
4. ~~Field of Membership~~
5. CU Regulatory Fund
6. “New Stuff” + codifications
(Overboard – Director Comp.; FOM; Bylaws)



No cap on **FIXED ASSETS** for CU's with strong capital

- (1) 3 year pro forma showing profitable condition;
- (2) well capitalized;
- (3) no C&D, conservatorship or receivership last 3 years; and
- (4) Director rated them "sound" or "fundamentally sound" at last exam (CAMELS 1 or 2)

All other CU's have current 5% limit unless they get Director approval for more.

IT Vendor Contracts

Regulatory Reform

Streamlines excessively detailed contract requirements for IT vendors while ensuring that vendors with access to confidential information are subject to examination by the Director.



Trust Services

Permit a credit union to invest in a Michigan-based CUSO offering Trust Services

Scholarships

Grants explicit statutory authority to provide educational scholarships.

Financial Counseling

Grants statutory authority to provide financial counseling services to any person in underserved areas.



Privilege

Keeps exam reports, which contain highly sensitive, candid information about individual credit union financial strengths and challenges, confidential. If they can't be kept confidential, DIFS may stop issuing written reports.

Best Practices

Regulatory Reform

Keeps “best practices” out of exam finding and prevents punitive action if not required by law or safety & soundness (business judgment)

Transparency

Director to define examination scope and how appeals will be resolved within 1 year.



Empowering Boards of Directors

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Authority – Delegation by Board to Management

Regulatory Reform

Gives credit union boards the ability to delegate routine matters to senior management.

Credit Union Bylaws

Regulatory Reform

Allowing credit union Boards to notify the DIFS Director that they will assume responsibility for maintaining and updating bylaws.

Minimum Number of Board Meetings

Regulatory Reform

Six meetings per year.

Allow Associate Board Members

Associate Board Member act in ex-officio capacity – allows for recruitment of new board members, and building of a “farm team” of future credit union volunteers.



Field of Membership

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~~Estate Accounts~~

~~Expand to allow estate accounts if the deceased was eligible for membership in the credit union when they died.~~

~~Legal Entity~~

~~Permit an entity that has a business presence in an area that a credit union serves, to become a member of the credit union, even if the principals are not located in the area.~~



Credit Union Regulatory Fund

- Restricted funds, but subject to annual appropriation
- Carries forward – no reversion to General Fund
- For credit union regulatory purposes
- Housed in the Department of Treasury



New Stuff + Codifications

- Assumed names – can now use “credit union” in name
- Charitable Donation Accounts
- Venture Capital & Real Estate Investment Authority
- Loan Promotion Raffles
- Later impermissible investments – orderly divestment
- Prepayment penalties for commercial loans
- Use of derivatives to hedge interest rate risk
- CEO to suspend or terminate membership for bad acts – w/ Board appeal
- ***New aggregate lending authority for DIFS*** (related party borrowers – imported from banking code - negotiated two important allowances –
 - (1) reasonable time to divest excess amounts (at least 180 days) and
 - (2) if well capitalized, allow DIFS to allow CU to set up a loan reserve for excess amounts rather than divesting

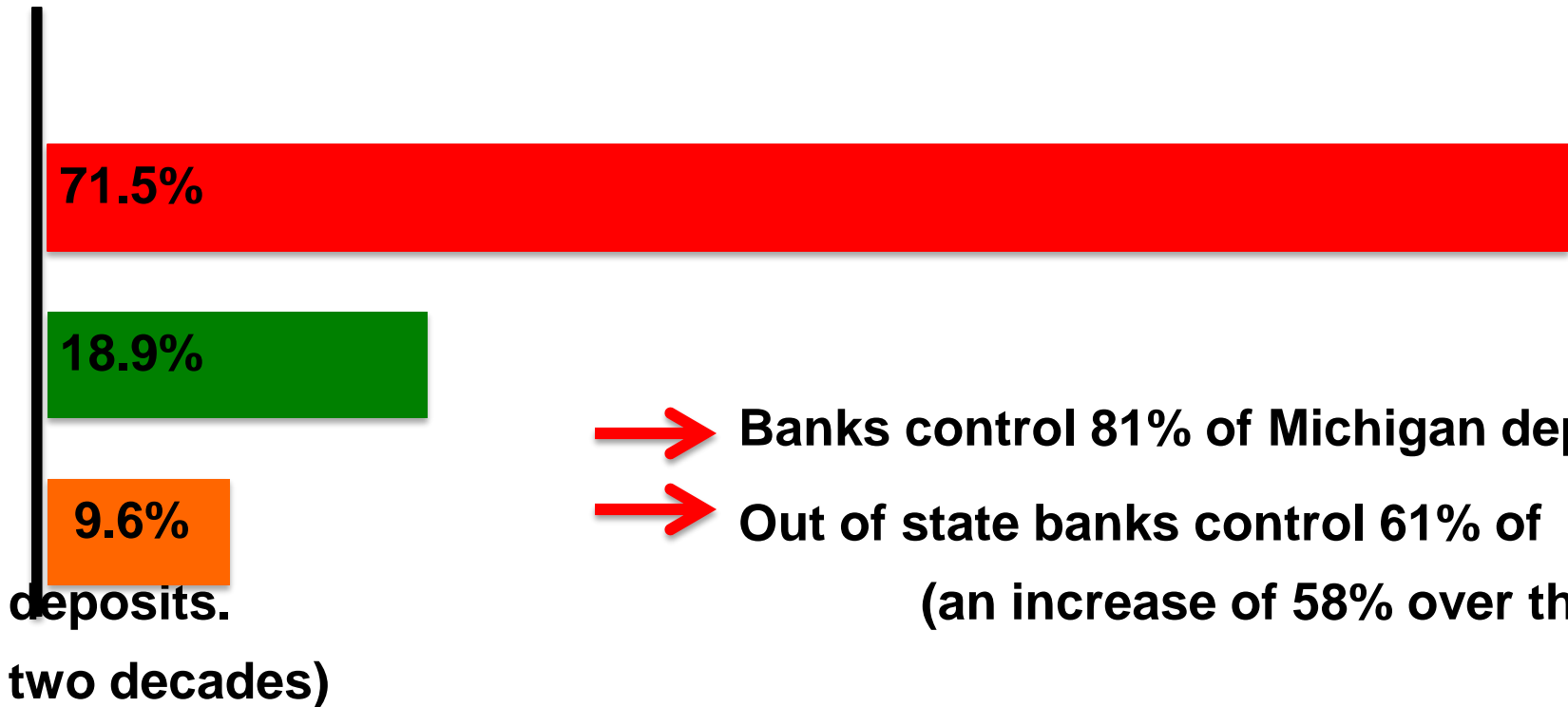


Questions?



Michigan CU Market Share

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-  Largest 25 US banks
-  Michigan credit unions
-  Smaller Michigan banks

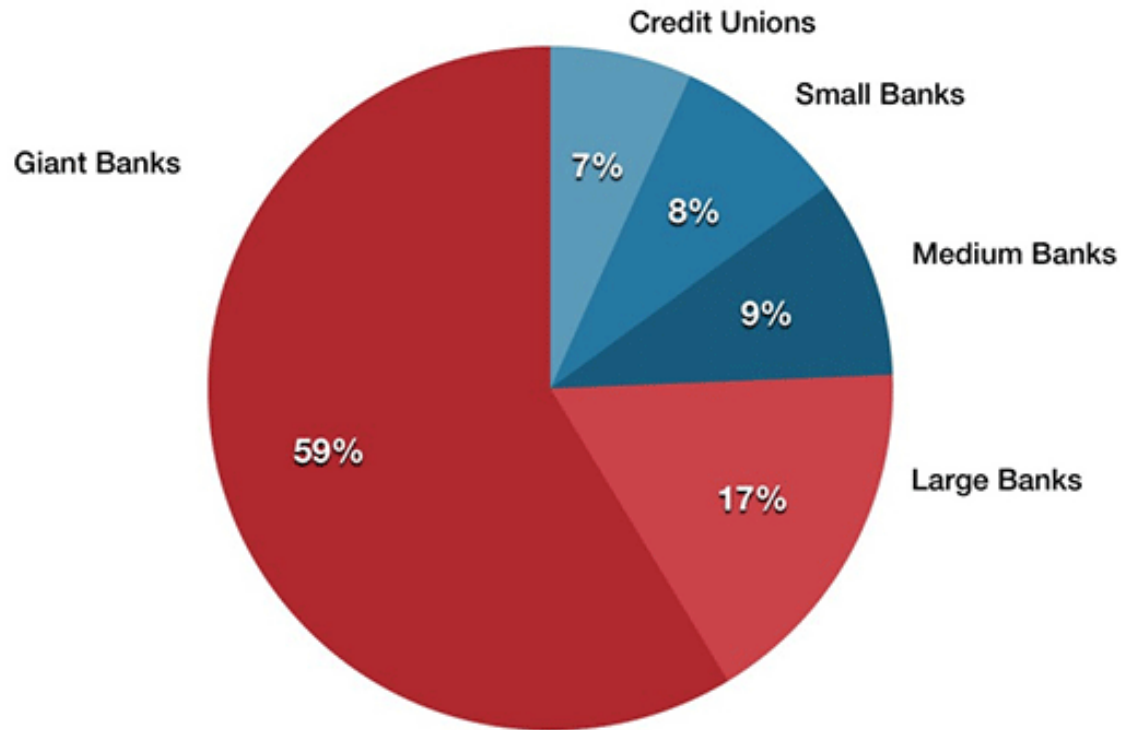
Source: Census, NCUA, FDIC, Informa Research Services Inc. and CUNA's Economics and Statistics Department



2014 Bank Market Share

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Community-based financial institutions—credit unions and small and mid-sized banks—control only 24% of banking assets.

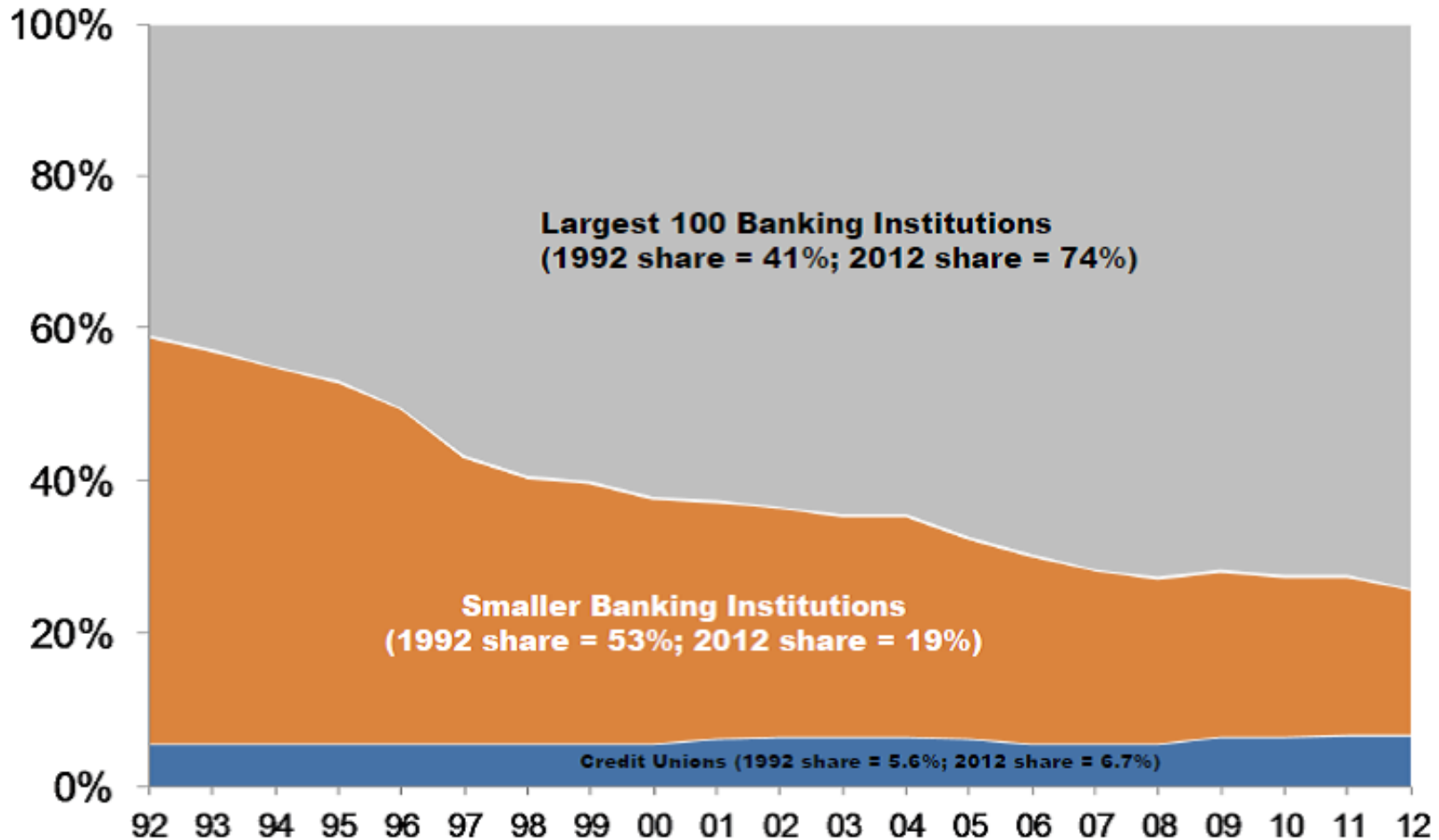


Source: Federal Deposit Insurance Corporation and National Credit Union Administration

Notes: Market share is defined as the share of assets held by U.S. banks and credit unions. Small banks are defined as those with \$1 billion in assets or less in 2010 dollars. Medium-sized banks are those between \$1 billion and \$10 billion in assets. Large banks are \$10 billion to \$100 billion in assets. Giant banks are those with more than \$100 billion in assets. Credit unions of all sizes are included together for this year, but the majority are small.

Big Bank Market Share Grows

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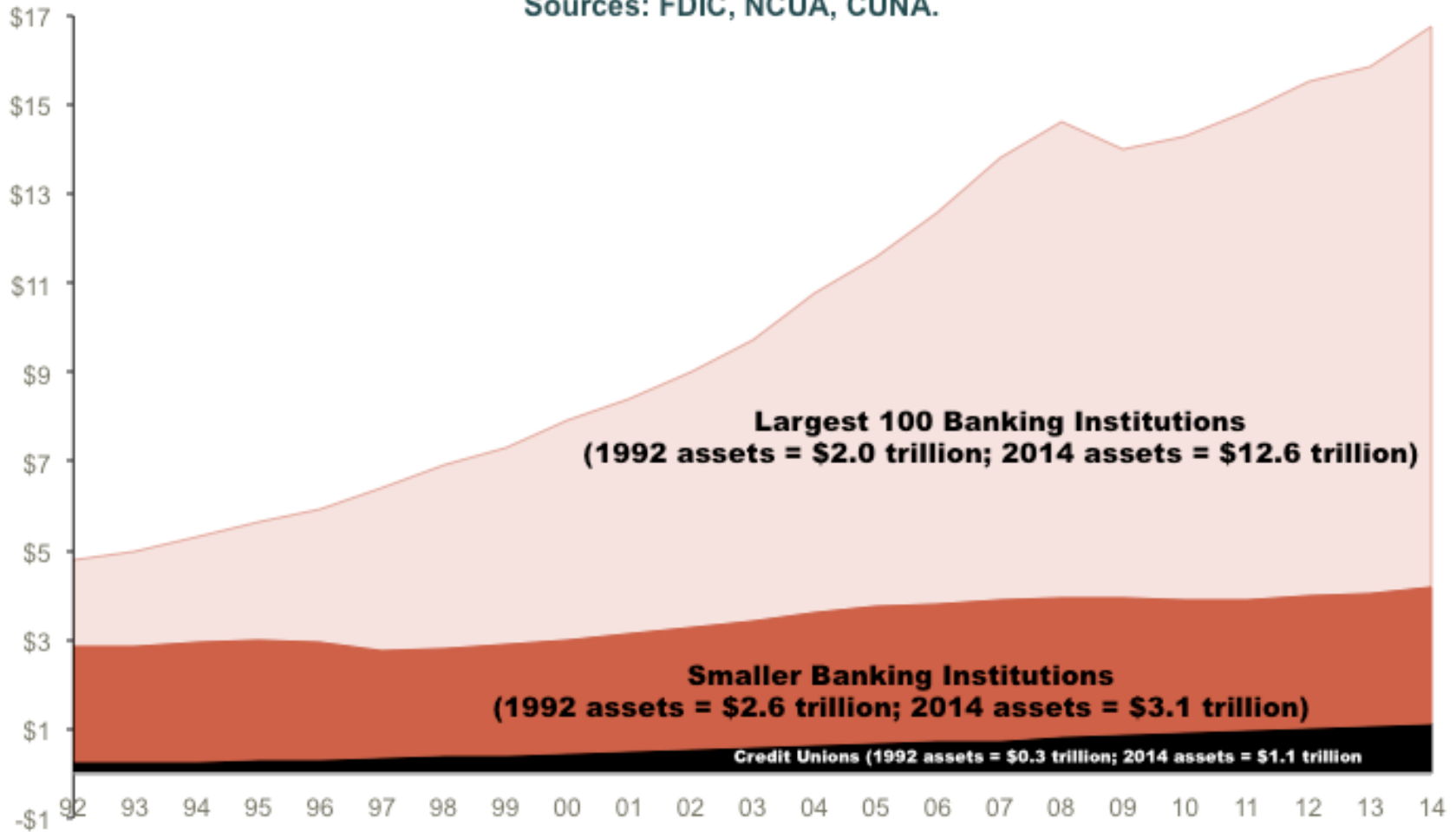


Sources: FDIC, NCUA, CUNA E&S. "Banking Institutions" include commercial banks and savings & loans.
"Smaller Banking institutions" are defined as all banking institutions smaller than the Largest 100.

Rapid Big Bank Growth

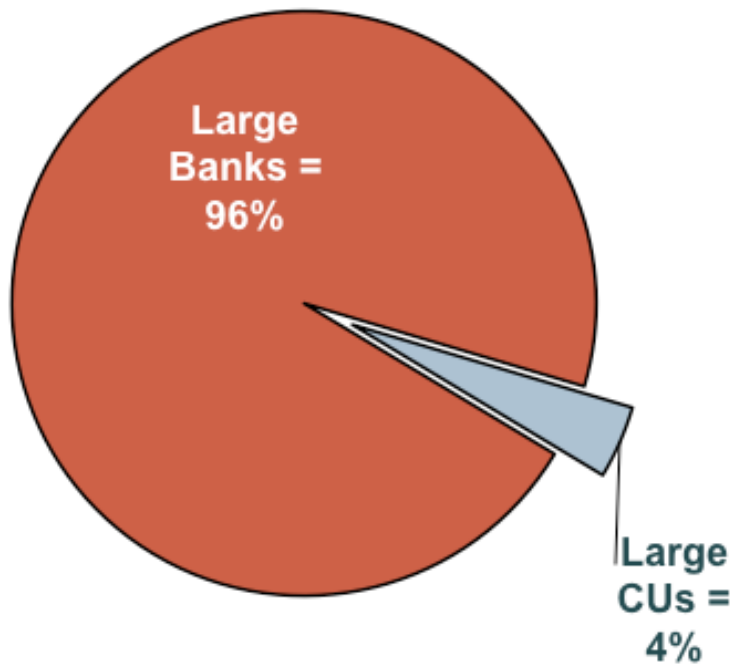
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Sources: FDIC, NCUA, CUNA.



Large Bank vs Large CU - Assets

Market Share of Assets in Large Financial Institutions



Sources: FDIC, NCUA and CUNA. As of December 2014. Large financial institutions are here defined as those with \$1 billion or more in total assets.

The credit union tax exemption has nothing to do with credit union size – it is based on the credit union unique not-for-profit cooperative structure.

Nevertheless bankers urge taxation of large credit unions by describing them as growing quickly and dominating the market.

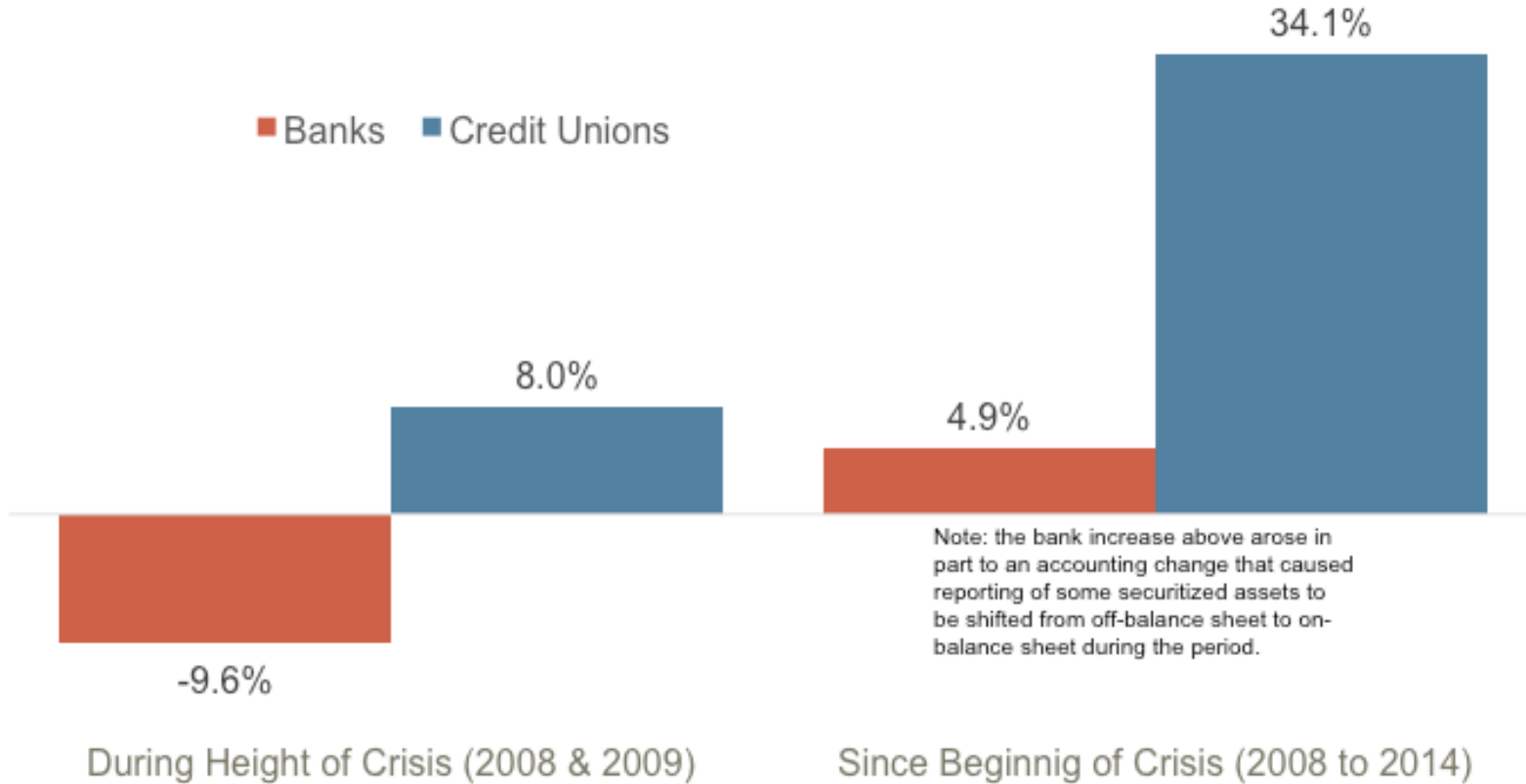
The facts however reveal another case of grossly misleading banker rhetoric:

- Billion dollar US banks now control \$14.3 TRILLION in total assets – a 96% market share of large financial institution assets
- Assets in billion dollar US banks grew by \$846 billion in the past two years. That two-year growth total is 36% greater than the total assets in all large CUs.

Banks pull back; CU's step up

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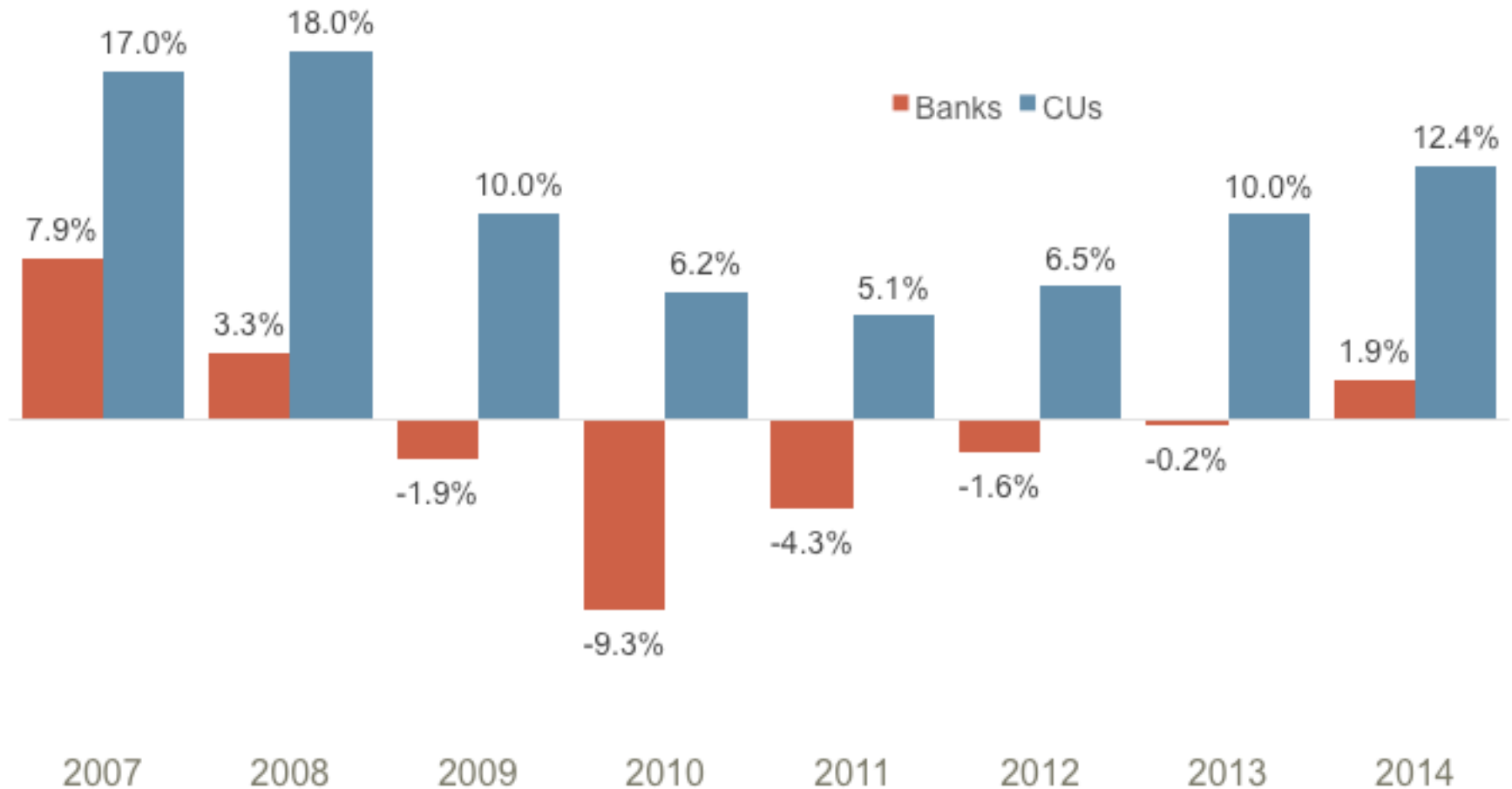
Total Loan Growth
Sources: FDIC, NCUA, CUNA.



Stepping up small business lending

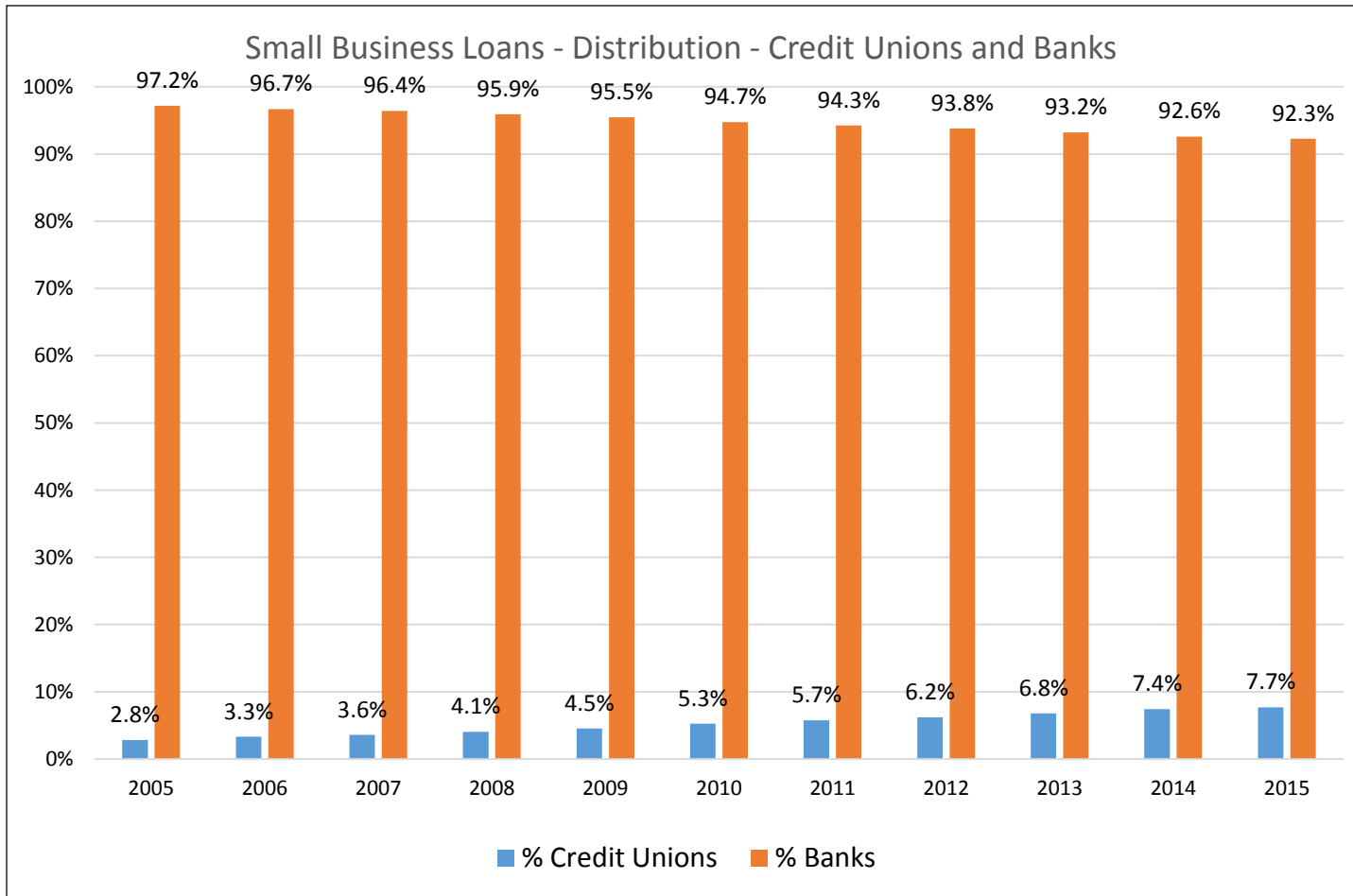
Small Business Loan Growth Since Start of Downturn

Sources: FDIC, NCUA, CUNA.

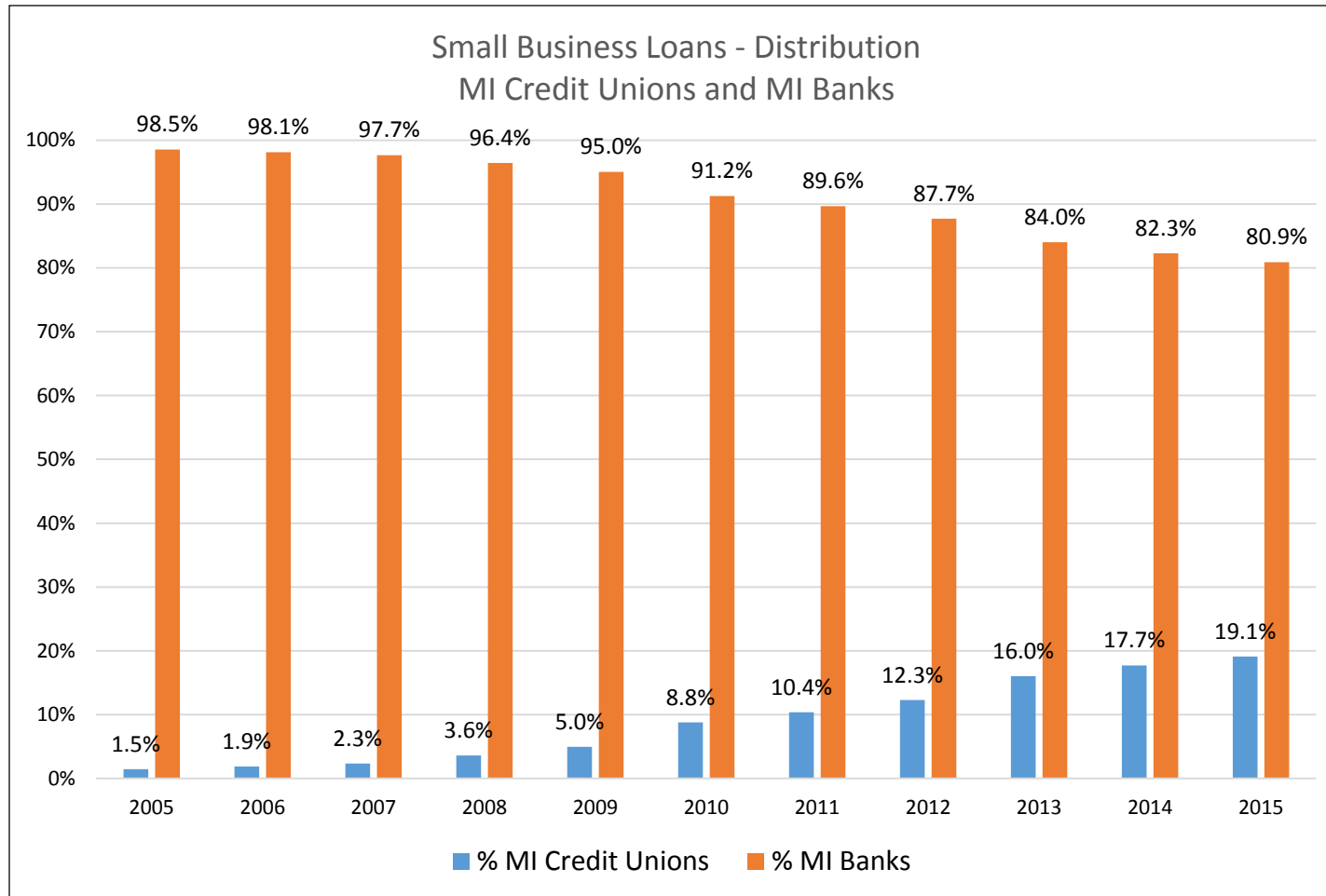


U.S. Small Business Loans

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Michigan Small Business Loans

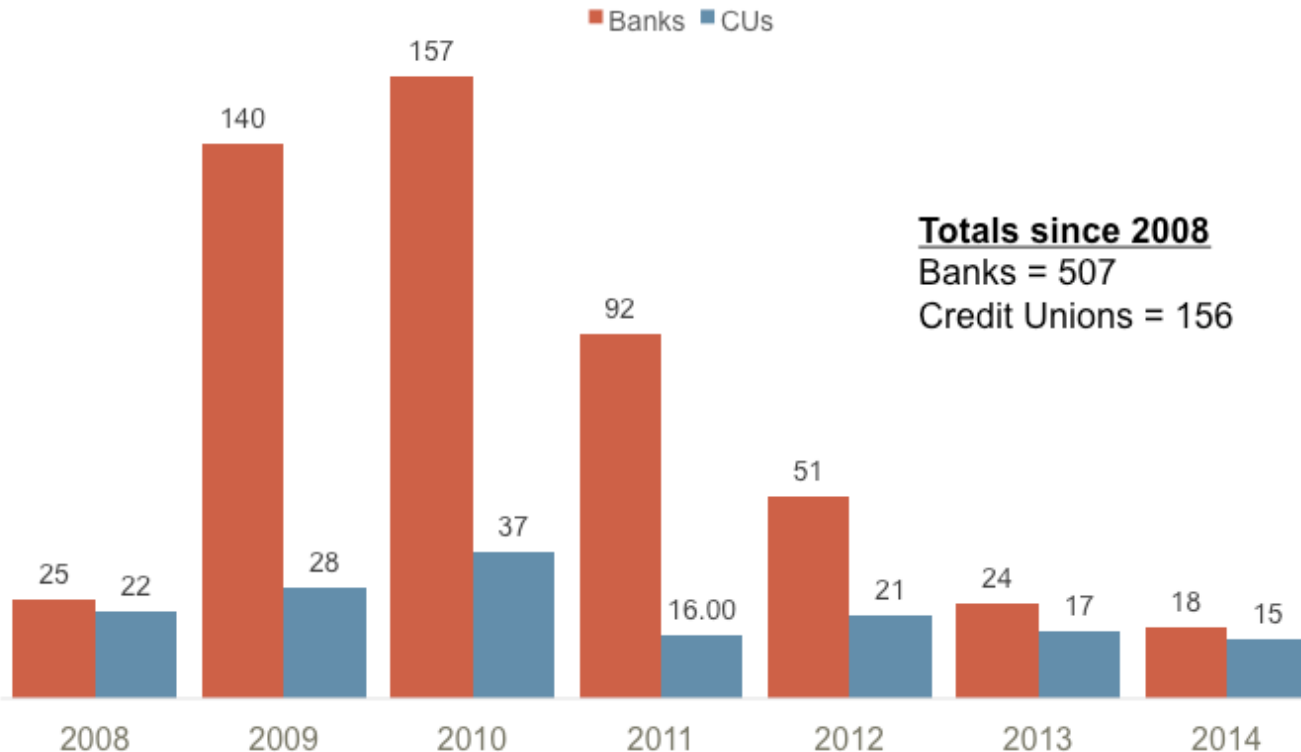


Recent Bank & CU Failures

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Number of Financial Institution Failures Since Start of Downturn

Sources: FDIC, NCUA, CUNA.



Misinformation

Credit unions can't do business lending

→ **NCUA Part 723**

Credit unions can't open estate accounts

→ **MCUL 490.353(5)**

Credit unions are seeking a huge field of membership expansion

→ **FOM flexibility was enacted in 2003.**

These changes would immediately allow credit unions to start using trust powers

→ **Only allows CUSOs to exercise trust powers if they approved by DIFS Bank & Trust division.**



“CU’s are dominating banks”

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FACT

- U.S. banks hold nearly fourteen times more total assets than credit unions (\$15.6 trillion vs. \$1.1 trillion).
- The average U.S. bank is nearly fourteen times larger than the average credit union (\$2.3 billion vs. \$173 million in total assets).
- One-half of all U.S. credit unions reported less than \$25 million in total assets. Overall, 2.8% of banks are this small.
- In all, 71% of U.S. banks control \$100 million or more in total assets. Less than 25% of credit unions are this large.



“CU’s are growing too fast”

FACT

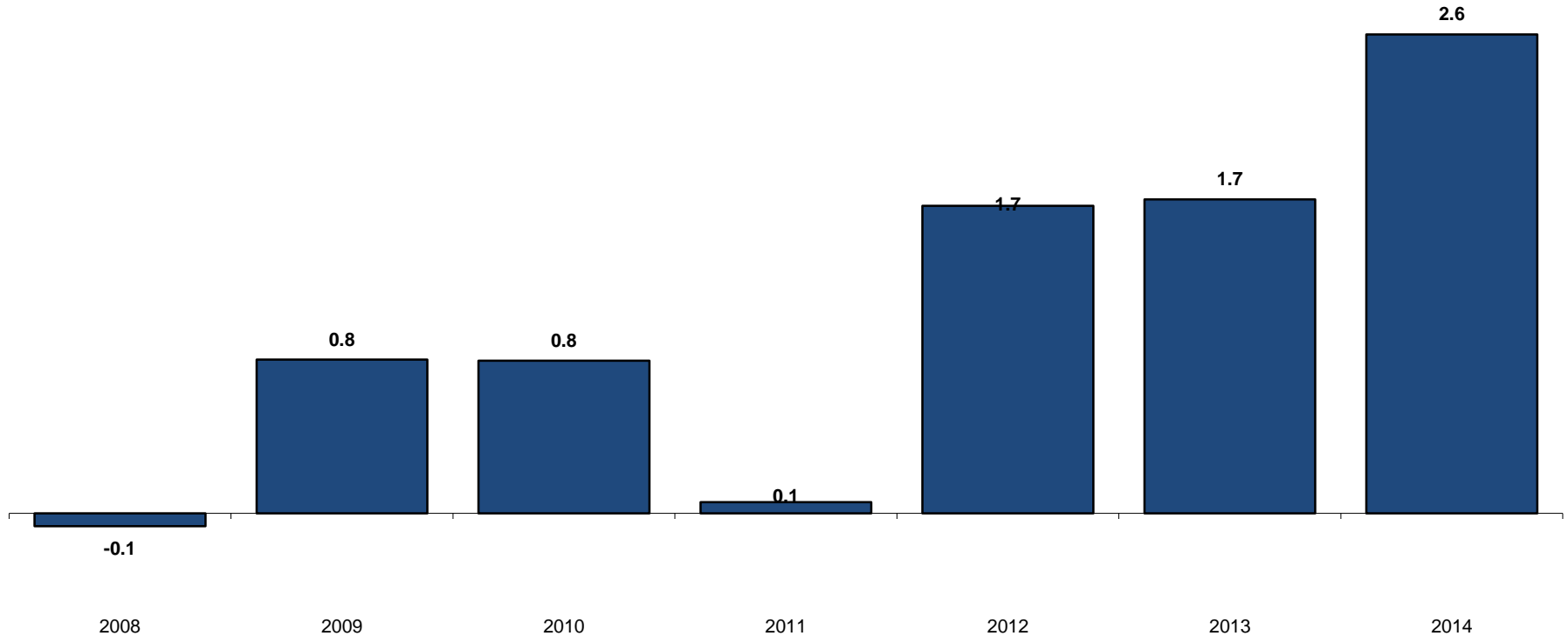
- The first U.S. credit union was established on November 24, 1908.
- Assets in U.S. credit unions grew to \$1.1 trillion by year-end 2014.
- It took 106 years for credit unions to grow to a total of \$1.1 trillion in assets. U.S. banks, in contrast, grew by a total of \$1.1 trillion in just the past TWO years.
- Each of the nation’s four largest banks is larger than the entire credit union movement.



Michigan Membership Growth

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Membership Growth (%)

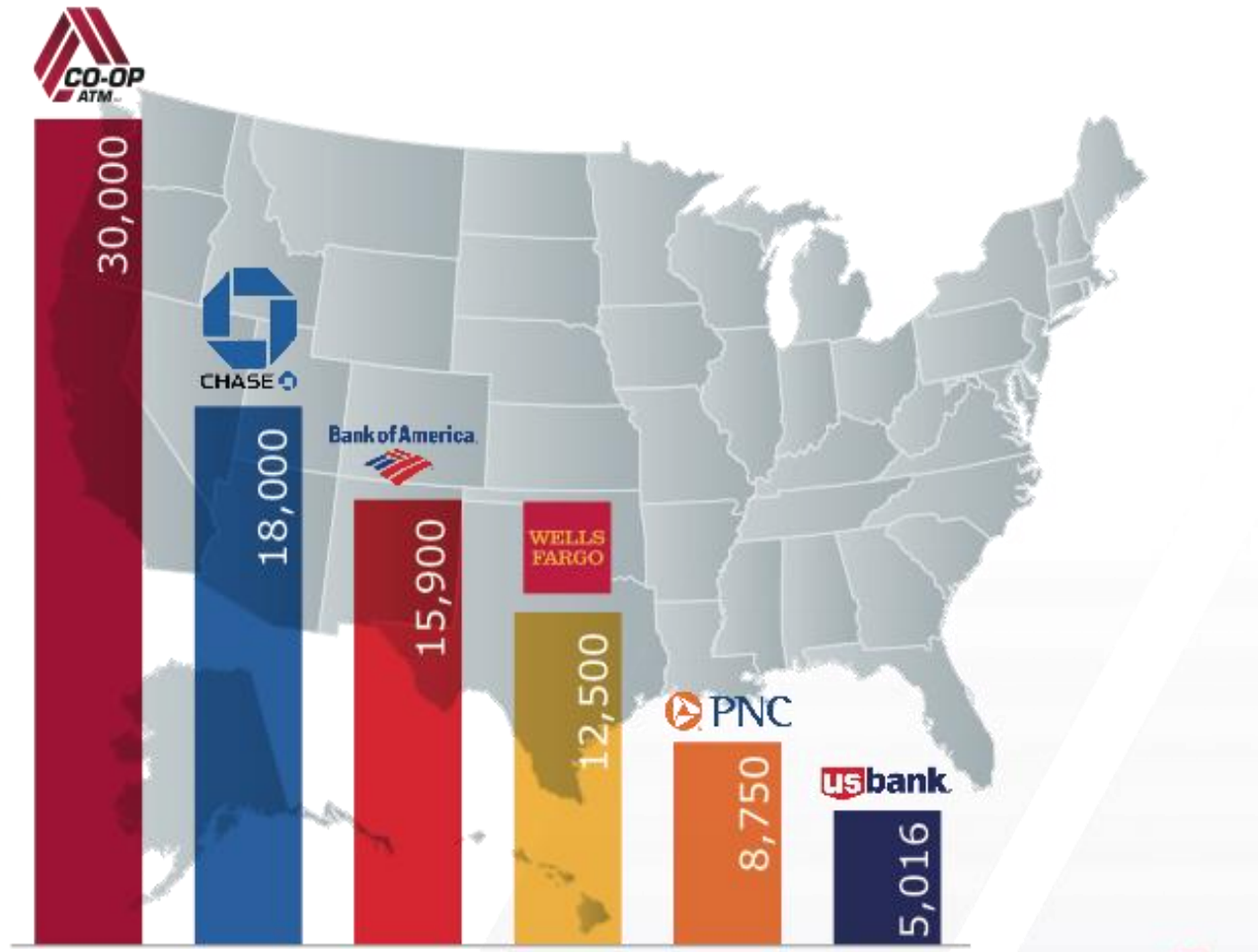


Source: Census, NCUA, FDIC, Informa Research Services Inc. and CUNA's Economics and Statistics Department

CO Op ATM Network

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More ATMs,
coast to
coast.*



CO OP Shared Branching

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*An additional 1,776 kiosks are available within select 7-Eleven® stores.

