

2017 MCUL Government Affairs Federal Issue Brief

Modernize the Federal Credit Union Act

Background

Michigan's member-owned credit unions compete in a rapidly changing industry. As consolidation continues to increase the average size of banks and credit unions, updating the Federal Credit Union Act (FCUA) is necessary to ensure federal chartered credit unions have the powers and flexibility necessary to be competitive and continue serving their members. In 2016, the Michigan Legislature enacted a comprehensive six-bill legislative package to update the Michigan Credit Union Act (MCUA). More than 40 reforms were signed by the Governor, providing much needed regulatory relief and expanded powers.

Impact on Credit Unions and their Members

Modernizing the Federal charter will help ensure the dual chartering system remains strong for our nation's credit unions. While the NCUA provided new regulatory guidance on member business lending and Field of Membership over the past few years, legislative changes are still necessary to ensure the FCUA enables a vibrant environment for credit unions to serve their members. In addition to regulatory reforms, issues such as eliminating arbitrary member business ending caps, expanding access to credit union services and expansion of powers should all be considered in any update.

Member Business Lending Cap

Since 1998, credit unions have been subject to an arbitrary statutory cap on business lending of 12.25% of a credit union's total assets. Today, several credit unions are rapidly approaching the cap while others choose not to engage in business lending because of the cap. Permitting credit unions with experience in business lending to expand lending to their small business-owned members could result in an additional \$16 billion to small businesses in the first year, helping them to create more than 150,000 new jobs. As of September 2016, Michigan credit unions have loaned small businesses more than \$2 billion.

Credit unions have had the authority to lend to their small business members since their creation in the 1930s. Prior to 1998, there was never a cap on how much credit unions could loan to these members.

1-4 Non-Owner Occupied Residential Loan Parity

Additional policy changes could help spur capital formation in specific sectors, such as residential real estate. Current regulations allow banks issuing loans secured by non-owner occupied residential properties with 1-4 units to count them as residential loans. Credit unions that make identical loans are currently required to treat them as member business loans,

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which count against the arbitrary cap. Changing this policy would bring parity between credit unions and banks offering identical products and would help spur investment in affordable rental properties.

Supplemental Capital Access

As more consumers turn to credit union, especially in a time of low-interest rates, credit union earnings face headwinds. Supplemental capital is a tool to help well-managed credit unions, large and small, meet their members' demands for affordable financial services.

Credit unions must meet a statutorily set net worth ratio of 7 percent to be considered well-capitalized; by contrast, the net worth requirement for banks is 5 percent and it is set by regulation. Unlike credit unions' banking counterparts, credit unions' only source of capital is through retained earnings.

By law, only retained earnings constitute net worth for all credit unions, with the exception of those designated low-income credit unions. All other U.S. depository institutions and most credit unions in other countries are permitted various forms of supplemental capital.

MCUL Position

Updating the Federal Credit Union Act will help ensure credit unions have a healthy and competitive dual charter system. Increasing the business lending authority of credit unions will help ensure Michigan credit unions can continue to serve the growing needs of their small business members. Allowing the NCUA board to permit supplemental capital for credit unions will help protect credit union members' access to the products and services they depend on.

Legislative Status

In 2016, legislation (H.R. 1188/S. 2028) was introduced to increase the member business lending cap, allow parity with 1-4 non-owner occupied residential loans (H.R. 1422), and permit the NCUA board authority to allow credit unions access to supplemental capital (H.R. 989). These enhancements to the Federal Credit Union Act will help ensure credit unions can remain competitive in satisfying the needs of their members. Please encourage your member of Congress to support these proposals as they are re-introduced in the 115th Congress.