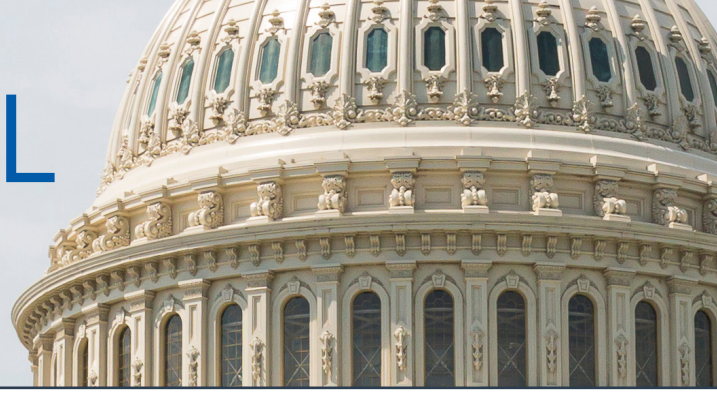


HIKE THE HILL

2019 Legislative Issues



Credit Union Difference and Not-For-Profit Tax Status

- CUs are not-for profit co-ops, owned by their members.
- CUs do not pay corporate income tax because of their not-for-profit co-op business structure, as opposed to for-profit banks. CUs pay all other applicable taxes, like payroll and social insurance, real estate, Unrelated Business Income Tax (UBIT), sales (state charters), etc.
- Banks can raise capital for the equity and bond markets. CUs can only raise capital through retained earnings.
- CU boards are drawn from members, elected by the members and serve as unpaid volunteers. Banks can provide stock options and ownership to their boards, executives and staff. CU directors and officers are focused on service as opposed to benefiting from stock appreciation.
- This important structural difference, as well as CUs' commitment to serve the unique needs of the underbanked and local economies, has contributed to the bipartisan support for the federal and state corporate income tax exemptions.
- CU profits are shared with members through higher savings returns, lower loan rates, fewer and lower fees, low-cost or free products and services and financial literacy programs.
- CUs focus on financial education for youth and adults.
- More than half of CU-originated mortgages go to borrowers earning middle incomes or less.
- CU business lending is growing dynamically to support our communities and businesses.
- While the consumer and business services provided by CUs may look and feel similar to banks, it's the not-for-profit co-op business structure that drives the CU tax status.
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- We understand legislation may be offered that would take away the income tax exemption for large asset credit unions, those over \$500 million and subject these credit unions to the community reinvestment act.
- Michigan credit unions are adamantly opposed to any such legislation and ask for support in defeating this or similar legislation.

Why this matters for consumers: The CU not-for-profit tax status serves as the foundation on which each CU is established, operates and serves its members and communities. Without it, the benefits realized both by members and non-members would not exist and consumer financial costs would be higher.

Cannabis Banking SAFE Harbor

For meetings with U.S. House Members:

- On Wednesday, September 25, the Secure and Fair Enforcement (SAFE) Banking Act, H.R. 1595, was passed by the House on a 321-103 vote. Members from Michigan voting in support include: Reps. Amash, Dingell, Kildee, Lawrence, Levin, Mitchell, Slotkin, Stevens, Tlaib and Upton. If your member is listed, please thank them!
- It remains to be seen whether the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, H.R. 2093 will be voted on. We urge the House to bring it up for a vote and ask for your support of the bill.
- Both the SAFE Banking Act and STATES Act would provide safe harbor protections to financial institutions from regulatory punishment for providing services to legal cannabis businesses in states where cannabis is legalized.
- While the SAFE Banking Act is solely focused on cannabis banking matters (providing financial institutions a safe harbor to serve the industry), the STATES Act takes a more comprehensive approach on cannabis. In addition to the safe harbor language for financial institutions, the STATES Act amends the Controlled Substances Act to curb federal enforcement against state-legal cannabis activity, prevents the forfeiture of assets derived from these businesses and protects state-legal businesses from federal money laundering laws.
- An amendment was incorporated into an annual appropriations bill by the House (first chamber) to prevent the U.S. Department of Justice from using appropriated funds to prevent states from implementing state laws authorizing the use, distribution or cultivation of cannabis.
- We urge Congress to retain this provision in final Fiscal Year 2020 appropriations legislation.

Why this matters for consumers: Passage of the SAFE Banking Act or STATES Act would provide financial institutions with the assurances necessary to serve legitimate cannabis businesses. The cannabis industry, operating primarily on cash and prone to criminal activity, would instead be operated under a highly regulated and safe environment.

Financial institutions only need one of the two bills to become law as the safe harbor language is in both. Given the narrow scope of the SAFE Banking Act and momentum behind it following passage in the U.S. House, the bill is more likely than the STATES Act to pass Congress and become law.

Cannabis Banking SAFE Harbor

For meetings with U.S. Senators:

- The House recently passed the Secure and Fair Enforcement (SAFE) Banking Act, H.R. 1595.
 - Thank you, Senator Peters, for co-sponsoring the Senate version, S. 1200.
 - Senator Stabenow, we would greatly appreciate you co-sponsoring S. 1200.
 - It remains to be seen whether the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S.1028 will be voted on. We urge the Senate to bring it up for a vote and ask for your support of the bill.
 - Both the SAFE Banking Act and STATES Act would provide safe-harbor protections to financial institutions from regulatory punishment for providing services to legal cannabis businesses in states where cannabis is legalized.
 - The bills would bring cannabis-related cash into the legitimate framework of financial institutions.
 - This is a matter of public safety, trafficking prevention and, in some respects, even a public health necessity.
- The Michigan Governor, Attorney General, Department of Insurance and Finance Services (DIFS) Director and House of Representatives are formally on record urging Congress to act on safe harbor legislation.
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Bank Secrecy Act/Anti-Money Laundering Reform

- Credit unions take Bank Secrecy Act and Anti-Money Laundering (BSA/AML) compliance very seriously and dedicate significant resources to it.
- Credit unions often spend their limited resources disproportionately on compliance which means fewer resources are available to spend on innovation and providing safe and affordable products and services.
- H.R. 2514, the Coordinating Oversight, Upgrading and Innovating Technology, and Examiner Reform (COUNTER) Act was passed unanimously by the House Financial Services Committee in May. As currently written, the bill would provide some good initial reforms for credit unions, such as indexing the currency transaction reporting (CTR) threshold for inflation.
- The bill would also require a study on a modified suspicious activity report (SAR) form and a review of financial institution reporting requirements under the BSA and require the Treasury Department and other appropriate departments/agencies to propose reforms to reduce the regulatory burden.
- We support efforts by Congress, including those in H.R. 2514, to reduce the compliance burden on credit unions while also ensuring the government has access to the information it needs to combat crime.
- Furthermore, credit unions urge Congress to adopt legislation that:
 - Minimizes redundancies, including the reporting of the same or similar information;
 - Provides additional flexibility based on the reporting institution type or level of transactions;
 - Curtails the continually enhanced Customer Due Diligence (CDD) rule requirements;
 - Increases the CTR threshold immediately and allows for periodic adjustments going forward.

Why this matters for consumers: While still meeting the goals of BSA/AML laws and regulations, commonsense reforms will allow CUs to focus more of their limited resources on high-risk accounts and on delivering better overall products and services to all their members.

Robocalls

- Credit unions support efforts by the Federal Communications Commission (FCC) and Congress to curtail illegal robocalls, including the recent passage of H.R. 3375, the Stopping Bad Robocalls Act, by the House of Representatives.
- The bipartisan H.R. 3375 recognizes the need for legitimate businesses, like credit unions, to quickly, efficiently and cost-effectively contact their members for legitimate purposes.
- Credit unions may need to contact members for a number of legitimate reasons including: in response to a data breach, to help them avoid fees, or to provide fraud alerts.
- Thank you for voting for passage of H.R. 3375 (Cong. Amash was only member from Michigan to vote against passage).
- Credit unions urge the Senate to pass H.R. 3375 in its current form and send the bill to the President.

Why this matters for consumers: Enactment of H.R. 3375 will go a long way toward curtailing illegal robocalls while still allowing consumers to receive time-sensitive and critical information from their credit union or financial institution.

Current Expected Credit Losses (CECL)

- U.S. Sen. Thom Tillis (R-North Carolina) introduced S. 1564, the Continued Encouragement for Consumer Lending (CECL) Act.
- S. 1564 would require the Financial Accounting Standards Board (FASB) and relevant financial agencies to report on the impact of their proposed current expected credit losses (CECL) accounting standard on the availability of credit, depletion of regulatory capital, investor decisions and competition, as well as disproportionate impacts on financial institutions of different sizes.
- It would prohibit application of the new standard from the date of bill enactment until one year after the required report under the act is issued.
- U.S. Rep. Vicente Gonzalez (D-TX) has also introduced H.R. 3182, the CECL Consumer Impact and Study Bill of 2019, to the same effect.
- In May of 2019, Senator Peters joined 14 U.S. Senators on a letter to the Federal Reserve and the FDIC to urge a delay in the implementation of CECL until a study about its economic impacts could be completed.
- We are urging all members of the MI delegation to co-sponsor and support H.R. 3182 and S. 1564.

Why this matters for consumers: If accounting standards change too abruptly, this could negatively affect credit unions' stated member capital or net worth. This could potentially constrict the availability of capital/loans for home and auto purchases and for small businesses.

Modernizing the Federal Credit Union Act

- The financial service industry is rapidly changing. Advancements in technology have significantly changed our society and how financial institutions do business.
- Consolidation continues to increase the average size of CUs.
- Updating the Federal Credit Union Act has become necessary to ensure federally-chartered CUs have the powers and flexibility to be competitive and best serve their members.
- H.R. 1661 has been introduced to eliminate the 15-year loan maturity limit on non-mortgage loans. Doing so will expand consumer access to affordable student loan and agriculture, fishing and other business lending products.
- H.R. 2305, the Veterans Members Business Loan Act has also been introduced. It would exempt loans made to veterans from the member business loan cap.
- Congress should also introduce and pass legislation that:
 - Removes outdated responsibilities of federal CU boards of directors.
 - Modernizes governance and procedures for federal CUs.
 - Permits CUs to establish their own fiscal year.
 - Permits electronic balloting for conversions from state to federal charter and from federal to state charter.

Why this matters for consumers: CU members will have access to products and services that better reflect the needs of today's consumer.

Data Security and Privacy

- Since 2005, more than 10,000 data breaches have occurred, exposing more than 11.6 billion records.
- The retail industry's self-policing and lack of meaningful security standards is woefully inadequate.
- Financial institutions are forced to assume the costs related to card replacement, fraud control, member communication and most, if not all, of the fraudulent transaction cost.
- We are anticipating data privacy/security will be introduced in 2019. We ask that you work with us ensure the bill reflects our priorities and that you then work to build support for its passage.
- Credit unions believe legislation should:
 - Strengthen the weak links in the system by creating strong national data protection and consumer notification standards.
 - Provide for the preemption of inconsistent state laws and regulations in favor of strong federal standards.
 - Afford credit unions and banks the clear authority to inform customers and members about a breach, including where it occurred.

Why this matters for consumers: Consumers have a huge stake in the data privacy/security debate. Not only do they deserve better protections from the retail community in terms of the safeguarding of personal ID and financial information, consumers also deserve relief from the costs associated with data breaches, which are ultimately passed along to them in terms of higher prices for products, higher fees/rates, etc. Stronger data security laws will force bad actors to strengthen systems, resulting in a decline in data breaches and fewer costs being passed on to consumers.