



2020 KEY FEDERAL 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 through 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.
- Bank organizations are shopping legislation that would take away the income tax exemption for large asset credit unions, those over \$500 million. Size or offered services have no bearing on the not-for-profit structure of credit unions.
- Michigan credit unions are adamantly opposed to any such legislation and ask for support in defeating this or similar legislation.

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.

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Cannabis Banking

- 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.
- 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.

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 by the U.S. House in October. 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 full text of the bill was also amended into HR2513 and passed by the U.S. House.
- 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.

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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.
- In October, U.S. Rep. Jack Bergman became Michigan's first co-sponsor.

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.