



2022 KEY STATE ISSUES

April 2022 Update

Credit Union Difference and Not-For-Profit Tax Status

- Credit unions are not-for-profit co-ops owned by their members.
- Credit unions do not pay corporate income tax because of their not-for-profit co-op business structure, as opposed to for-profit banks. Credit unions pay all other applicable taxes, like payroll and social insurance, real estate, UBIT, sales (state charters), etc.
- Banks can raise capital for the equity and bond markets. Credit unions can only raise capital through retained earnings.
- Credit union 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.
- More than half of credit union-originated mortgages go to borrowers earning middle incomes or less.
- Credit union business lending is growing dynamically to support our communities and businesses.
- Credit union 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. Credit union directors and officers are focused on service as opposed to benefiting from stock appreciation.
- This important structural difference, as well as credit unions' 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.
- Credit unions focus on financial education for youth and adults.
- While the consumer and business services provided by credit unions may look and feel similar to banks, it's the not-for-profit co-op business structure that drives the credit union tax status.
- Credit unions make up 50% of the state's headquartered CDFI institutions, leveraging grant and other financial resources to multiply positive community impacts to address consumer needs, community development, and small business lending.

Small-Dollar Loans by Payday Lenders

- HB 4004 was introduced, allowing payday lenders to offer \$2,500 installment loans (from 90-365 days) with monthly service fees equating to 132% APR.
- MCUL opposes HB 4004 and encourages legislators to explore meaningful and non-predatory solutions to address the need for additional financial products in the market.
- Credit unions have long opposed payday lending in general and the expansion of authority for payday licensees into this space. Our members are too familiar with the negative effects and cycle of debt that many borrowers experience when using payday loans.
- Many credit unions offer alternative products to help borrowers avoid these types of loans, provide free financial counseling and will work with members in their individual situations when they need help. The triple-digit APR of this proposed product dwarfs Michigan usury caps, allowable rates for PALs and the rates of legitimate alternative products offered by credit unions.
- While this bill incorporates some additional consumer protections, such as “ability to repay” (ATR) requirements, the legislation still allows the high-priced loan to be renewed by another small loan. A lender could loan to a borrower that has an outstanding small loan or payday loan from another provider, leaving the window open for cyclical renewals on products that are difficult for vulnerable borrowers to pay back.
- The COVID-19 crisis has wreaked havoc on our economy and many people’s ability to make ends meet. The legislature should carefully consider the impact of new lending products, when challenged borrowers are at their most vulnerable. Rather, we should be looking at appropriate regulatory relief for traditional financial institutions and ways to foster more affordable emergency consumer lending.
- The House Regulatory Reform Committee held it’s first hearing on the legislation in February. We voiced our opposition to HB 4004 in that committee hearing and will continue to meet with lawmakers on this issue.
- HB 4828 was introduced by Representative Cara Clemente to require that the Department of Insurance and Financial Services (DIFS) study the payday lending industry in the state of Michigan yearly for a period of 7-years.
- MCUL supports HB 4828 and believes that a study on the payday lending industry is needed to ascertain the current landscape and evaluate what sort of product (if any) is needed to fill a potential gap.

Data Security and Privacy

- Since 2005, thousands of data breaches have occurred; more than 8 billion records were exposed in Q1 2020. In 2019, 16 billion records (credit cards, addresses, phone numbers, etc.) have been exposed. The retail industry's current method of self-policing without adequate security standards is clearly not working.
- A cyber attack occurs every 39 seconds. If retailers are not properly protecting the data they collect on their consumers, they should be responsible for when the data is accessed by outside sources.
- Financial institutions are forced to assume the costs related to breaches, including card replacement, fraud control, member communication and fraudulent transaction cost.
- While a federal standard is the preferred method of addressing this issue, our team will continue to push for a state solution to this problem.
- Senator Wayne Schmidt has introduced cybersecurity legislation (SB 672) that would provide protections for businesses that adhere to industry data/cybersecurity standards. This legislation passed the Senate and is awaiting a hearing in House Financial Services.

Michigan Uniform Assignment of Rents Act

- The Michigan Uniform Assignment of Rents Act will provide the framework for the creation, perfection and enforcement of security interests in rents. The legislation applies to transactions in which the credit union is entering into a mortgage with a rental property (residential, commercial or industrial rental).
- Currently, in order to have the right to collect rental income in the event of a default, the credit union must contract for this. This legislation would automatically allow this right to collect rental income to any mortgage on rental property. The credit union upon default by the borrower would only have to file to perfect the security interest and provide notice to the tenant of the borrowers default and the credit unions ability to collect rents.
- The MCUL is in support of HB 4799-4800 introduced by Representatives Graham Filler and Kyra Harris Bolden to create the Michigan Uniform Assignment of Rents Act.
- HB 4799-4800 have been voted out of the House Judiciary Committee and off the House floor. Now they await a hearing in the Senate.

Financial Education

- Legislation has been introduced again this session to create a new graduation requirement for students in Michigan of taking a financial education course.
- HB 5190 creates a requirement of a 1/2 credit class of financial education prior to a student graduating from high school.
- Credit unions know how important financial education and financial literacy as steps on the path to overall financial wellbeing. And we support endeavors to help Michiganders become more financial literate and financially stable.

FY22 Supplemental and FY23 Appropriations Priorities

- Working with a coalition of Michigan CDFI partners to secure \$150 million in funding for a one-time state CDFI fund as a part of a FY22 supplemental budget.
- Our team is looking to further engage the appropriations process to look at ways to fund financial literacy endeavors and positive consumer engagement, payday lending alternative programs, and continued community development.
- The Governor included a recommendation for \$5 million in funding for the Michigan Saves program. We will continue to advocate for funding for this program in the FY23 budget.