



FEDERAL LEGISLATIVE BRIEF

Federal Credit Union Act Modernization

Background

Michigan's member-owned credit unions compete in a rapidly changing industry. Consolidation of the industry through mergers continues to result in an increase in the average size of credit unions. Updates to the Federal Credit Union Act (FCUA) are necessary to ensure that federally-chartered credit unions have the powers and flexibility necessary to grow, remain strong and serve the changing needs of their membership.

In 2016, the Michigan Legislature enacted a comprehensive six-bill legislative package to update the Michigan Credit Union Act that provided regulatory relief and updates. The federal charter needs to keep pace with state law to maintain a healthy, competitive dual-charter system.

Impact on Credit Unions and their Members

While the NCUA issued final regulations updating the critical areas of member business lending and field of membership for federal credit unions, legislative changes are necessary to ensure the long-term success of the dual-chartering system. In addition to structural reforms and updating archaic provisions, recommended changes should also include amendments to powers and governance. Updating the Act will provide federal credit unions with modern tools to serve their members, improved governance and operational flexibility.

Credit Union Structure

The FCUA currently over-dictates structural considerations for federal credit unions, such as setting their fiscal years and requiring monthly board meetings. Credit unions have expressed a desire for more flexibility in determining these matters, based on the operational needs and considerations of the credit union, as provided to state-charters under Michigan law. The Federal Act should be refreshed to provide such relief where appropriate.

The FCUA also sets a high bar for expelling abusive members. It should be updated to afford credit unions greater authority to suspend or remove members who are abusive, commit fraud, become disruptive to operations or become inactive for an unreasonable period.

Finally, significant advancements in technology have occurred since the FCUA was last updated in 1998. Many of these changes should be expressly reflected in the Act's text, such as permitting directors to conduct business and cast votes electronically. Credit unions should be fully empowered to leverage technology to streamline their own procedures and better serve their members.

Credit Union Powers

Despite strong growth in credit union membership and consumer reliance on their services, credit union earnings continue to face economic headwinds. Credit Union Service Organizations (CUSOs) allow credit unions to serve their members in a cost-effective and efficient manner. An update of the Act should reflect the tremendous benefits that CUSOs offer and provide credit unions with greater authority to invest in them, subject to approval of the NCUA.

Federal credit unions are currently allowed to provide mortgage loans that mature beyond 15 years, but other types of loans are required to mature in 15 years or less. The loan maturity limit for federal credit unions puts them at a disadvantage with state-chartered credit unions and other financial institutions and prevents them from providing significant or effective consumer relief in areas such as student debt. While the NCUA is also considering addressing the issue through rulemaking, the FCUA should also be amended to provide parity on federal credit union loan maturity.

Legislative Status

On March 8, 2019, Representative Lee Zeldin (R-NY-1) introduced the first bill in the 116th Congress to update the Act. H.R. 1661 would provide the NCUA flexibility to increase federal credit union loan maturities, which would provide federal credit unions parity with other financial institutions. We expect similar single-issue bills that offer incremental reforms to be introduced in the coming months. CUNA and MCUL continue to stress the importance of moving forward on this issue.

MCUL Position

Working with CUNA, MCUL continues to identify key areas of the Act that need to be revised and will work with Congress to pass legislation to modernize the FCUA, likely

through multiple, targeted measures. Please ask your lawmakers to support H.R. 1661 and additional legislation that:

- Provide federal credit unions with increased structural flexibility, including the ability to determine their own fiscal year, schedule board meetings appropriately, remove problem members and leverage technology to streamline operations and governance.
- Grant federal credit unions greater authority to invest in CUSOs.
- Expands the NCUA board from three to five members.
- Provides additional appropriate regulatory relief, modernization on structure and governance and powers to better serve members.

As CUNA and MCUL work together, and with other state leagues, to identify additional key items for modernization, please ask your lawmakers to urge the NCUA to promulgate rules that will provide the reforms and relief.