



AMERICA'S
CREDIT UNIONS®

ADVOCACY BRIEFING

Brought to you by  Credit Union
National
CUNA Association



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THE CREDIT UNION DIFFERENCE

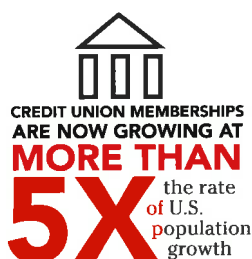
Credit unions are not-for-profit financial service cooperatives with a mission to promote savings and provide access to credit for provident purposes.



Members benefit from credit unions' not-for-profit nature through more attractive savings and loan rates as well as generally lower fees. Credit unions are democratically owned and controlled institutions that take pride in their **"People Helping People"** philosophy. Credit unions have no outside stockholders, so earnings are returned to members in the form of dividends on savings, lower loan rates and fees or additional services.

Credit unions work hard for members.

- Credit unions primarily engage in consumer lending and residential real estate lending with their members. Also, in recent years, a growing number of members have had a need for small business loans.
- Credit unions are working hard to meet the small business demand, but they are often hampered by the arbitrary and unnecessary statutory cap on business lending.
- Credit unions rank first among industries in the American Customer Satisfaction Index and reflect double the score of big banks on the Chicago Booth Kellogg School Financial Trust Index.
- Credit unions received among the highest marks for service in Consumer Reports that has ever been given to any industry.



OVER 105 MILLION U.S. CONSUMERS ARE MEMBERS OF ... 1 OR MORE of the nation's 6,264 credit unions



- 1. Reduce regulatory burden*
- 2. Keep the credit union charter competitive*
- 3. Stop merchant data breach*
- 4. Preserve the tax status*

BIG BANKS INCREASINGLY DOMINATE



Bankers know that credit unions are not a threat to banks. American Bankers Association (ABA) Competitiveness Survey revealed that only 1.9% of bankers viewed credit unions as chief competitors in business lending. It took 106 years for credit unions to grow to a total of \$1.1 trillion in assets, while U.S. banks grew by a total of \$1.1 trillion in just the past TWO years.

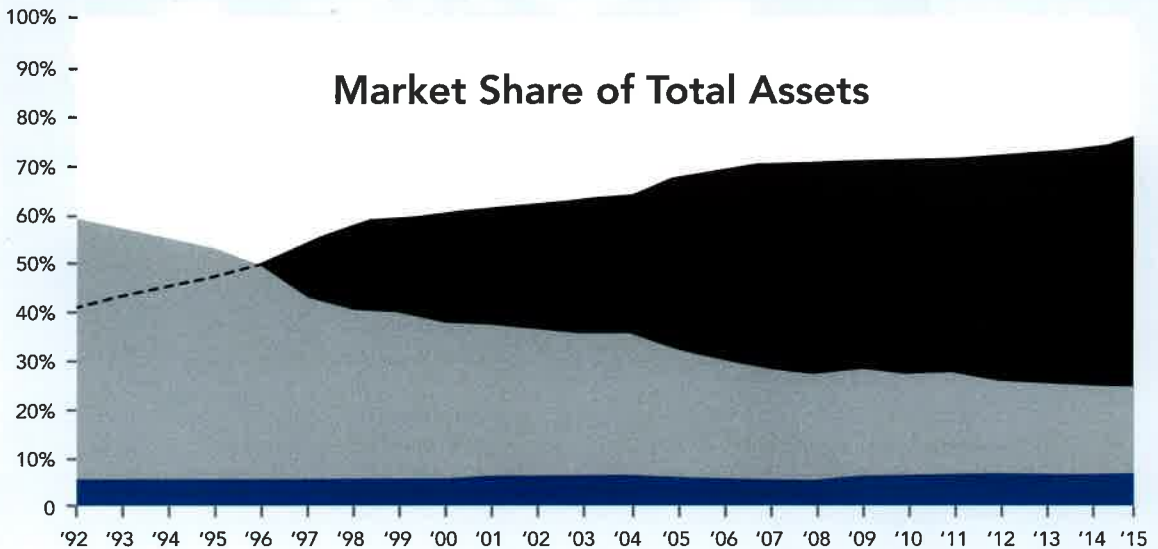
- One-half of all U.S. credit unions reported less than \$25 million in total assets. Overall, 2.8% of banks are this small.
- Credit union market share of financial institution assets is small and has not changed significantly in over twenty years: **Credit union market share was 5.6% in 1992 and was 7.0% at the end of 2015.**

EACH OF THE NATION'S FOUR LARGEST BANKS IS LARGER THAN THE ENTIRE CREDIT UNION MOVEMENT

Group	Total Assets
All Credit Unions	\$ 1.3 Trillion

Group	Total Assets
JPMorgan Chase Bank, National Association	\$ 2.11 Trillion
Wells Fargo Bank, National Association	\$ 1.74 Trillion
Bank of America, National Association	\$ 1.65 Trillion
Citibank, National Association	\$ 1.36 Trillion

- **Largest 100 Banking Institutions**
1992 = 41.7%
2015 = 75.5%
- **Smaller Banking Institutions**
1992 = 53.3%
2015 = 17.5%
- **Credit Unions**
1992 = 5%
2015 = 7%



Sources: FDIC, NCUA, CUNA

REGULATORY BURDEN ON CREDIT UNIONS

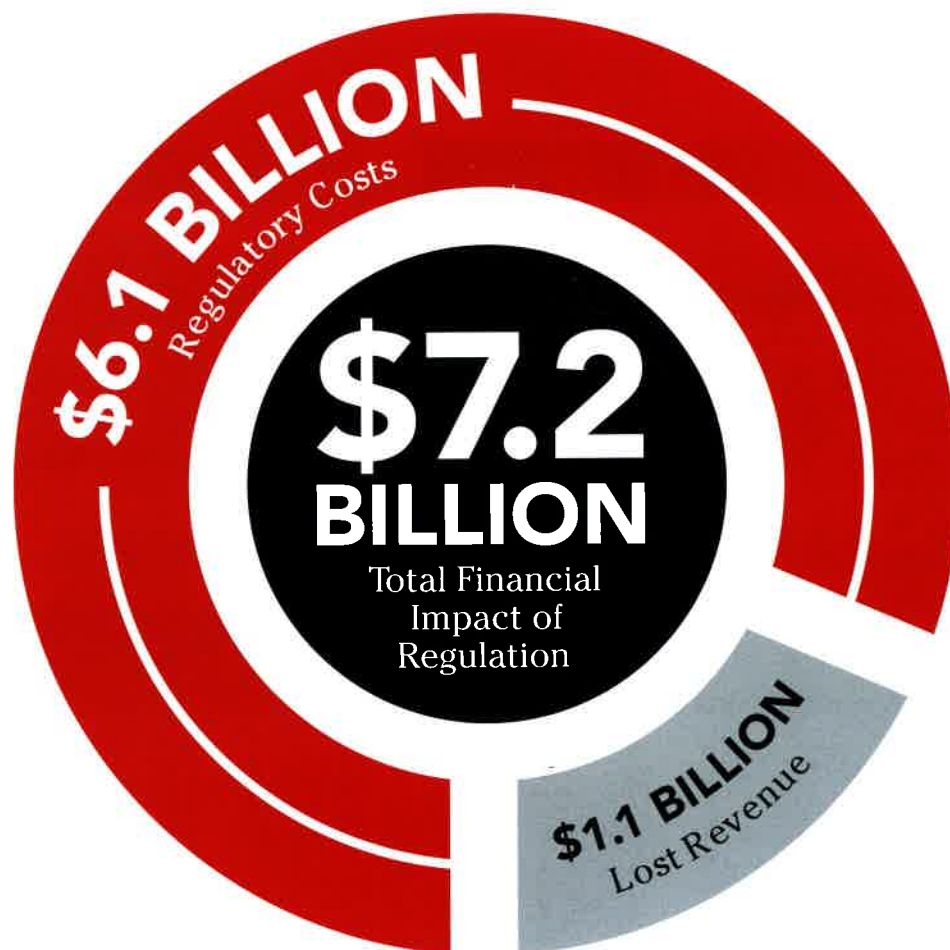
Regulatory burden impacts credit unions and their members.



For many Americans, credit unions are their opportunity for affordable financial services, but regulatory burden continues to provide challenges to credit unions and their members.

The total financial impact of regulations on credit unions is large and has grown considerably over the past several years. Since 2010, the total financial impact of credit union **regulatory burden has increased by \$2.8 billion.**

Credit union members end up paying the price for regulatory burden.



Regulatory Burden Subjects 105 Million Credit Union Members to:



Higher loan rates



Longer wait time for loan approvals



Less available and more expensive services and products



Increased inconvenience on services



Less access to modernized technology

As owners and users of their credit unions, regulatory burden costs a credit union member \$71 each year.



Congress should pass legislation that modernizes the CFPB and incentivizes common-sense regulation.

COMMON-SENSE STEPS TO ADDRESSING

Structural Reform



CFPB structural reform is necessary to ensure consumers continue to have access to local credit unions and small banks: One-size-fits-all regulation does not work for main street – local credit unions, small banks and the consumers and small businesses they serve. It's created a rigged system favoring the largest institutions who can afford to comply with Washington. Over regulation is hurting consumers, costing them time and money. Local member-owned credit unions know their members better than Washington.

Now is the time to reform the CFPB so that it works for credit union members.

CFPB Five-Person Commission



The current structure – with one powerful director – gives too much authority to one person and not enough oversight and accountability. Modernizing the CFPB to include a multi-member Commission would enhance consumer protection by ensuring that diverse perspectives are included in final rules and prevents disruptions caused by personnel changes. Credit union members will benefit from policymaking that includes more voices.

This system is much more consistent with the traditions of our democracy.

Consult with CFPB on Behalf of Credit Unions



Several of the rules the CFPB has finalized over the past few years have harmed credit unions' ability to provide safe and affordable products and services. New mortgage rules, the rule for international remittances, proposals on small dollar lending and arbitration, and CFPB enforcement actions that have conflicted with credit union statutory rights have harmed credit union members by forcing credit unions to eliminate product offerings and in some instances limit credit offerings to riskier borrowers.

Credit union members will benefit if the CFPB makes appropriate rule changes and provides clarification to address the impact of its current rules and proposals on credit unions.

Increase CFPB Supervisory Threshold



Congress should do more to ensure that the CFPB focuses on abusers of consumers. Local credit unions and small banks do not present significant risk to consumers and have federal prudential regulators capable of supervising compliance with consumer protection law.

Increasing the supervisory threshold to \$50 billion and indexing it for inflation will allow CFPB to focus supervisory resources on large Wall Street banks and nonbank financial services providers which present the greatest risk to consumers.

REGULATORY BURDEN



Regulatory Relief

Congress should have oversight of agency rulemaking for regulations with an economic impact of \$100 million or greater and should also provide protection to credit unions for good faith reporting of suspected financial elder abuse. Very well-captured credit unions should have reduced regulatory requirements.

We support additional provisions aimed at providing regulatory relief including the provisions addressing the CFPB's rulemaking on arbitration, payday lending, HMDA, remittances, mortgage lending and other rules that stand between local credit unions and their members.



Clarify Exemption Authority

The CFPB has statutory authority to exempt local member-owned credit unions from its rulemaking, and its failure to use this authority has harmed consumers seeking safe financial services, including remittances and mortgages, from credit unions by making these services more expensive and less available.

Congress should enact legislation to clarify that credit unions are exempt from CFPB rules unless the CFPB demonstrates credit unions are causing consumer harm.



Address CFPB's Abuse of UDAAP Authority

Through the use of its Unfair, Deceptive and Abusive Actions and Practices (UDAAP) authority, the CFPB has failed consumers by ignoring basic tenets of the rule of law. Regulations should be clear, publicized, stable and just, but the CFPB has used this authority as a broad tool to sweep credit union into proposed regulations consistent with its ideological goals, despite no evidence of harm to consumers. In their supervisory role, they have used this authority to set expectations that conflict with longstanding guidance from prudential regulators.

CFPB circumvents the will of Congress and harms consumers by creating an uncertain operating environment for credit unions serving them. Congress should repeal the CFPB's UDAAP authority.



Affordable Rental Housing

The renter population in the United States is increasing, creating a considerable gap in rental supply and demand and putting affordable rental housing out of reach for many. Credit unions face statutory barriers to helping finance small rental housing because the Federal Credit Union Act treats loans for 1-4 family, non-occupied residential properties as commercial loans, but similar loans made by banks are considered residential loans.

Congress should correct this disparity and encourage credit unions to help with the affordable rental housing crisis.

THE CFPB NEEDS STRUCTURAL CHANGES



Why is it necessary?

- Credit unions recognize they are part of a highly regulated industry and must bear the reasonable costs of regulation. However, the CFPB's frequent and new regulatory changes combined with its liberal application of unfair, deceptive and abusive acts and practices (UDAAP) laws should only be applied to the problem actors and mega banks in the industry.
- The CFPB should provide oversight and assistance without overreaching and burdening already responsible credit unions who did not cause or contribute to the financial crisis. Such over-regulation limits the choices of American citizens.
- Unnecessary laws and regulations have driven up compliance costs for credit unions by nearly \$3 billion annually. They have also forced credit unions to divert attention from providing products and services to Americans to complying with new or expanded rules.
- The CFPB, as structured, is not a fair and measured agency. As Congress takes up regulatory relief matters in the 115th Congress, changes should be made to the CFPB so it can effectively carry out its mission to help America's consumers.

How can it change?

1. Change CFPB Leadership to a Five-Person Commission

- The CFPB should be changed from a one-person director to a five-person commission. The CFPB is currently led by one director serving a five-year term; the director must be nominated by the President and approved by the Senate, and the President may only remove the director for cause.
- The CFPB, as currently structured, is not working for credit unions and their member-owners. By not recognizing the credit union difference and forcing community financial institutions to comply with regulations intended for Wall Street banks, the CFPB has actually limited consumer-friendly products. When most credit unions have 5 or fewer full time employees, credit unions must increase cost or eliminate products and services they offer. Changing the structure of the agency and creating a multi-person commission will help bring much needed balance and perspective to the decision-making process, which would better protect against policymakings that have unintended consequences.
- A multi-member commission would enhance rulemaking by ensuring diverse perspectives are included in final rules and by preventing disruptions caused by personnel changes. The CFPB was created to protect consumers, and the American people deserve an agency.

- A commission would provide certainty that is essential for consumers and the financial services industry, regardless of which political party is in the White House. A single director allows for drastic swings in the approach to regulation which is costly and prevents credit unions from long-term planning. A commission will promote the CFPB's ability to make bipartisan and reasoned judgments; will offer consumers the protection they deserve and the industry the certainty it needs, which in turn will help strengthen the economy, and will avoid the risk of politically motivated decisions.

2. Increase Examination Threshold

- Credit unions and banks above \$10 billion in total assets are subject to supervision by the CFPB, despite the fact that they are regulated for safety and soundness by federal (and in some case state) regulators.
- Consumers would benefit by the CFPB focusing its supervisory resources on entities that present significant risk to consumers, particularly entities that are not already subject to federal regulation.

3. CFPB Exemption Authority

- The CFPB's regulations should be more tailored to address the largest financial institutions and problem actors in the industry.
- Section 1022 of the Dodd-Frank Act provides the CFPB with authority to exempt 'any class of covered entity' from its rulemaking. The CFPB's failure to use this authority has harmed consumers seeking safe financial services, including remittances and mortgages, from credit unions. Congress should enact legislation to clarify that credit unions are exempt from CFPB rules unless the Bureau demonstrates credit unions are causing consumer harm.
- Congress should raise the supervisory threshold to \$50 billion in assets and index the threshold for inflation.
- Furthermore, the CFPB should not be provided with the discretion to include its examiners on a sampling basis in the examinations by a prudential regulator, as is currently allowed, for examinations of insured depository institutions with under \$10 billion in assets.

4. Consult with CFPB on Behalf of Credit Unions

Several of the rules the CFPB has finalized over the past few years have harmed credit unions' ability to provide safe and affordable products and services. New mortgage rules, the rule for international remittances, proposals on small dollar lending and arbitration, and CFPB enforcement actions that have conflicted with credit union statutory rights have harmed credit union members by forcing credit unions to eliminate product offerings and in some instances limit credit offerings to riskier borrowers.

Credit union members will benefit if the CFPB makes appropriate rule changes and provides clarification to address the impact of its current rules and proposals on credit unions.

MODERNIZING THE FEDERAL CREDIT UNION ACT AND THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) is the prudential regulator for federally-insured credit unions. As Congress explores regulatory reform in the 115th Congress, credit unions have the following priorities regarding NCUA:

Expanding NCUA Examination Cycle

Until recently, federally insured credit unions have been subject to an annual examination cycle. As the financial services industry and credit union risk landscape are evolving, we have encouraged the NCUA to move to a less frequent exam cycle, particularly in light of credit unions' strong ability to weather the recent economic crisis. The NCUA has responded to improve their ability to adapt to economic changes and emerging issues by implementing numerous changes to both their procedural processes and their technology that have enabled them to reduce the frequency of exams for healthy credit unions while maintaining a robust supervision program. They have adopted a **goal of reducing their onsite presence during the examination process** by evaluating alternatives to the current examination approach and increasing their coordination with State Supervisory Authorities.

The Credit Union Membership Access Act was passed in 1998. Since then the world has changed significantly and the Federal Credit Union Act and the regulations have not been updated to keep pace with the technology and how consumers access financial services. The current charter framework available to credit unions is not sufficiently flexible and empowering to maximize the potential benefit to its members and the societal impact. Congress should act to enhance the charter to ensure continued access to credit for America's businesses and consumers.



Congress should support and enable these efforts and reforms. While we are in this encouraging transformative period, no new legislation is necessary.

NCUA's Independent Status Must Be Retained

Credit union member deposits fund the NCUA and the National Credit Union Share Insurance Fund (NCUSIF). A separate, independent federal regulator is essential to the safety and soundness and viability of the credit union system. Credit unions would oppose legislation that jeopardizes NCUA's independence or combines them with another regulatory body.

NCUA Funding

NCUA's funding mechanism has served the agency very well throughout its history. We oppose legislation that would subject NCUA to the appropriations process. Credit union member resources should not be commingled with Treasury funds, creating a scenario where the government may collect more than is appropriated. That would be tantamount to a tax on credit unions. The NCUA is the appropriate body to determine the resources needed to keep the credit union system safe and sound.



Congress can help by ensuring that the NCUA budget process remains transparent and responsive to stakeholder concern.

Continued Congressional Budget Oversight

Although the NCUA should not be funded by appropriations, its budget process should be open and transparent. Members of the credit union community, the providers of NCUA funds, should have the ability to examine and comment on the budget before adoption. In the last few years, due to Congressional oversight and concerns of credit unions, the NCUA has made their budget process more open and transparent. We truly appreciate the NCUA listening to Congress and credit union members on this matter, so further legislation may not be needed at this time.



Congress could continue to provide oversight of the NCUA through hearings and meetings.

MERCHANT DATA BREACHES

Nonexistent merchant data security standards make merchants vulnerable to cyberattacks which expose credit union members and credit unions to significant monetary costs and reputational risk.



Credit unions cover the costs of fraud, blocking transactions, reissuing cards, increasing staffing at call centers and monitoring consumer accounts, but no one compensates the consumers for harm from the information that is lost. Merchants have been vulnerable to large and small data breaches, which costs credit unions and their members significantly and enrich criminal and other cyberterrorists.

- Nearly 60% of consumers expect to be a victim of data breach at some point
- In 2016, 1,093 data breaches occurred in the U.S., a 40% increase from 2015

Data breaches continue to be a problem, even when they are not in the news cycle. The number of compromised records jumped 31% in 2016.

Financial institutions are subject to strict data security standards under the Gramm Leach Bliley Act (GLBA). Retailers are not.

- Merchant data breaches have compromised millions of American consumers' personal financial information. Causing them to be at risk for identity theft and other fraud.
- Retailers are not required to come forward when they are breached, but 60% of consumers would stop shopping at a retailer if they knew they suffered a breach.
- More breaches occurred in 2016 by the business community than breaches in the healthcare industry and government combined.



Congress should pass legislation that would impose data security standards on merchants to protect consumers and reduce criminal access to financial information.

To be protected, American consumers need:

Strong National Data Protection

and consumer notification standards with effective enforcement provisions are needed to ensure those with sensitive data protect the data.



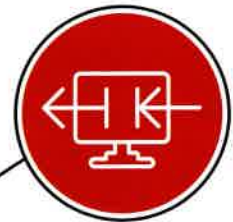
Recognition of Robust Data Protection

and notification standards that credit unions and banks are already subject to.



Preemption of Inconsistent State Laws

and regulations in favor of strong Federal data protection and notification standards.



Ability for Credit Unions and Banks to Inform

customers and members about a breach, including where it occurred.



Shared Responsibility

for all those involved in the payments system for protecting consumer data. The costs of a data breach should ultimately be borne by the entity that incurs the breach.



CREDIT UNION PRINCIPLES FOR HOUSING FINANCE REFORM

CUNA supports housing finance reform proposals that are consistent with the following principles, and have been subject to full and fair consideration with respect to potential impact on all market participants:



Neutral Third Party: There must be a neutral third party in the secondary market, with its sole role as a conduit to the secondary market. This entity would necessarily be independent of any firm that has any other role or business relationship in the mortgage origination and securitization process.



Equal Access: The secondary market must be open to lenders of all sizes on an equitable basis. CUNA understands that the users of a secondary market will be required to pay for the use of such market through, for example, fees, appropriate risk premiums and other means. However, guarantee fees or other fees/premiums should not have any relationship to lender volume.



Strong Oversight and Supervision: The entities providing secondary market services must be subject to appropriate regulatory and supervisory oversight to ensure safety and soundness. By ensuring accountability, effective corporate governance and preventing future fraud; they should also be subjected to strong capital requirements and have flexibility to operate well and develop new programs in response to marketplace demands.



Durability: The new system must ensure mortgage loans will continue to be made to qualified borrowers even in troubled economic times. Without the backstop of an explicit federally insured or guaranteed component of the revised system, CUNA is concerned that private capital could quickly dry up during difficult economic times, effectively halting mortgage lending altogether.



Mortgage Servicing: Credit unions should continue to be afforded the opportunity to provide mortgage servicing services to their members in a cost-effective and member service-oriented manner. This is done in order to ensure a completely integrated mortgage experience for credit union members/borrowers.



Predictable and Affordable Payments:

The new system must include consumer access to products that provide for predictable, affordable mortgage payments to qualified borrowers. Traditionally this has been provided through fixed-rate mortgages (such as the 30-year fixed rate mortgage), and it is important that qualified borrowers continue to have access to products that provide for predictable and affordable mortgage payments.



Loan Limits: The new housing finance system should apply a reasonable conforming loan limit. That should adequately take into consideration local real estate costs in higher cost areas.



Financial Education: The new housing finance system should emphasize consumer education and counseling. This is as a means to ensure that borrowers receive appropriate mortgage loans.



Reasonable and Orderly Transition: The transition from the current system to any new housing finance system must be reasonable and orderly.

PRESERVE THE CREDIT UNIONS' TAX STATUS

All consumers benefit when credit unions help keep financial services accessible and affordable. Credit union members themselves benefit to the tune of over \$10 billion because of the types and cost of products and services that the credit union tax status allows credit unions to make. Bank customers benefit too – they saved nearly \$4 billion last year through more favorable competitive pricing.



Credit unions are democratically owned and controlled not-for-profit cooperative financial institutions that take pride in their **"People Helping People"** philosophy. Credit unions are exempt from federal income tax because of their structure as not-for-profit financial cooperatives and their mission to promote thrift and provide access to credit for provident purposes.

Member-owned.

As not-for-profit, member-owned financial institutions, **credit unions know and work for their members, not shareholders.** This makes credit unions inherently risk averse and able to navigate financial turmoil better than for-profit financial institutions.

DUE TO TAX STATUS:

\$10 BILLION

BENEFIT TO CREDIT UNION MEMBERS

\$4 BILLION

BENEFIT TO BANK CUSTOMERS

Purpose driven.

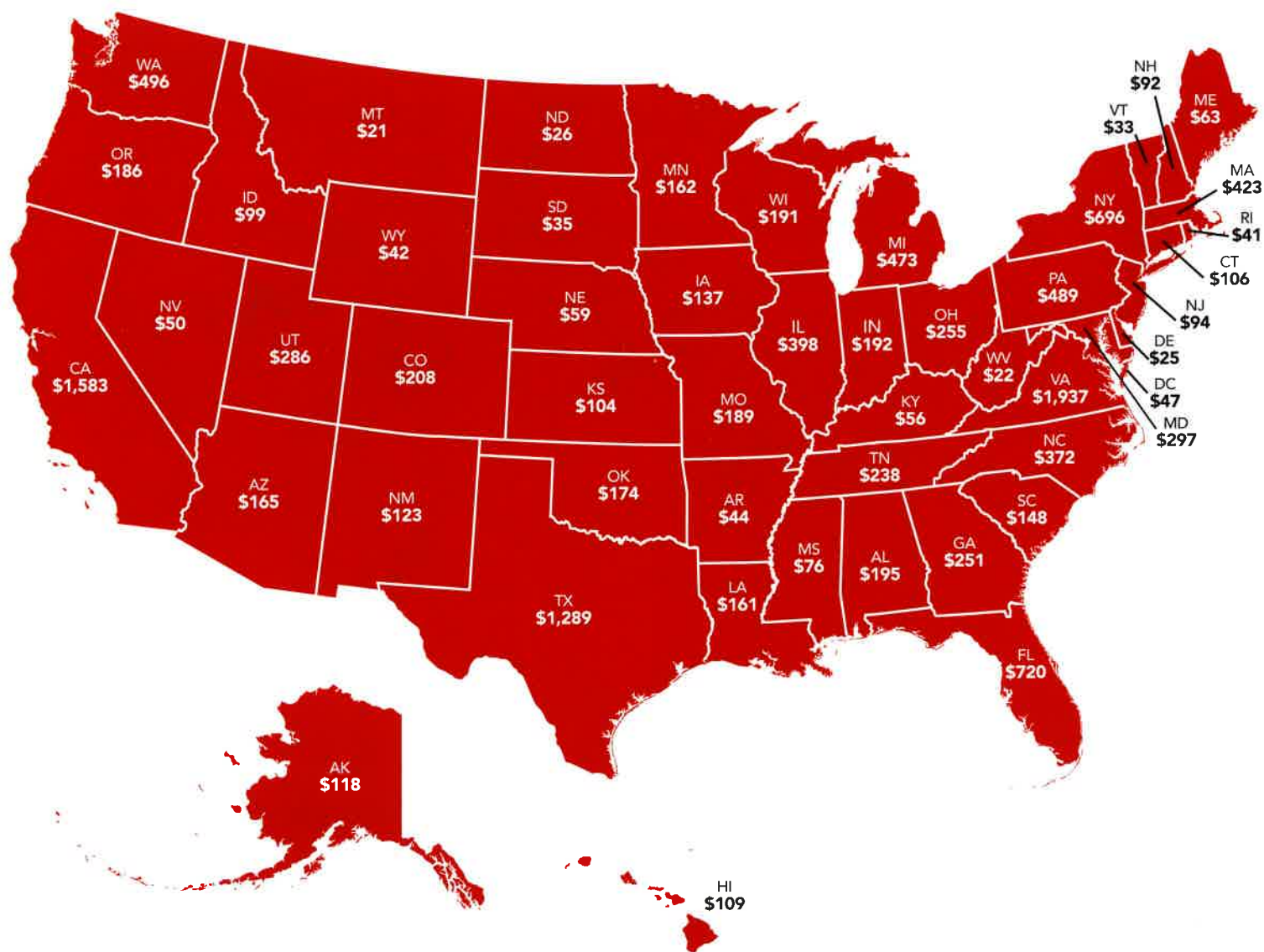
The credit unions' tax status does not create an unfair market advantage. In exchange for not paying federal income taxes, credit unions do not make a profit. Any bank interested in operating as a not-for-profit financial cooperative can convert to a credit union and get the same deal.



Congress should retain the credit union tax status in any comprehensive tax reform legislation.

TOTAL MEMBER AND NON-MEMBER BENEFITS IN MILLIONS

Credit unions generally provide financial benefits to members through lower loan rates, higher saving rates and fewer, lower fees than banking intuitions. Credit unions provided members and non-members \$13.45 billion in financial benefits to consumers in 2016.



* Data as of September 2016