

2017 MCUL Government Affairs Federal Issue Brief

Support Common Sense Regulatory Reform

Background

Regulatory relief continues to be a significant issue of concern for Michigan's credit unions. Credit unions must comply with a number of new and revised requirements from not only NCUA and the CFPB, but also other prudential regulators. Credit unions remain concerned about regulatory burden.

CFPB Reform

The MCUL and CUNA have continued to push for regulatory relief by urging the CFPB to make greater use of its exemption authority for credit unions. Last June, House Financial Services Chairman Jeb Hensarling unveiled a package of reforms to Dodd-Frank. The proposal included several credit union supported provisions that have previously passed the Financial Services Committee, including changing the CFPB leadership to a five-person commission and bringing the Bureau under the appropriations process. The reforms also include the TAILOR Act (instructing the CFPB to account for size and risk when regulating entities), the Operation Choke Point provision, giving flexibility to credit unions to serve their members' mortgage needs by allowing mortgage loans held in portfolio to be exempt from the Qualified Mortgage (QM) rules imposed by Dodd-Frank, and the Examination Fairness provision.

Since their inception, credit unions have strived to provide consumers with access to secure, reasonable financial services.

Consumer protection is the core of the credit union mission and Michigan's credit unions embody the spirit of "people helping people," in every transaction every day. Yet, broad and excessive regulation at the federal level have become a driver of credit union consolidation, which further limits consumer choice in the marketplace.

Common-sense regulation that balances safety and soundness, consumer protection, and members' needs is necessary in today's financial services sector. The one-size fits all post-crisis regulatory response to consumer protection does not work for local credit unions and the businesses and members they serve. Credit unions have been forced to divert resources from member services to compliance functions as a result of these burdensome regulations.

CFPB Reform

- Congress specifically granted the CFPB with the authority to exempt certain institutions or groups from their rules. Despite the clear legislative intent expressed by Congress, the CFPB continues to include credit unions in its regulations despite that credit unions haven't been found to have caused harm to consumers.
- Please encourage the CFPB to use its exemption authority when promulgating new rules where credit unions haven't been found to be causing harm to consumers.

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- Though the CFPB was created and authorized by Congress, it continues to operate without appropriate levels of Congressional oversight. The Bureau's authority is vested in a single person and changing its governing body to a multi-person board would make the CFPB more representative of the diverse perspectives of the financial services sector over which it governs.
- Consumers will benefit from a CFPB that is funded through the appropriations process and the Congressional oversight that accompanies that process.
- UDAAP (Unfair Deceptive Abusive Acts or Practices) In its supervisory role, the CFPB has used its authority to admonish and penalize credit unions for engaging in practices consistent with longstanding statutory directives and guidance from their prudential regulator. Through these actions, the CFPB circumvents the will of Congress and harms consumers by creating an uncertain operating environment for credit unions and their members.

Over-Regulation Impacts Credit Union Members

The regulatory burden under which credit unions must operate stifles their ability to fully and efficiently serve their members and leaves the financial system under served. Since 2008, credit

unions were subjected to more than 190 regulatory changes from 15 federal agencies. The cost of regulatory burden on credit unions has increased to more than \$7.2 billion, according to a study commissioned by CUNA. ¹

The study collected data on three types of costs related to regulation: staff costs, third party expenses and depreciation of capitalized costs. The largest component of regulatory expense was for staff, at a total of 74%. Of the staff costs driven by regulation. The study also found dramatic evidence of differential impacts by credit union size. Cost impacts were much more significant at smaller versus larger credit unions.

This level of regulation limits credit unions' ability to serve their members. Regulatory changes require staff time and credit union resources expended in order to comply with the change; forms and disclosure changes; data processing systems reprogramming; and staff retraining. Many credit unions have a small number of employees, and time spent on regulatory compliance is time away from member service. When regulation aimed at big banks and abusers of consumers restricts or prevents credit unions from offering services, consumers lose affordable access to financial services.

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MCUL Position

The MCUL supports legislation that provides meaningful regulatory reform for credit unions. Structural reform of the CFPB's oversight to a five member, bipartisan board and placing the agency's funding under the appropriations process will help ensure the concerns of credit unions and their members are being heard.

Legislative Status

In 2016, 12 of Michigan's 14 congressional delegation members signed on to the Stivers-Schiff letter. This communication

encouraged CFPB Director Richard Cordray to utilize the exemption authority granted under Section 1022 of Dodd-Frank. This provision permits the CFPB to exempt classes of financial institutions like credit unions and community banks from rulemaking. To date, the CFPB has not exercised this authority in any meaningful way, and a growing number of lawmakers are concerned about the impact of burdensome regulations on credit unions in their states. Encourage your member of Congress to support regulatory relief legislation in the 115th Congress.