MICHIGAN CREDIT UNION LEAGUE & AFFILIATES

2025 MCUL

STATE ISSUE BRIEFS

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 bi-partisan 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

- 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 high-cost, short-term credit.
- 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.
- The legislature should carefully consider the impact of any new lending products, especially those offered to challenged borrowers that are at their most vulnerable. We should be actively looking at appropriate ways to foster affordable emergency consumer lending that will actually help people and build their credit.
- In 2024 PA 46 was signed into law by the governor requiring DIFS to do a study of the payday lending industry under the current Deferred Presentment Services Transaction Act (DPSRA). This study will provide valuable data on the industry and its impact on consumers.

Earned Sick Time/Minimum Wage

- On February 21, 2025, the Governor signed PA (2) which promulgates a number of changes to the Earned Sick Time Act (ESTA). Employers with 10 or fewer employees must now provide 40 hours of earned sick time per year, removing the previous allowance for 32 unpaid hours. These smaller employers have until October 1, 2025, to comply. The new rules clarify notification requirements, allowing employers to establish written policies for accountability to prevent cases of “no call no show”. Employers can continue to frontload sick time rather than track accruals and set a base wage for variable-wage employees that excludes commission, overtime, and bonuses.
- Additional provisions include a 72-hour carryover limit for accrued sick time unless employers choose to pay out unused hours at the end of the year. Certain groups, such as youth workers and unpaid interns, are exempt. The law also streamlines PTO usage, removing the need for separate sick time banks. It eliminates the presumption of employer guilt in complaints and prevents employees from directly suing employers for alleged violations. The smallest increment for sick time use is one hour, and employers may impose a 120-day waiting period for new hires or rehires after a two-month separation, benefiting seasonal employers.
- New businesses are exempt from these requirements for three years, and employment contracts effective by January 31, 2025, may qualify for exemptions. However, enforcement by the Department of Labor and Economic Opportunity will be delayed as they update required posters and compliance materials.

Financial Literacy/Financial Education

- Legislation was enacted last session which created a new half-credit requirement for students to talk a personal finance course prior to graduating high school.
- Currently, the Michigan Department of Education (MDE) is working on implementing this new law for roll out starting in 2024.
- Our team continues to engage MDE on the implementation process and encourage them to utilize financial institutions' expertise in this space when building out the requirements for this half-credit course.

Garnishment and Collections Reform

- HB 4900 and 4901 of 2024 passed the legislature along party lines and awaits presentation to the governor.
- Included in the proposed legislation are significant increases in exemption thresholds for garnishments, shifting of various procedural burdens (along with liability) onto financial institutions, the possible elimination of offset capabilities for credit unions and extraordinarily high property exemption thresholds, among other items.
- As passed, the sweeping changes contained in these bills would be highly problematic for risk-based lending decisions and would render many individuals virtually uncollectable. This, in turn, will result in restricting access to capital for credit union members, many of whom need it the most.
- MCUL remained opposed to the legislation but also continued working with legislators to minimize the impact of the bill as much as possible in the event the bills passed along party lines.
- Due to a procedural error made by the 2024 House Democratic majority, the bills were never properly presented to the governor, thus preventing them from becoming law. The Senate Democrats have filed suit in the court of claims in the hopes of compelling the new House Republican majority to send the bills to the governor. While the Court did rule that the bills must be presented to the governor the court gave no directive regarding procedure and a timeline. MCUL has been closely monitoring the legal battle.

UCC & Emerging Technology

- Proposed amendments have been brought forward in 2022 by the Uniform Law Commission to make updates to the Uniform Commercial Code (UCC). These updates would allow the UCC to apply to an expanding number of transactions that involve digital assets in a way that is not currently permitted under the existing UCC.
- We will be working with the legislature this session to enact these updates to ensure that our UCC continues to evolve and be useful as our economy changes.

Appropriations

- MCUL applauds and appreciates the FY24 and FY25 inclusion of state funds for CDFI programming, totaling $100 million in available funding. As we work to implement these grants in our communities, MCUL and our industry partners are strongly supportive of crafting a workable and sustainable statutory framework for a permanent state CDFI Fund.
- MCUL supports continued funding in FY26 for the Michigan Saves green lending program, funded again at $5.5 million in FY24.
- Credit unions across the state of Michigan have access to 20 million in funds from the green house reduction fund specified in the Inflation Reduction Act to provide grants in energy efficiency. MCUL is engaged with the Department of Energy and Great Lakes to finalize program and allocation requirements.
- The legislature provided $250,000 in grant funding for a state-ran alternative lending grant program. Upon approval, credit unions will be able to provide short-term loans up to 36% APR to consumers. MCUL is currently waiting for DIFS to provide guidance.
- Finally, MCUL would like to explore the possibility of additional funding for a loan loss reserve as well as a program structure to support affordable small-dollar installment loans as an alternative to more expensive and predatory options.