




Washington Update

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Washington Watchdog





NAFCU's Advocacy Principles

- 1. GROWTH**
 NAFCU supports a regulatory environment that allows credit unions to grow.
- 2. REGULATORY RELIEF**
 NAFCU supports appropriate regulation for credit unions and relief from regulatory burdens.
- 3. FAIR PLAYING FIELD**
 NAFCU supports a fair playing field for all credit unions.
- 4. TRANSPARENCY**
 NAFCU supports government transparency and accountability.
- 5. STRONG NCUA**
 NAFCU supports a strong, independent NCUA as the primary regulator for credit unions.




The Administration

President Donald Trump outlined four key agenda items to accomplish his first year:

1. Regulatory Relief from Dodd-Frank
2. Healthcare Reform
3. Tax Reform (COMPLETED)
4. GSE Reform

Tax Reform = completed.



Key Meetings with the Administration

The past year, NAFU has been very engaged with Congress, the Trump Administration, and federal agencies. Key meetings include:

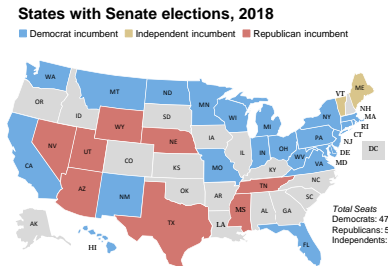
- President Donald Trump
- Steven Mnuchin, Secretary of the Treasury
- Craig Phillips, Advisor to the Secretary of the Treasury
- Acting Director Mick Mulvaney, CFPB
- Director Ken Blanco, FinCEN
- Ben Carson, HUD Secretary
- Linda McMahon, SBA Administrator



Legislative Landscape

States with Senate elections, 2018

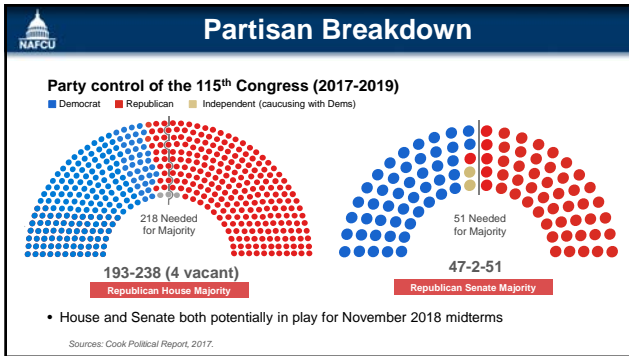
Legend: Democrat incumbent (blue), Independent incumbent (grey), Republican incumbent (red)



Analysis

- Democrats will be defending **25 seats** in 2018, while Republicans are defending only **eight**.
- Of the eight Republican seats, just **Nevada**, held by freshman Sen. **Dean Heller**, is in a state won by Democrats in the 2012 or 2016 presidential elections.
- No other GOP-held seat appears in danger, which means **Republicans are likely to hold onto their majority**.
- Democrats will likely be on defense in **North Dakota** (a state Romney won by 20 points and Trump won by 36) and **West Virginia** (a state Romney won by 27 points and Trump won by 42).
- Other state Democrats will have to work hard to hold onto include **Indiana, Missouri, and Montana**.

Total Seats
 Democrats: 47
 Republicans: 51
 Independents: 2



Regulatory Landscape

Treasury

- The Treasury has taken the lead on planning and implementing President Trump's regulatory reform agenda – identifying laws, regulations, guidance, and other requirements that harm to financial system.
- These efforts include several reports related to Trump's executive order on "Core Principles for Regulating the United States Financial System."

CFPB

- Acting Director Mulvaney currently splits his time between OMB and CFPB. Mulvaney's term expires on or about June 22, 2018.
- If President Trump makes a nomination before June 22, Mulvaney can continue until the nominee is confirmed. If nomination rejected, withdrawn, or returned by Senate, clock restarts again – another 210 days – potentially into 2019.

NCUA

- Chairman McWatters and Board Member Metsger are the only two on the board – still one empty seat. Metsger's term has expired, so waiting on President Trump to fill two seats.

Regulatory Landscape - CFPB


- Acting Director Mulvaney has turned the tide at the CFPB, freeing the Bureau's collection of personal information, stepping back from several legal fights, reviewing numerous pending enforcement actions, and reviewing the efficiency and effectiveness of the agency's processes and procedures through a series of 12 Requests for Information (RFI):

Civil Investigative Demands	Administrative Adjudications
Enforcement Processes	Supervision Program
External Engagements	Consumer Complaint Information
Rulemaking Processes	Adopted Regulations
Inherited Regulations	Guidance and Implementation
Financial Education	Consumer Inquiries (not yet published)

- NAFCU met with Acting Director Mulvaney in February.

Regulatory Landscape - NCUA

- President Trump named NCUA Board Member J. Mark McWatters the agency's new Chairman.
- Since Chairman Matz's departure in April 2015, the NCUA Board has functioned with only two members.
 - Since there are only two members, in order for a rule or action to pass, the FCU Act requires the Board to be unanimous (i.e. both members have to agree on everything).
- Board Member Metsger's term ended on August 2, 2017.
- There is still a vacant seat on the NCUA Board, so stay tuned for further developments.



NCUA Initiatives & Updates

Regulatory Reform Task Force
What: Comprehensive review of regulations to be revised.
When: multi-year project, expected to conclude by 2021.

Risk-Based Capital
What: Advocating Congress and agency for an approachable alternative.
When: Effective date is Jan 1, 2019; Additional Board member needed.

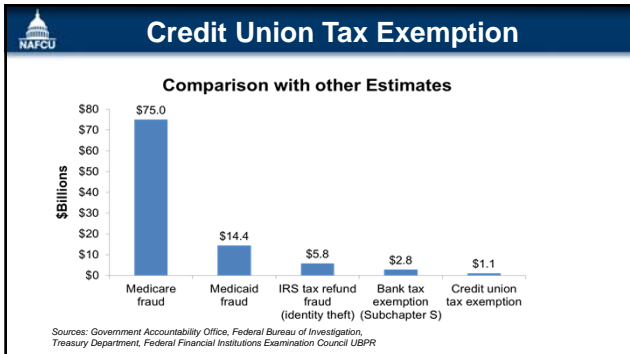
Stress Testing
What: Below \$20B in assets, CUs have more flexibility to comply with stress test.
When: Final rule issued in April 2018.

Voluntary Mergers
What: Would require several additional steps and disclosures for voluntary merger.
When: Yet to be determined; possibly late-2018.

FOM
What: New proposal would increase population cap to 10m people; seeks input concerning online communities.
When: Despite split decision in ABA lawsuit, NCUA intends to finalize this rule; still advocating for legislative changes.

Hot Issues

- Protect the Credit Union Tax Exemption
- Curb Frivolous ADA Lawsuits
- Support NCUA's FOM Rule to Help Credit Unions Grow
- Push for Guidance and Relief on MLA Compliance
- Promote a National Data Security Standard for Retailers and Seek to Hold Them Liable for Costs Associated With a Breach
- Seek Regulatory Relief for Credit Unions and CFPB Reforms
- Support Fair Capital Reform Including All Credit Unions Being Eligible for Supplemental Capital
- Guarantee Credit Unions' Access to the Secondary Mortgage Market
- Seek Fairness Under FCC Rulemaking on Robocalls



Americans with Disabilities Act (ADA)

NAFCU is fighting frivolous ADA litigation on all fronts!!
 NAFCU has submitted eight amicus briefs to date support multiple credit unions' motion to dismiss complaints filed against them in federal district court under the ADA. To date, 4 federal courts in Virginia have granted credit unions' motions to dismiss lawsuits because the plaintiff was not a member or in the field of membership.

Regulatory

- Urged the DOJ to proposed a rule to clarify the act's standards and protect credit unions from undue burdens. NAFCU has also met with DOJ.
- Sent a letter to the California law firm responsible for threatening credit unions, demanding that the law firm stop its meritless ADA lawsuits.

Legislative

- Supported the ADA Education and Reform Act of 2017 (H.R. 620) which passed the House by vote of 225-192 on Feb 15, 2018.
 - Gives businesses time to come into compliance before proceeding on a lawsuit.


FOM Lawsuit

The Bankers are at it again!!
 The ABA sued the NCUA over its new rule on community chartered credit union expansion. The ABA challenged four aspects of the NCUA's rule.


- On March 29, 2018, the Court held that NCUA lost the following challenges:
 - Any portion of a Combined Statistical Area (no more than 2.5 million people) is automatically part of a local community
 - The population limit for rural districts increased to 1 million people.

Approximately 48 credit unions are directly impacted and will have to revert back to their prior FOM. NCUA could appeal the ruling and/or promulgate a new rule to fix the aspects of the rule that the court took issue with.

NAFCU urging NCUA to grandfather already-approved fields of membership and has urged the agency to issue a new rulemaking to help credit unions grow and expand.

 **Data Security**

- NAFCU continues to push for a national data security standard to hold merchants accountable for data breaches.
- Some of our core principles:
 - Requiring entities to be accountable for related costs of data breaches that occur on their end, especially if the breach is caused by that entity's negligence;
 - Requiring all entities that store consumer data to meet standards similar to those imposed on depository institutions under the Gramm-Leach-Bliley Act (GLBA);
 - Informing financial institutions of any compromised personally identifiable information when associated accounts are involved;
- Subcommittee Chairman Blaine Luetkemeyer has taken the lead on legislation. The bill will be marked up this spring.

 **Tailored Regulation/Regulatory Relief**


On June 8, 2017, the House passed House Financial Services Committee Chairman Jeb Hensarling's (R-TX) **Financial CHOICE Act (H.R. 10)**. This version of the bill contains a number of provisions impacting credit unions including:

- Off-ramp from various regulatory/capital requirements for institutions holding at least 10% capital.
- Cost-benefit analysis requirement for regulations.
- Examination reforms for financial institutions.
- Subjecting NCUA to the congressional appropriations process.
- Reforms to the CFPB.


The Senate passed its version of comprehensive regulatory relief on March 14, 2018

- NAFCU-backed Bill (S. 2155) passed full Senate by vote of 67-31
- Includes some MBL, QM and HMDA relief. Also includes NCUA Budget transparency, online banking relief.

S. 2155 now awaits House action. Chairman Hensarling wants additional provisions to move and is in discussions with the Senate on best way to do so.


 **Capital Reform**

- **Credit unions deserve at least parity to bank capital rules and NAFCU is fighting!**
- **Supplemental Capital**
 - NAFCU has urged NCUA to move forward with a supplemental capital rulemaking.
 - Treasury supports granting credit unions access to supplemental capital.
 - No movement from NCUA yet. In March 2017, NCUA's EGRPA report to Congress endorsed legislation that would grant credit unions access to supplemental capital. However, in August, NCUA marked alternative capital as a low priority item.
- **Risk-Based Capital**
 - NAFCU has developed a list of proposed amendments to NCUA's RBC Rule, which is set to take effect January 1, 2019.
 - Among other things, NAFCU wants to delay the effective date, change definition of "complex" credit union, and increase the net-worth ratio.
- **Reps. Bill Posey and Denny Heck Introduce Bipartisan Bill, H.R. 5288**
 - Delay RBC effective date to Jan. 1, 2021.
 - Could see House action this Spring


 **Share Insurance Fund Distributions**

- NAFCU is continuing to push for all Stabilization Fund monies to be returned to credit unions.
- NCUA approved a distribution of \$736M, to be paid in Q3 2018
 - The increase in the NOL from 1.30 to 1.39 percent resulted in the agency retaining around \$980 million in the SIF.
- NAFCU released an updated calculator where CUs can calculate their future dividend. The calculators are available to NAFCU members on our website:

<http://www.nafcu.org/research/capitalmanagementtools>


 **Treasury Focus on GSE Reform**

- In his confirmation hearing, Treasury Secretary Mnuchin said he would like to see a bipartisan effort on housing finance reform. The Treasury has since taken the lead on finding administrative solutions to reforming the system.
- In December 2017, Treasury and the FHFA agreed to allow the GSEs to each retain \$3 billion in capital.
 - The GSEs will likely have to request draws from the Treasury, which is politically unsavory. This may prompt a call to action for more comprehensive GSE reform.
- NAFCU released its **Housing Finance Reform Principles** in June 2017.
 - NAFCU supports reform efforts that guarantee credit unions unfettered access to the secondary mortgage market and pricing based on loan quality not volume of loans.
- NAFCU has been working with the administration to find solutions.
 - On January 29, NAFCU met with Craig Phillips, Counselor to the Treasury Secretary, to discuss legislative and administrative opportunities for housing finance reform.

 **Other Treasury Initiatives**

Report on Banks and Credit Unions:

- The Treasury Department released a report on June 12, 2017, filled with credit union-specific recommendations aimed at helping the industry better serve its members and communities.
- Recommendations included revising the RBC requirements, extending examination cycles, requiring the CFPB provide guidance on LDAAP, reforming CFPB governance and structure, and requiring more tailored regulations.



Memo on Community Reinvestment Act:

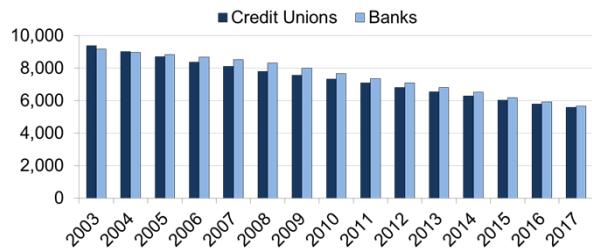
- NAFCU's advocacy efforts helped to successfully exclude credit unions from recommendations to modernize the CRA's scope.
- NAFCU will stay vigilant and continue to work with Treasury to ensure that credit unions are not subject to compliance with the CRA.



State of the Industry

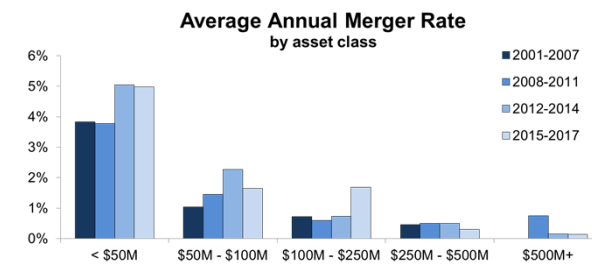


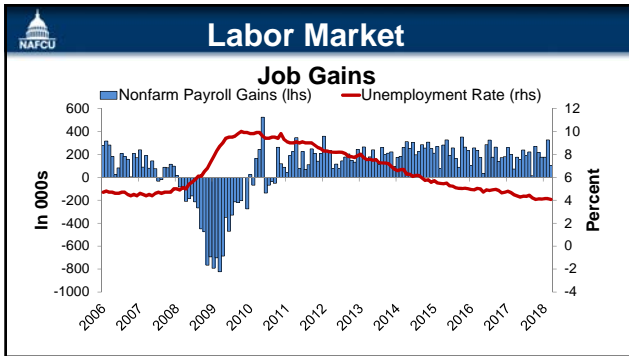
Number of Institutions

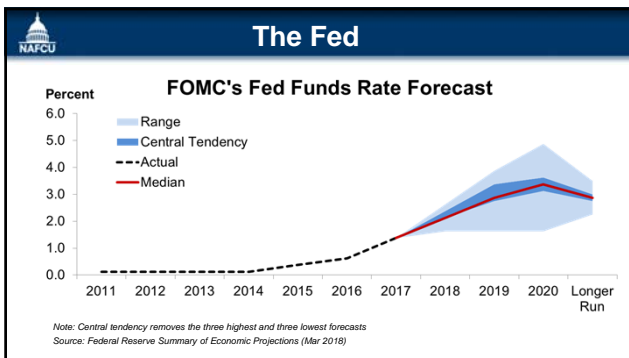


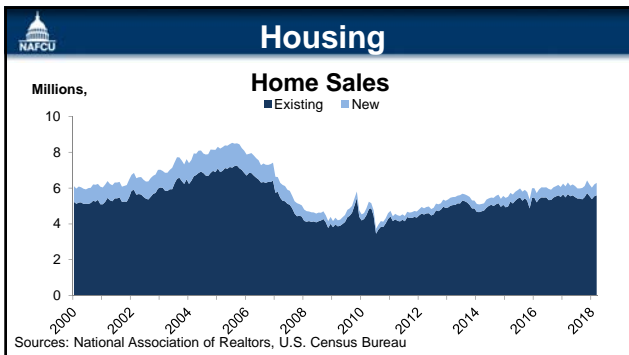


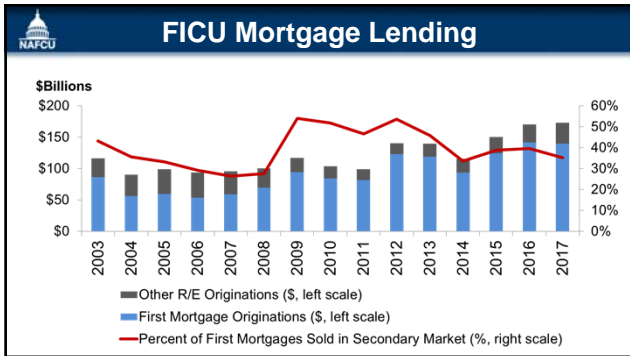
Industry Consolidation

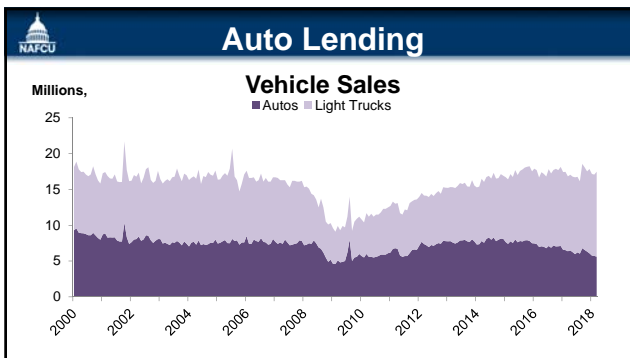


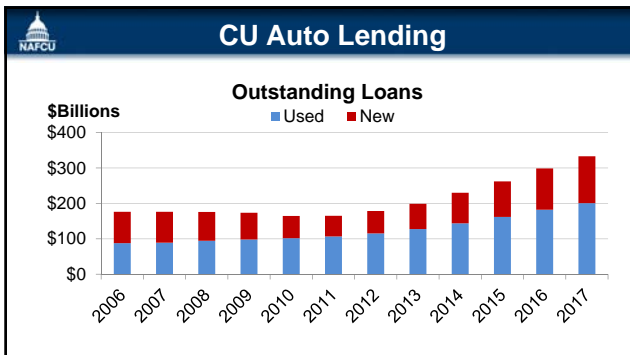


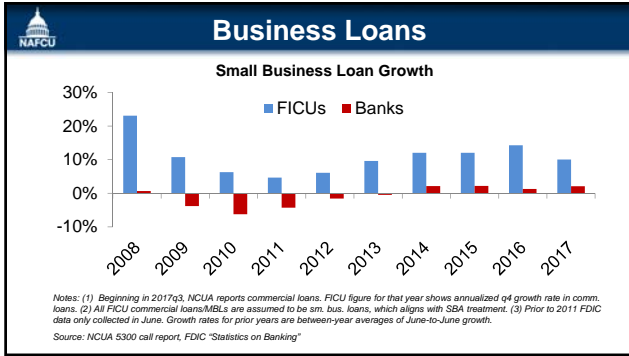












Thank you to all the credit unions who recently joined NAFCU

Acclaim FCU ♦ ACU of Texas ♦ Advantage One CU ♦ Affinity CU ♦ Alaska Air Group FCU ♦ Allegiance CU ♦ Alliant CU ♦ American Southwest CU
 AOD FCU ♦ Austin Telco FCU ♦ Baptist Health FCU ♦ Blue FCU ♦ Cascade FCU ♦ Cedar Falls Community CU ♦ Central Maine FCU ♦ Chiphone FCU
 Community Credit Union of Florida ♦ Community Choice CU ♦ Community Financial CU ♦ Community Hope FCU ♦ Community Resource CU
 Community Service CU ♦ Community South CU ♦ Connexus CU ♦ Country FCU ♦ Credit Union of New Jersey ♦ DuPont Community CU ♦ Eastman CU
 Education First FCU ♦ Education Personnel FCU ♦ EECU ♦ Emporia State FCU ♦ Equishare CU ♦ Firefighters First CU ♦ First Community CU
 First Entertainment CU ♦ First Financial CU ♦ FirstEnergy Family CU ♦ Firstmark CU ♦ Fort Billings FCU ♦ Fortera CU ♦ Freedom 1st FCU ♦ Freedom CU Fl. Randall FCU ♦
 Granco FCU ♦ Great Lakes CU ♦ Greater Alliance FCU ♦ Heritage Valley FCU ♦ Houston FCU ♦ Hudson Heritage FCU
 Hudson River Community CU ♦ IBM Southeast Employees CU ♦ Jackson River Community CU ♦ Jefferson Financial CU ♦ Kappam Diabla FCU
 Kean Government Employees FCU ♦ Kentucky Employees FCU ♦ Kent County FCU ♦ Knoxville TVA Employees CU ♦ LBN FCU ♦ Lampco FCU
 Liberty County Teachers FCU ♦ Life CU ♦ Long Beach Fireman's CU ♦ Louisiana FCU ♦ LUSO FCU ♦ Magnify FCU ♦ Maine CU ♦ Maui County FCU
 McKesson Emp. FCU ♦ Member's 1st of NJ FCU ♦ Members Choice CU ♦ Members First CU of Florida ♦ Members Trust FCU ♦ Metro Health FCU
 Michigan Legacy CU ♦ MIDFLORIDA CU ♦ Missouri Valley FCU ♦ Mobility CU ♦ Municipal CU ♦ Mutual CU ♦ New England Teamsters FCU ♦ Nasoga FCU Novation FCU
 NYU FCU ♦ Ohio Catholic FCU ♦ On Tap CU ♦ Park Community CU ♦ Pinnacle CU ♦ Pioneer Valley FCU ♦ Point Breeze CU
 Point Loma CU ♦ Polish National CU ♦ Progressive CU ♦ Prospectors FCU ♦ Puget Sound Cooperative FCU ♦ Purdue FCU ♦ Quorum FCU
 Register-Guard FCU ♦ Reliance FCU ♦ Reliant Community FCU ♦ San Diego Firefighters FCU ♦ Santa Cruz Community CU ♦ SC State FCU ♦ Solent FCU
 Sentinel FCU ♦ Shoreline FCU ♦ Shuford FCU ♦ Signal Financial FCU ♦ Smart Financial CU ♦ Sound CU ♦ South Metro FCU ♦ Southwest 66 CU ♦ SPOC CU SPE FCU ♦
 Spokane FCU ♦ Stamford FCU ♦ Star One FCU ♦ Star USA FCU ♦ State Police CU ♦ Sun East FCU ♦ South Atlantic FCU ♦ Southbridge CU
 Syracuse Fire Dept. Emp. FCU ♦ Tacoma Longshoremen CU ♦ Team First FCU ♦ Texas Bay Area CU ♦ Texas Bridge CU ♦ Tongass FCU ♦ Travis County CU True North
 FCU ♦ U.T. FCU ♦ Usak FCU ♦ Ultras FCU ♦ Ukrainian FCU ♦ Ukrainian Selfreliance FCU ♦ United Energy ♦ United Heritage CU
 United Poles FCU ♦ US Senate FCU ♦ US Postal FCU ♦ USF FCU ♦ Valley Oak CU ♦ Walcott FCU ♦ Western Heritage CU ♦ Widget Financial FCU

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