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ISSUE BRIEF

# Federal Credit Union Act Modernization

## BACKGROUND

In the competitive and constantly evolving financial services marketplace, it is critical that credit unions have the tools to continue providing their members with top-quality, in-demand financial products and services. NAFCU has advocated for the modernization of several Federal Credit Union Act (FCU Act) provisions that unnecessarily impede credit unions' ability to compete in today's environment.

**Loan maturity limits.** Currently, the FCU Act has a general statutory limit on federal credit union loans of 15 years, with a limited number of exceptions, such as mortgage loans for a primary residence. Credit unions frequently hear from small businesses that a 20-year loan would be preferable in terms of a lower monthly payment, but because of the 15-year maturity limit, small businesses often turn to banks in order to get those loans. Providing the NCUA Board with the ability to modernize loan maturity limits for specific categories of lending via a notice-and-comment rulemaking process will help bring credit union maturities in line with today's marketplace and allow credit unions to provide responsible, much needed credit to their members.

**Member business lending (MBL) cap.** Credit unions face arbitrary restrictions in the FCU Act on the ability to offer MBLs. In 1998, Congress codified the definition of an MBL and limited a credit union's member business lending to the lesser of either 1.75 times the net worth of a well-capitalized credit union or 12.25 percent of total assets. The \$50,000 threshold for what counts as an MBL has not been updated since the cap was established in 1998 and has eroded in value over time. Modernizing it now would allow more credit unions to help the smallest of small businesses by offering important lines of credit as they seek to recover from the current economic turmoil. NAFCU also supports legislation that would exempt certain kinds of needed loans, such as those to underserved businesses, from the MBL cap to ensure that credit unions are able to help those who need it most.

**FCU Act Governance Modernization.** The FCU Act contains a number of statutory governance provisions for credit unions that are outdated for financial institutions in the 21st century. Congress recently addressed the issue of modernizing safety and protection for credit union staff and members with the enactment of the Credit Union Governance Modernization Act. Still, other outdated provisions, like requiring credit union boards to meet on a monthly basis, remain in place. NAFCU supports legislation to modify this requirement for well-run credit unions.

## LEGISLATIVE DEVELOPMENTS

So far this Congress, several NAFCU-supported bills addressing these, and other, issues have been introduced in the House and Senate.

### ***H.R. 1471, the Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2021***

Introduced by Representatives Brad Sherman (D-CA) and Brian Fitzpatrick (R-PA), this legislation would help main street small businesses by providing temporary relief from the arbitrary MBL cap for one year after the COVID-19 national emergency has ended for loans made to small businesses trying to recover from the pandemic.

### ***H.R. 6889 and S. 4325, the Credit Union Board Modernization Act***

The House version was introduced by Representatives Juan Vargas (D-CA) and Anthony Gonzales (R-OH.), this legislation would modify existing language in the FCU Act that requires a credit union board to meet once a month and change the requirement instead to no less than six times per year. The House Financial Services Committee reported this bill to the full House in July of 2022. The Senate version of the legislation was introduced by Senators Kyrsten Sinema (D-AZ), Bill Hagerty (R-TN), Alex Padilla (D-CA) and Thom Tillis (R-NC), but has yet to see action.

### ***H.R. 5189, the Member Business Loan Expansion Act***

Introduced by Representatives Vicente Gonzalez (D-TX) and Brian Fitzpatrick (R-PA), this legislation includes three parts: (1) the bill amends the FCU Act to allow the NCUA Board the authority to increase allowable loan maturities by regulation; (2) the bill updates the definition of a MBL in the FCU Act by raising the threshold for what counts as a business loan toward to the cap, currently \$50,000, to \$100,000; and (3) the bill updates the definition of community financial institution (CFI) under the Federal Home Loan Bank Act to include credit unions, ensuring that more credit unions can offer affordable, high-quality mortgage loans to consumers.

### ***S. 762, the Expanding Access to Lending Options Act***

Introduced by Senators Tim Scott (R-SC) and Catherine Cortez Masto (D-NV), this legislation allows the NCUA Board the authority to increase allowable loan maturities

up to 20 years by regulation. The bill also strikes the requirement that a mortgage loan be for the principal residence of a credit union member in order to qualify for the 30-year maturity limit.

## **OUTLOOK AND ASK**

NAFCU strongly supports the legislation outlined above, and we urge lawmakers to support these bills and to co-sponsor the bills where possible.