California communities need a strong and thoughtfully regulated banking system that does not constrain banks' abilities to serve and meet the needs of their customers – your constituents.

Congressional action and attention to some of these pressing issues is needed to address and reform certain regulations and policies that are negatively impacting banks and the important services they provide to their local communities.

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Equal Tax Treatment for Credit Unions

THE ISSUE

Credit unions were established in the 1930s for the purpose of providing credit to people of modest means. In order to support that mission, credit unions were granted federal income tax-exempt status. Unfortunately, the credit union industry today is no longer serving that purpose, a fact supported by several Government Accountability Office studies, which have found that traditional banks, not credit unions, are the financial institutions serving the greater proportion of low- and moderate-income households -- people of modest means. As many credit unions continue to move from their original purpose, they have repeatedly sought approval from Congress to expand their powers, lower their regulatory requirements and increase their unfair competition with banks.

Today, the credit union industry is a behemoth with total assets that exceed $1 trillion. At the end of 2017, there were 287 federally-insured credit unions with assets of at least $1 billion. The Joint Committee on Taxation estimates that the tax expenditure for credit unions will cost $2.9 billion in lost income tax revenue in 2018. The committee projects that number will rise to $3.2 billion by 2020. This tax exemption also disproportionately benefits a handful of the largest credit unions. Nearly 75 percent of the tax exemption for credit unions is held by the largest five percent that have assets of $1 billion or more.

TAKE ACTION

At a time when our nation continues to run massive deficits, Congress should consider whether or not a justifiable reason exists to continue to give this $1 trillion industry a complete exemption from federal taxation.

Additionally, **Congress should reject H.R. 389 and S. 836** which seek to expand credit unions' business lending authority by exempting non-owner occupied residential 1-4 properties from the definition of business loans for purposes of determining a credit union's business loan cap under existing law.

Farm Credit System Reform

THE ISSUE

The Farm Credit System (FCS) is a $321 billion government-sponsored enterprise (GSE) that competes directly with banks, making farm, ranch, consumer, housing, business and energy loans. If the FCS were a bank, it would the nation's seventh largest. The FCS was the first GSE, established in 1916, when farmers had limited options available to finance their operations. However, thanks to a robust banking industry, that is no longer the case today, and farmers enjoy the same credit opportunities as their urban counterparts. As a GSE, the FCS also does not pay taxes at the same rate as banks; yet with more than $4.85 billion in profits annually, the FCS is more than capable of paying its fair share. Additionally, more than 68 individual FCS associations have more than $1 billion in assets, making them larger than 88 percent of the banks in the country.

TAKE ACTION

As Congress continues to examine additional opportunities for tax reform, we urge members to eliminate the FCS tax subsidy, so that farm credit lenders that currently compete with traditional banks do so without an unnecessary and unfair tax advantage.

Relief Needed on TRID Disclosure

THE ISSUE

Community banks are facing considerable challenges trying to comply with the Consumer Financial Protection Bureau's (CFPB) mortgage disclosure regulation (TILA-RESPA Integrated Disclosure or TRID) with respect to residential construction-only loans. Prior to the implementation of this new regulation, single-family construction loans for owners/borrowers were exempt from this disclosure requirement because they were deemed to be temporary loans covering construction services. However, the new rules now apply this regulation to construction financing and require the same disclosures, which are really meant for 30-year mortgages, not for short-term, construction-only loans.

For lenders, these new disclosure requirements have created confusion, and uncertainties in their application to specific construction projects. As a direct result, financial institutions nationwide have ceased this type of lending rather than face potential liability for inadvertent errors. This has severely curtailed the marketplace for borrowers seeking to build or rebuild, which has been particularly problematic in regions seeking to recover from recent natural disasters, including hurricanes, floods, mudslides, wildfires and volcanic eruptions.

TAKE ACTION

Members of Congress should be aware of the negative impact of this regulation, and support efforts to obtain regulatory relief. The primary goal is a revision of the current rule correcting the misapplication of the disclosures, coupled with a reduction in liability until the revised rule can be implemented. We have urged the CFPB to adopt a more straightforward disclosure process for this type of loan, where the bank can provide to the borrower the following information in a letter or a memorandum: loan and interest amount, term of the loan and loan funding/disbursement schedule. This disclosure should give the lender flexibility to meet the unique needs of their borrower, while providing clear and concise details about the fundamental aspects of the construction loan.