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OCTOBER 13, 2014

Credit unions and banks don't agree on much—except Dodd-Frank

 September 18, 2014 by [stevenyoder](#)  [Leave a Comment](#)

It's not often you get people into the streets over a non-profit tax exemption. But that's exactly what happened one day last September, when the Credit Union National Association organized "Protect My Credit Union" rallies nationwide to warn Congress against touching credit unions' tax-free status. CUNA said that credit union members also sent 850,000 messages to Congress the same day.

But the banking industry, which has long tried to convince Congress to strip credit unions' exemption, didn't take long to hit back. When CUNA held its annual conference in Washington this February, the American Banking Association targeted Congress with a blitz of attack ads criticizing the "unfair advantage" they claim the exemption gives credit unions.

But on one issue credit unions and banks are in lock-step: opposition to new rules in the Dodd-Frank Act Wall Street Reform Act. That law is still in the news more than four years after it passed because only about half of the act's rules have been implemented to date. And many of those that have been put in place, say both groups, are accelerating the death of small credit unions and community banks because they require compliance resources that those small institutions can't afford.

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For example, new federal regulations on mortgage lending went into effect in January that are designed to end the practice of banks making home loans to people who can't repay them. But just understanding those new lending rules is straining small lenders. Forty percent of small credit unions have five or fewer full-time employees, says CUNA. Small banks tend to have just one compliance officer, according to the American Bankers Association. The head of one credit union told Congress last December that the new rules have forced her credit union to cut back on the home loans they make—they can't afford a loan officer with the qualifications that the new regulations require.

Another new rule related to international transfers of money requires credit unions and banks that do more than 100 remittances a year to adhere to a raft of new procedures and provide new disclosures to customers. The rule's intent is to protect consumers who send money electronically to foreign countries from being defrauded. But many credit unions don't charge fees to their members to send those remittances—some actually lose money on the service already, says CUNA. More important, regulators haven't pointed to any examples of abuses related to remittance services by credit unions, CUNA claims.

The net result of the rule is that thousands of credit unions appear to have stopped the service altogether—in a September 2013 survey, a quarter of responding credit unions said they're no longer offering remittance transfers. Similarly, on September 16, an ABA spokesperson told Congress that 18 percent of banks have discontinued the remittance service. Another 42 percent are increasing their fees to cover the new compliance costs.

Overall, say the critics, small credit unions and community banks, which had almost nothing to do with the financial meltdown, shouldn't be punished by new rules designed to prevent another crisis. Worse, they say, the Dodd-Frank rules could drive those small players into extinction.

There's no disputing that the number of small lenders is shrinking. The number of U.S. banks dropped below 7,000 last year, down from almost 18,000 in 1984, with nearly all of that decline attributable to mergers and failures involving small banks. And every month, about 20 small credit unions are lost to mergers and closures—half of all credit unions will disappear by 2032 if

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For credit unions, the opposition to Dodd-Frank puts them in another odd alliance—with Republicans. That’s an unlikely pairing because Democrats have been more likely to support their ongoing tax exemption. In an article in the current issue of *Credit Union Journal*, Katie Marisic of the National Association of Federal Credit Unions seemed to hint that a Republican takeover of the Senate would be welcome: “...it seems like the Republicans are more likely to deal with some of the regulatory burdens that have come from Dodd-Frank,” she said. Indeed, the Credit Union National Association’s political donations this year have tilted right—51 percent to Republicans and 49 percent to Democrats.

Congress seems to recognize the need for exemptions for small institutions, but whether those will translate into meaningful carve-outs in the regulations is an open question. In a September 9 hearing before the Senate Banking Committee, policymakers grilled regulators about how they’ll revise the rules to accommodate smaller institutions. “Too big to fail, has become, for many of these community banks, too small to succeed,” said Senator Heidi Heitkamp of North Dakota, in criticizing some current Dodd-Frank rules.

One key regulator, Daniel Tarullo of the Federal Reserve, seemed open to changes: “The Federal Reserve is supportive of considering areas where the exclusion of community banks from statutory provisions that are less relevant to community bank practice may be appropriate.”

That could be important if Dodd-Frank is to survive. Should community banks and credit unions use their clout to convince the public that the law is imposing heavy costs on them, a new, more conservative Congress next year could well decide to repeal the Act.

The President would have a hard time saying no if such a move included moderate Democrats. Ultimately, that could undo the law’s reforms—and make it easier for the key institutions that contributed to the Great Recession to go back to their old ways.

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October 12,
2014 By

[joanoleck](#)

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September 23, 2014 By [Liz Fields](#)

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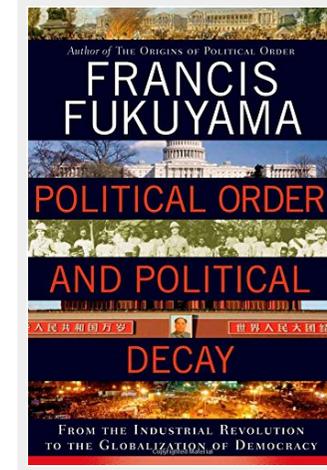
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