



**House
Legislative
Analysis
Section**

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CORP. CENTRAL CU: LOWER FEE

Senate Bill 853 as passed by the Senate
First Analysis (10-19-93)

Sponsor: Sen. Fredrick Dillingham
**Senate Committee: Corporations &
Economic Development**
House Committee: Business & Finance

THE APPARENT PROBLEM:

A corporate central credit union is a credit union whose membership consists primarily of other credit unions, including credit unions chartered by Michigan, by another state or territory of the United States, or by the federal government. Under the credit union act, a corporate central credit union is authorized to make loans to or invest in other credit unions, make loans to or place deposits in banks, trust companies and savings and loan associations, and purchase, sell and hold investment securities. In Michigan, there exists only one financial institution that operates as a corporate central credit union, known as CenCorp, which is regulated by the Financial Institutions Bureau (FIB)--an agency within the Department of Commerce.

Because of its size and role as a "credit union's credit union," CenCorp has in the past opted not to carry federal deposit insurance from the National Credit Union Association (NCUA), which is generally required of all regular credit unions in the state. However, after changes were made at the federal level in 1989 under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), CenCorp apparently decided it was time to become federally insured via NCUA. To do this, NCUA requires a financial institution, among other things, to hold one percent of its deposits in reserve; in exchange, it provides some annual regulatory oversight of its members. Meeting this new requirement will result in CenCorp earning about \$30,000 less annually from interest on these deposits. Currently, CenCorp pays an \$80,000 annual licensing fee to the FIB, which in turn provides annual oversight and examinations of CenCorp. To accommodate CenCorp's desire to become federally insured through NCUA and help it reduce its costs in the process, the FIB has agreed to lower by \$30,000 the annual licensing fee it charges CenCorp, with the understanding that some

of the regulatory duties now provided by the FIB will instead be done by NCUA.

THE CONTENT OF THE BILL:

The bill would amend the credit union act to decrease from \$80,000 to \$50,000 the maximum annual operating fee for a corporate central credit union. The fee, as are all other fees imposed by the act, is paid into the state treasury and credited to the Financial Institutions Bureau and is used only for the operation of the bureau.

MCL 490.6

FISCAL IMPLICATIONS:

The Financial Institutions Bureau says the bill would have minimal fiscal impact to the bureau in the first year of implementation as the bureau would receive \$30,000 less from the annual licensing fee paid by the one corporate central credit union, known as CenCorp, currently operating in the state. The bureau, however, says that after the first year its costs in regulating and examining CenCorp should be reduced by about \$30,000 annually as the National Credit Union Association (NCUA) will begin providing some of the regulatory oversight of CenCorp which is now being done by the bureau. Thus, the bill would have negligible fiscal impact to the bureau. (10-15-93)

ARGUMENTS:

For:

Due to changes made in 1989 under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), Michigan's only corporate central credit union, CenCorp, has decided it's time to have its deposits federally insured. CenCorp has operated without federal deposit insurance from the NCUA

Senate Bill 853 (10-19-93)

for years, apparently because it felt its large size and strength made this unnecessary. Obtaining NCUA deposit insurance, however, requires that it set aside in reserve one percent of its deposits, which will result in it annually losing about \$30,000 that it otherwise would earn from interest. To offset this loss, the Financial Institutions Bureau has agreed to lower CenCorp's annual licensing fee by the same amount, from \$80,000 to \$50,000; in return, the FIB would no longer perform certain regulatory tasks related to CenCorp that instead will be done by NCUA. The FIB calculates this reduction in regulatory oversight would decrease its costs approximately \$30,000 annually. Thus, reducing the annual licensing fee charged to CenCorp, as proposed in the bill, would present negligible fiscal impact to the FIB as CenCorp becomes federally insured via the NCUA.

POSITIONS:

The Financial Institutions Bureau supports the bill.
(10-15-93)

The Michigan Credit Union League supports the bill.
(10-15-93)

The Michigan Bankers Association supports the bill.
(10-18-93)