InfoSight Compliance eNEWSLETTER
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## InfoSight Highlight

IRS 2016 Standard Mileage Rates Announced

The Internal Revenue Service has issued the 2016 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on **January 1, 2016**, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 54 cents per mile for business miles driven, down from 57.5 cents for 2015
- 19 cents per mile driven for medical or moving purposes, down from 23 cents for 2015
- 14 cents per mile driven in service of charitable organizations

The business mileage rate decreased 3.5 cents per mile and the medical, and moving expense rates decrease 4 cents per mile from the 2015 rates. The charitable rate is based on statute.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for more than four vehicles used simultaneously.

These and other requirements for a taxpayer to use a standard mileage rate to calculate the amount of a deductible business, moving, medical or charitable expense are in Rev. Proc. 2010-51. Notice 2016-01 contains the standard mileage rates, the amount a taxpayer must use in calculating reductions to basis for depreciation taken under the business standard

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## Compliance Video

**Compliance Connection Video**

In this video, League InfoSight CEO Glory LeDu talks about the highlights from the 4th Quarter of 2018 and the 1st Quarter of 2019.

When S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act, passed in 2018 there was a lot to understand! Glory LeDu, League InfoSight CEO, provides Part 1 in this short video to break it down for you.

Just a reminder that Compliance videos since 2016 can be found on YouTube at the Compliance Connection mileage rate, and the maximum standard automobile cost that a taxpayer may use in computing the allowance under a fixed and variable rate plan.

For more information on IRS forms as they relate to credit unions, please see the Tax Issues channel on InfoSight.

Also, click here to view GCUA's *R&I Bulletin* Year-End Reporting Schedule that lists due dates for tax forms and other reports that credit unions are required to submit annually. (You will need your GCUA User ID and password to access this section of our website.)

## Compliance News

Federal Reserve Raises Interest Rates – What Does This Mean for Your CU?

On December 16, 2015, the Federal Open Market Committee (FOMC), which sets monetary policy for the Federal Reserve, announced it would raise interest rates by a quarter point ( 0.25%) to 0.5% effective December 17, 2015. This is the first rate hike since 2006.

**Question: How does this interest rate increase affect our credit union's loans and the rates we charge on our loans? In addition, what disclosures are required when or if we raise our loan rates?**

**Answer:** CUNA's Compliance Blog advises…before we look at how the Federal reserve rate changes impact credit union loans, we need to understand how the increase in the Federal Funds Target Rate impacts the U.S. Prime Rate which is more commonly known as the Wall Street Journal Prime Rate (also, the WSJ Prime Rate) that is used by a majority of credit unions as their index for variable-rate loans.

The prime rate used by a majority of credit unions is tied to the Federal Funds Target Rate. The Fed Funds Target Rate is set by a committee within the Federal Reserve System called the Federal Open Market Committee or FOMC. The FOMC usually meets every six weeks, and at these meetings the FOMC votes on whether or not to make changes to the Federal Funds Target Rate. When the Fed Funds Target Rate changes, it is almost certain that the WSJ Prime Rate will also change. Since 1994 the WSJ Prime Rate has been equal to the Fed Funds Target Rate plus three percent. For example, if the Fed Funds Target Rate is 0.5%, then the WSJ Prime Rate will equal 3.5%. Since most credit unions base their index on the WSJ Prime Rate, if the WSJ Prime rate increases, then a credit union's variable-rate index will increase, and as a result, the rate for variable-rate loans will increase.

Now that we have a clearer understanding of how the Fed's rate changes impact credit unions through changes to the WSJ Prime Rate, we can

channel, where they are generally updated quarterly.

## Compliance Calendar

December 25
Christmas Day - Federal Holiday

December 31
Foreign Account Tax Compliance Act Effective Date

January 1, 2016
New Years Day - Federal Holiday

Flood Insurance Rule Effective Date - Part 2
January 12
Microsoft Discontinues Support of Older Versions of Internet Explorer

January 18
Martin Luther King, Jr Birthday - Federal Holiday

January 22
5300 Call Report Due to NCUA

February 15
Washington's Birthday/President's Day - Federal Holiday

March 13
Daylight Savings Time Begins

**Click here for upcoming compliance dates**.

discuss how changes to the prime rate impacts each of the following loan types:

- Variable-rate open-end loans,
- Non-Variable rate open-end loans,
- Variable-rate closed-end mortgage loans (also known as Adjustable-rate mortgages or ARMs)
- Fixed-rate closed-end loans including auto and mortgage loans

**Variable-rate open-end loans:**

This category typically includes loans such as credit card accounts, other unsecured loans and HELOCs. For these variable-rate loans, when the rate increases due to an increase in the index (prime rate), Regulation Z does not require a 45-day advance notice of change-in-terms if the features and terms of the variable-rate account are properly disclosed in the account opening document and the rate is based on a publicly available index that is not under the credit union's control. The following examples illustrate when the index is considered under the credit union's control:

- When there is a floor rate associated with the account that doesn't permit the variable rate to decrease consistent with index changes; and
- When the index is based on the credit union's own prime rate or cost of funds.

For the variable-rate exception to the advance notice requirement to apply, the rate increase must be based on a change to the index, not a change to the margin.

Because the credit union has already disclosed how the loan interest rate changes with changes to the index or prime rate, there is no conscious decision by the credit union to change or increase the account rate when the prime rate increases—that relationship is already dictated by the disclosures in the account opening document or loan agreement. Therefore, the credit union will not be required to provide any advance notice of the rate change.

**Non-Variable rate open-end loans:**

This category could include any type of open-end loan including unsecured loans credit card accounts and HELOCs. Because these accounts are not variable-rate accounts and the account opening documents do not contain the variable rate disclosures, the credit union must provide a 45-day advance notice of change in terms before the interest rate on the account can be increased. This notice must comply with the requirements of Reg. Z Section 1026.9(c)(2).

A rate change for this type of loan isn't automatic as with variable-rate loans whose rate is partially determined by an index based on the WSJ Prime Rate. Here, the credit union must make a conscious decision to raise its loan rates. Afterwards, the credit union can apply the increased rate to these open-end loans by providing a 45-day advance notice of change in terms which discloses the increase in the rate or Annual Percentage Rate (APR) and the effective date of the change and complies with the content and format requirements in Section 1026.9(c).

**Adjustable-Rate Mortgages (ARMs):**

Reg. Z Section 1026.20(c) requires credit unions to provide certain disclosures in connection with an interest rate increase that result in a corresponding change in the payment amount. The disclosures must be provided to the borrower at least 60 days but no more than 120 days before the first payment at the adjusted level is due. However, for ARMs with uniformly scheduled rate adjustments, such as an adjustment every 60 days or more frequently, the credit union must provide disclosures at least 25 days but no more than 120 days before the first payment at the adjusted level is due.

In addition, for ARMs originated prior to January 10, 2015 in which the loan contract requires the adjusted interest rate and payment to be calculated based on the index figure available on a date that is less than 45 days prior to the adjustment date. The disclosures shall be provided to consumers as soon as possible, but not less than 25 days before the first payment at the adjusted level is due.

The content and format of the required disclosures must comply with the requirements in Section 1026.20(c).

Because the credit union has already disclosed how the loan interest rate changes with changes to the index or prime rate, there is no conscious decision by the credit union to change or increase the account rate when the prime rate increases—that relationship is already dictated by the disclosures in the account opening document or loan agreement.

**Fixed-rate Closed-end loans:**

This category includes any fixed-rate closed-end loan, such as an automobile loan or mortgage loan. Generally, creditors cannot make any unilateral changes to a closed-end loan because neither state contract law nor Regulation Z provide for such changes. However, if a credit union decides to increase closed-end loan rates as a result of the Fed's decision to raise the Federal Funds Target Rate, then it can apply the increased rates to new closed-end loans, but the increased rates may not be applied to existing closed-end loans.

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CFPB Issues HMDA and TILA Annual Adjustments

The Consumer Financial Protection Bureau (CFPB) has announcedtwo final rules with annual threshold adjustments under the implementing regulations for the Home Mortgage Disclosure Act (HMDA) and the Truth in Lending Act (TILA). **The HMDA asset-size exemption threshold under Regulation C is unchanged at $44 million**. Institutions with assets of $44 million or less as of December 31, 2015, are exempt from collecting HMDA data in 2016. **The TILA criterion for exemption under Regulation Z's HPML escrow requirements decreased from $2.060 billion to $2.052 billion for 2016**. As a result, these creditors with assets of less than $2.052 billion (including assets of certain affiliates) as of December 31, 2015, that also meet other requirements of Regulation Z will be exempt from the requirement to establish escrow accounts for higher-priced mortgage loans in 2016.

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How Does the FAST Act Affect Credit Unions?

On December 4, 2015, President Obama signed into law a five-year surface transportation bill, the Fixing America's Surface Transportation

(FAST) Act, H.R. 22, which included two important amendments affecting credit unions:

- Modernize privacy notification requirements to allow credit unions and all financial institutions to only send notices when there is a policy change, not on an annual basis; and
- Direct the CFPB to establish an application process to designate an area in which the business is located as a 'rural area' for purposes of a federal consumer financial law.

The following CUNA Blog posts discuss each of the provisions listed above:

Privacy notice exception

Lending practices in rural communities

Your CU Should Know…

**Bureau Launches Rural and Underserved Areas Tool:** The CFPB has released a new online tool to help creditors determine which properties are located in a rural or underserved area. Under Regulation Z, section 1026.35(b)(2)(iv)(C)(*2*) added by the final rule that was published on October 2, 2015, a creditor may rely on this tool to provide a safe harbor determination that a property is located in a rural or underserved area. The tool can be used to manually check up to ten addresses at a time. It can also be used to upload and check a CSV-formatted file of addresses.

**CFPB Releases Student Toolkit and Warns of Secret Credit Card Contracts:** The CFPB has sent warning letters to 17 colleges directing them to improve disclosure of school-sponsored credit card agreements. A Bureau investigation found that these schools failed to make marketing agreements available to the public, as required by law. The CFPB also released its annual report on college credit card agreements, which highlights trends in the marketing partnerships between colleges and financial institutions and concerns about transparency with college-sponsored financial accounts. To promote increased protections for students in the expanding school-sponsored debit and prepaid market, the CFPB has released a Safe Student Account Toolkit to help colleges and universities avoid promoting financial accounts with surprise fees.

**Census Changes**: Information has been released about the upcoming County and Metropolitan Statistical Area changes in the 2016 FFIEC Census file.

Also, FFIEC policy on the implementation of the American Community Survey (ACS) specifies that the FFIEC will refresh the ACS dataset utilized for the annual FFIEC Census File on a 5 year cycle. Therefore, while the FFIEC Census files for 2012 through 2016 will continue to use the 2010 datasets, the 2017 FFIEC Census File (and forward) will use the 2015 ACS 5-year estimates as a basis for the file.

**Warning on Fake NCUA Telephone Scam:** The NCUA has issued a warning to consumers about a telephone scam in which consumers are contacted by a caller claiming to work for the NCUA and asking for personal and financial information. The caller tells the consumer her or his credit card or debit card has been frozen or blocked. The caller then asks for the consumer's Social Security number, account number, date of birth and home address to supposedly verify the information.

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Holiday Reminders and Wishes
The holidays are here and GCUA would like to wish you and your family a very happy holiday season! This is a reminder that due to the holidays, the next issue of *InfoSight Compliance eNEWSLETTER* will be the January 4, 2016 issue.

## Comment Calls

NCUA Field of Membership Proposal
The National Credit Union Administration has published [80 FR 76747] a proposed rule that would comprehensively amend its chartering and field of membership rules to put them in a more efficient framework and to maximize access to federal credit union services to the extent

permitted by law. The amendments would implement changes in policy affecting:

- the definition of a local community, a rural district, and an underserved area;
- the expansion of multiple common bond credit unions and members' proximity to them;
- the expansion of single common bond credit unions based on a trade, industry or profession; and
- the process for applying to charter or expand a federal credit union.

GCUA would like to know your thoughts and comments on NCUA's proposal. Please send them to Selina Gambrell by **January 11, 2016**, at selinag@gcua.org.

**We encourage all credit unions to review the proposed rule and comment to NCUA.**

The CUNA Advocacy Update keeps you on top of the most important changes in Washington for credit unions--and what CUNA is doing to monitor, analyze, and influence government agencies and federal law. You can view the current report and past reports from the archive.