



Credit Union National Association

cuna.org

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February 13, 2009

The Honorable Christopher Dodd
Chairman
Committee on Banking,
Housing and Urban Affairs
448 Russell Senate Office Building
Washington, DC 20510

Dear Senator Dodd:

On behalf of the Credit Union National Association (CUNA), I want to express our strongest support for efforts to address accounting rules on fair value and other-than-temporarily impaired assets. The application of these accounting rules is eroding capital at some credit unions, and we urge Congress to step in now to prevent further declines in credit unions' net worth as a result of the impact of these rules. CUNA represents approximately 90 percent of our nation's 8,200 state and federal credit unions, which serve over 91 million members.

Like other financial institutions, federally insured credit unions with more than \$10 million in assets are required to follow U.S. Generally Accepted Accounting Principles (GAAP). This means that for mortgage-backed securities and mortgage servicing rights, credit unions follow the Financial Accounting Standards Board's (FASB) rules on fair value and mark-to-market accounting in valuing these assets and reflecting them on their financial statements and regulatory call reports.

Also like other institutions and companies, a number of credit unions have experienced serious reductions in their capital as a result of the application of fair value (mark-to-market) accounting to MBS and other assets in this currently volatile market.

Fair value accounting impacts the application of accounting standards to assets that must be treated as other-than-temporarily-impaired (OTTI), such as MBS. That is because FASB requires OTTI assets to be written down for the entire difference between their cost and fair value on the day they are recorded. Because of the current illiquid market conditions, the difference in these values can be substantial and result in charges to earnings that represent unnecessary and overstated capital reductions.

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In light of the current uncertainties in the financial marketplace and the likelihood that the present upheaval in the markets will continue for some time, we urge Congress to act. One step would be to direct the Securities and Exchange Commission, under the new chairman, and the Financial Accounting Standards Board to refine "fair value" for periods when an active market for a security does not exist. Further, the SEC and FASB should be directed to address OTTI again and to recognize the differences between credit losses and liquidity losses due to inactive markets

We appreciate your leadership on this issue and would welcome the opportunity to discuss this with you further. All the best.

Sincerely,

A handwritten signature in black ink that reads "Daniel A. Mica". The signature is written in a cursive, flowing style.

Daniel A. Mica,
President and CEO