



CUNA

Credit Union National Association

cuna.org

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Members of the United States Senate and the United States House of Representatives:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the state of the credit union movement during current economic conditions. CUNA is the nation's largest credit union advocacy organization, representing 90% of our nation's approximately 8,300 state and federal credit unions, which serve over 90 million members, and state credit union leagues.

We know that you have heard from many of your constituents over the last week regarding the implications of a "bailout" of the financial services industry. Even though credit unions do not need – and are not asking for – a bailout, credit unions are a small sector of a much larger financial system which, by all accounts, is very ill. Inaction at this critical time is unacceptable given that the consequences of inaction may have devastating effects on the financial system and American consumers. We urge you to take appropriate action to restore the strength of the American economy and that you provide credit unions access to any program created through legislation Congress enacts to address this problem.

Credit Unions Remain Safe and Sound

Despite the current economic conditions, credit unions remain safe and sound largely because their cooperative structure does little to encourage excessive risk taking. The credit union movement today is very well capitalized. The current system-wide capital ratio is 11% and 98.7% of credit unions, representing 99.8% of total credit union assets, are considered well capitalized for the purposes of prompt corrective action.

Credit unions also have a history of conservative lending practices which resulted in very low average net loss rates on credit unions, even during these turbulent times. Overall, in the first half of 2008, the average net loss rate on credit union loans is 0.69%. For first mortgages, the rate is an astoundingly low 0.06% and for member business loans the rate is 0.2%.

The ultimate measure of the safety and soundness of an industry of insured depository institutions, however, is revealed by the trajectory of its deposit insurance fund. The National Credit Union Share Insurance Fund (NCUSIF) insures member deposits in credit unions to \$100,000, just like FDIC insures bank customer deposits. NCUSIF's ratio of equity to insured shares has remained in the range of 1.2% and 1.3% every year since it was first capitalized in its current form in 1985; this includes the time in the late 1980's and early 1990's when other federal deposit insurance funds encountered significant difficulties. The current ratio as of July is 1.22% and is expected to end the year near 1.3%, without a premium. We encourage you to



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remind your constituents that their deposits in federally-insured credit unions have the same level of deposit insurance as deposits made in banks.

Credit Unions Did Not Cause the Crisis, but Are affected by the Crisis

Credit unions did not cause the subprime lending crisis because they generally avoided the weak underwriting practices which contributed to the crisis. Still, despite the movement's good practices and overall health, credit unions are not immune from the effects of this economic crisis.

Credit unions in a very limited number of states, which have been disproportionately affected by the crisis, have suffered collateral damage in the meltdown in the housing markets in their areas, despite their responsible lending practices. As a result, there may be a need for some credit unions to sell some loans and mortgage-backed securities. We appreciate that the early drafts of the Troubled Asset Relief Act (TARA) would give credit unions access to relief, if necessary. We hope that, as Congress coalesces around a remedy, credit unions will continue to be included.

In today's world of stressed liquidity, it is important for all depository institutions, including credit unions, to have access to all available sources of liquidity. We greatly appreciate that the Continuing Resolution approved earlier this week by the House of Representatives included language that would temporarily eliminate the cap on the Central Liquidity Facility (CLF) at the National Credit Union Administration. While we do not expect that credit unions will need to access this additional liquidity option in any significant manner, it does represent an additional tool in the regulator's tool box to help credit unions deal with potential liquidity situations. We encourage the Senate to pass the Continuing Resolution with this provision unchanged expeditiously.

Mark-to-Market Issues

In addition to the legislative remedy which Congress and the Administration are considering, we hope that you will encourage the Financial Accounting Standards Board (FASB) to consider modifications in their fair value accounting rules that require securities to be marked to market. Because these rules have often resulted in reflecting mortgage-related assets at prices that are very likely below real values, there is broad agreement that these rules have contributed to the general devaluation of mortgage-backed securities. We hope FASB will consider whether modifications in the FASB standards could be affected that would allow for the value of securities to be reflected in a more reasonable manner than valuing them at fire-sale prices.

Credit Unions Are Poised To Assist in Economic Recovery

In the aftermath of the Great Depression, American consumers turned to credit unions to help meet their financial services needs. As the economy recovers from this crisis, credit unions will continue to be there for our members on Main Street. We know credit unions cannot be the entire solution to the problems our economy faces, but we remain an important resource to the 90 million credit union members in the United States.

When the 111th Congress convenes next year, regulatory restructuring will be at the top of the agenda. We hope that credit unions will serve as one of the few models of what went right in the financial services industry when so much else went wrong. And, we look forward to working with you to identify ways credit unions can provide even greater service to Main Street.

Sincerely,

A handwritten signature in black ink that reads "Daniel A. Mica". The signature is written in a cursive style with a large, prominent initial "D".

Daniel A. Mica
President & CEO