CUNA
Credit Union National Association
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September 30, 2008

The Honorable Christopher Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the safety and soundness of credit unions. CUNA is the nation's largest credit union advocacy organization, representing 90% of our nation's approximately 8,200 state and federal credit unions, which serve over 90 million members, and state credit union leagues.

As more and more attention is focused on the safety and soundness of financial institutions, the existence of deposit insurance at banks and share insurance at credit unions is being discussed in various venues. Most of the time, there is no mention of the fact that virtually all credit unions are insured by a federal government fund – the National Credit Union Share Insurance Fund (NCUSIF) that provides the same level of insurance as the Federal Deposit Insurance Corporation (FDIC).

As you and other government leaders consider the next step in the wake of yesterday's vote in the United States House of Representatives, I understand that one of your considerations is a temporary increase in deposit insurance coverage. Both FDIC and NCUSIF cover deposits to $100,000 per member/customer, $250,000 for individual retirement accounts. If an increase in these levels is contemplated, it is absolutely essential that the NCUSIF coverage level be raised in parity with the FDIC level. Historically, these levels have been on par with each other.

We would also observe anecdotally that some credit unions, particularly on the West Coast, have seen an influx in deposits as a result of the recent failures of Indymac Bank and Washington Mutual. As you may know, credit unions are subject to a statutory capital requirement for the purposes of prompt corrective action. Because the National Credit Union Administration (NCUA) has very little regulatory flexibility to adjust the capital level for credit unions or to take into consideration unanticipated circumstances, a very well capitalized credit union can see its net worth ratio decline if it takes in a large amount of unplanned funds.

There are a number of ways for a credit union to manage an unexpected influx of funds, including lowering the yield rate on new deposits; however, in some cases, the only alternative is to cease the intake of deposits. During these difficult economic times and with uncertainty surrounding many banks, it would be an absolute travesty for any credit union to have to display "no deposit" signs in its lobby.

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For the past six years, we have been asking Congress to pass legislation that would allow NCUA to implement a risk-based capital system for credit unions. The approach that we favor, which is Title I of H.R. 1537, was developed by NCUA and would help credit unions to better manage unexpected circumstances. Incidentally, banks operate under a similar risk-based capital system.

We believe that an increase in deposit insurance coverage complimented with a risk-based capital system will provide credit unions and our regulator with additional tools to continue to serve their members safely and soundly.

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 their members on Main Street -- for example, credit union loans increased by 8% over last year. 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. We look forward to working with you to identify ways credit unions can provide even greater service to Main Street.

Sincerely,

Daniel A. Mica
President & CEO