



Credit Union National Association

cuna.org

BILL CHENEY
President & CEO

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | **PHONE:** 202-508-6745 | **FAX:** 202-638-3389

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The Honorable Timothy Geithner
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

On behalf of the Credit Union National Association (CUNA), I am writing in response to a letter you received today from the Independent Community Bankers of America (ICBA) regarding the recent actions taken by the National Credit Union Administration related to corporate credit unions. CUNA is the largest credit union advocacy organization in the United States representing nearing 90 percent of America's 7,700 state and federally chartered credit unions and their 93 million members.

ICBA contends that the recent NCUA actions were brought about by a "failure of prudent lending by the corporate and the consumer credit unions that invested in them." The fact of the matter is that the corporate credit union situation was caused by highly rated investments made by the corporate credit unions going sour during the most significant financial crisis of the last 80 years. Corporate credit unions invested natural person credit union money in the same type of asset-backed securities that have become infamous during this crisis. The problems that credit unions are paying for today – with their own money, not taxpayer money – have nothing to do with imprudent lending standards.

It is surprising that the ICBA would even raise lending standards when comparable loan charge-off and delinquency rates reflect so unfavorably on banks. Credit unions have a history of making various types of loans – including business loans – more prudently than their community bank counterparts. Indeed, since 1997, the loss rate on credit union business loans has averaged only 0.15% compared to 0.82% at banks. Even in the recent recession, when losses have increased across the board, 2009 credit union business loan losses (0.6%) were only one-fourth the similar losses at banks (2.4%).

ICBA also contends that the NCUA action related to the legacy assets of the conserved corporate credit unions amounts to a taxpayer bailout. This is simply not true. While the bonds to be issued by NCUA have the full faith and credit of the United States Government, credit unions – not taxpayers - will pay all of the costs. There are about \$50 billion in troubled assets; they are estimated to return around \$35 billion; of the \$15 billion loss, credit unions have already paid \$7 billion and are fully prepared to pay the remaining \$8 billion through the corporate stabilization fund. No matter what the amount, credit unions have the resources, and have been given an extended amount of time – until 2021 -- by the Congress and the Treasury Department, to pay the bill.



PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | **PHONE:** 608-231-4000

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This means credit unions at large face no threat and taxpayers will not pay the costs. In contrast, according to an SNL Financial analysis of community bank recipients of TARP funds, over 621 banks – most under \$10 billion in total assets – still owe the taxpayer \$50 billion. More than 100 of these banks are behind on their payments to Treasury.¹ Taxpayers will very likely be left on the hook for some of the bailout these community banks have received.

Finally, the ICBA suggests that the corporate credit union situation should “cast doubts on the wisdom and the fairness of their tax exempt status.” As you know, the credit union tax status is based on the ownership structure of the credit union system. Credit unions were created to provide financial services in a democratic, not-for-profit, cooperative manner. This was sound public policy when it was enacted in 1934 and it is sound public policy today

The value both credit union members and nonmembers receive because credit unions are tax exempt far outweighs the “cost” of the exemption to the government. Once credit union net income returns to its pre-recessionary level, the credit union tax exemption will amount to approximately \$1.5 billion in lost federal revenue per year, less the reduction in tax payment by credit union members on their reduced dividends if credit unions were taxed. America’s 93 million credit union members receive substantial benefits in the form of better pricing on services (saving them \$7.5 billion per year). They also receive access to a financial institution that they own and which therefore keeps their interests ahead of stockholders’ interest, providing exceptional and low-cost service to members at all income levels. Further, the tax exemption helps to ensure consumers have choices beyond commercial banks in the financial marketplace.

The credit union tax status is one of the highest yielding investments the federal government has made. While the bankers may complain of an uneven playing field, if there was any truth to their complaint, the evidence would be in the conversion of banks to the credit union charter. That is simply not happening.

We appreciate the role that the Department of Treasury has played in working with NCUA to develop the legacy asset plan and helping to ensure its success. We hope this letter serves to set aside the inaccuracies raised by the ICBA. And, we look forward to working with you in the future.

Best Regards,



Bill Cheney
President & CEO

cc: Members of Congress
The Honorable Debbie Matz, Chairman, National Credit Union Administration

¹ “Community Banks Are Left Holding the TARP Bag.” American Banker. October 7, 2010.
http://www.americanbanker.com/issues/175_193/community-banks-tarp-1026719-1.html