



Credit Union National Association

cuna.org

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October 21, 2008

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

The Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing and
Urban Development
United States Senate
Washington, DC 20510

The Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of
Representatives
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairmen Dodd and Frank and Ranking Members Shelby and Bachus:

As you begin consideration of economic recovery legislation, I am writing on behalf of the Credit Union National Association (CUNA) to encourage you to consider enhancing the ability of credit unions to be part of the solution. 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.

Credit Unions Should Be Part of the Solution for Consumers and Small Businesses

For nearly a century, in both good times as well as bad, credit unions in the United States have been there for consumers. In the aftermath of the Great Depression, Congress created the federal credit union charter to make credit more available to American consumers and help stabilize the credit structure of the United States. As the economy recovers from this crisis, credit unions will continue to be there for our members. We know credit unions cannot be the entire solution to the problems our economy faces, but we remain an important resource to credit union members; and data suggests that the existence of a strong credit union movement benefits all consumers.

With that in mind, we bring to your attention several statutory changes that we believe should be considered as part of an economic recovery plan. These recommendations focus on maintaining credit unions' strong capital levels by implementing robust regulatory tools and restoring credit unions' ability to fully meet the needs of their small business members during and after the credit crunch.

Enhancements to Credit Union Net Worth and Capital Requirements Are Necessary

As a result of the recent failures of Indymac Bank and Washington Mutual, some credit unions, particularly on the West Coast, have seen an influx in deposits. The Federal Credit Union Act prescribes rigid capital requirements for credit unions that are enumerated in law. Of all the capital requirements that apply to insured depository institutions in this country (banks, thrifts, and credit unions), the credit union standards are by far the most stringent because they are (1) the only ones embedded in a statute, rather than a regulation that can more easily be modified as circumstances change; (2) the highest, requiring 7% net worth in order to qualify as "well capitalized"; and (3) the narrowest in terms of what "counts" as capital (only retained earnings, and nothing else, makes the grade). This gives the National Credit Union Administration (NCUA) very little flexibility to adjust the capital level for credit unions or to take into



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consideration unanticipated circumstances and can place credit unions in a straitjacket when savings inflows suddenly occur.

There are a number of ways for a credit union to manage an unexpected influx of funds, including lowering the rate on new deposits; however, in some cases, the only alternative is to cease the intake of deposits. A very well capitalized credit union can see its net worth ratio decrease if it takes in a large amount of unplanned funds. Such circumstances have a disproportionately adverse impact on small and medium sized credit unions which can see net worth ratios decline rapidly as a result of just a small number of large 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.

Permit All Credit Unions to Accept Secondary Capital

Last week, the Administration announced a capital purchase program for banks, under the authority Congress extended through the enactment of the Emergency Economic Stabilization Act of 2008. Despite the intention of Congress for the funds provided under this Act to be available broadly to financial institutions, including credit unions, most credit unions are not eligible to participate in the capital purchase program because the Federal Credit Union Act permits only low-income and corporate credit unions to accept secondary capital.

Credit unions, as an industry, are well-capitalized with an industry average of around 11%. However, the ability for credit unions to draw on additional capital, if needed, would be an important source of strength for individual credit unions and possibly for the entire credit union system. Therefore, we encourage Congress to give credit unions an additional tool on a temporary basis to manage these circumstances by enacting legislation that would permit all credit unions to acquire secondary, subordinate capital if they choose. This temporary acquisition authority would give credit unions an important tool to address unanticipated effects of the economic crisis and it would permit credit unions, as needed, to have equal access to the remedies proposed by the Department of Treasury.

Authorize NCUA to Implement a Risk-Based Capital System for Credit Unions

For the past six years, credit unions have been encouraging 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/S. 2957, was developed by NCUA and would help credit unions to better manage unexpected circumstances. Incidentally, banks operate under a similar risk-based capital system.

The Prompt Corrective Action system in place for credit unions is imprecise. Moving to capital standards that more accurately reflect risk will serve to strengthen credit unions and better protect the National Credit Union Share Insurance Fund.

Credit Unions Are Well Positioned to Assist Main Street

The consequences of the economic crisis are beginning to affect Main Street. Small business owners are finding it increasingly more difficult to secure the credit that they need to keep their businesses operational. Identifying mechanisms to ensure the continued availability of credit for America's small businesses is critically important.

Earlier this month, Senator Schumer proposed creating a federal emergency loan program for small business loans.¹ We suggest a complementary approach that would benefit small business owners without putting additional taxpayer funds in jeopardy: the elimination of the decade-old cap on credit union member business lending.

¹ "Schumer Calls For Emergency Business Loans," Inc.com. October 8, 2008.
<http://www.inc.com/news/articles/2008/10/emergency-loans.html>.

Credit unions have been serving the business lending needs of their members since their inception in the United States nearly 100 years ago. Prior to 1998, there was no statutory limit on a credit union's outstanding business lending portfolio; however, through the enactment of the Credit Union Membership Access Act of 1998, Congress capped credit union member business lending at 12.25% of total assets.

Credit unions with business lending experience are in a position to assist small business owners. There are currently \$30 billion of outstanding credit union member business loans. We estimate that in an environment in which credit unions are no longer restricted by a statutory business lending cap and are encouraged by the regulator to lend money to their small business-owning members in a safe and sound manner, credit unions could easily lend an additional \$10 billion in the next twelve months.

While eliminating the credit union business lending cap will not completely solve the credit crisis facing small businesses, it does represent a mechanism that will provide much needed relief to America's small businesses without costing taxpayers a dime. We hope you will seriously consider this as you prepare the economic recovery legislation.

On behalf of the 90 million members of America's state and federally chartered credit unions, we appreciate your consideration and look forward to working with Congress and the Administration to ensure credit unions are able to do their part to facilitate economic recovery.

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 & CEO

cc: The Honorable Charles Schumer, United States Senate