



Credit Union National Association

cuna.org

DANIEL A. MICA
PRESIDENT & CEO

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | **PHONE:** 202-638-5777 | **FAX:** 202-638-7734

November 17, 2009

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 Chairman Frank and Ranking Member Bachus:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the Sherman amendment (004) to the Committee Print of the Financial Stability Improvement Act (to be reported as H.R. 3996). CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 8,000 credit unions and their 92 million members.

The Financial Stability Improvement Act (FSIA) would create a Stabilization Resolution Fund (Ex-ante Fund) located at the Federal Deposit Insurance Corporation (FDIC) which would cover the cost of resolving failing financial companies that are systemically important to the financial system. The concept of this bill is that complex financial holding companies pose potentially systemic risk, and in the event of the failure of such a holding company, the FDIC must be given the authority and the funds to wind the company down in such a way as to not cause substantial harm to the entire financial system. This would essentially extend FDIC's existing authority to resolve failing insured banks to other types of financial institutions. The National Credit Union Share Insurance Fund (NCUSIF) currently has similar authority with respect to insured credit unions. FSIA would direct the FDIC to assess financial companies—including credit unions—with more than \$10 billion total assets to provide the initial funding for the fund, and replenish the fund in the future.

We believe that credit unions should be excluded from this legislation for a number of reasons.

First and foremost, credit unions are member-owned, not-for-profit cooperatives, and by definition face a set of incentives that are very different from those confronting for-profit financial companies. Credit unions exist to provide financial services to their member-owners; for-profit financial companies exist to enrich their shareholders. This system provides much lower incentives to take risk at credit unions than at for-profit firms. Deposits in insured credit unions are already guaranteed by the NCUSIF, which has in place mechanisms to deal with failing institutions. The NCUSIF is entirely funded by the deposits of credit unions into the fund, and the fund is structured such that the capital of the entire credit union system stands between it and taxpayers.

Unlike for-profit financial companies, which have access to capital markets, credit unions' only source of capital is the institution's retained earnings. This means that any expense credit unions pay to fund a resolution fund for huge, complex, for-profit financial companies comes out of the pocket of credit union members. It is unacceptable that the members of any credit union would be asked to fund a resolution fund for failed for-profit companies.



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

The Honorable Barney Frank
The Honorable Spencer Bachus
November 17, 2009
Page Two

It is structurally impossible for a credit union to be part of any such holding company, so credit unions fall totally outside of the conceptual concerns to be addressed by the bill. Furthermore, all credit unions combined could never pose the possibility of a systemic failure having the dramatic kind of impact the bill is intended to address. Even the very largest credit unions impose no systemic risk on the financial system because other financial institutions are not dependent on large credit unions in any significant way.

Credit unions do not engage in many of the complex and risky activities that huge, complex financial companies do, such as: complex foreign operations, currency trading operations, complex investment operations, investment banking, or credit default swaps, etc.

Simply put: it does not make sense to include credit unions in this legislation because (a) all credit unions combined cannot pose a systemic risk that one complex financial holding company can to the stability of the economy; (b) credit unions already have a separate federal agency that is designed to manage risks; and (c) credit unions already pay for a separate federal insurance fund to address "systemic risks" that may arise within the credit union system.

While the Sherman amendment would not provide for the complete exclusion of credit unions from the scope of this legislation, the amendment would raise the \$10 billion threshold to a level that would exclude all credit unions now and for the foreseeable future. With the addition of this amendment to the legislation, the significant credit union concerns will have been addressed.

On behalf of America's credit unions, please support the Sherman amendment (004). Thank you for your consideration.

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