

March 11, 2014

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

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

Dear Chairman Hensarling and Ranking Members Waters:

On behalf of the Credit Union National Association (CUNA), I am writing in full support of H.R. 3584, bipartisan legislation introduced by Representatives Steve Stivers and Joyce Beatty, which would allow privately-insured credit unions to become members of the Federal Home Loan Bank System (FHLBs). CUNA is the largest credit union advocacy organization in the United States, representing America's 6,500 state and federally chartered credit unions and their 99 million members.

Credit unions exist to serve the financial needs of their members. The Federal Home Loan Bank (FHLB) System permits certain financial institutions to apply for membership, helping those institutions meet lending demand with respect to home mortgages, farm loans or other loans that satisfy the collateral requirements of the FHLB System. A collection of state-chartered credit unions are privately insured and under current law, cannot apply for membership to the FHLB System. Permitting these credit unions to apply for membership to the FHLB System will provide a valuable source of liquidity and enhance their lending operations to the benefit of the members and the communities in which they reside.

In 1989, in the wake of the savings and loan crisis, the FHLB System was opened up for the first time to commercial banks and credit unions. Unfortunately, the bill was written in such a way to apply only to federally insured credit unions. This drafting error prohibited privately insured, state-chartered credit unions from applying to the FHLB System, essentially denying these small credit unions the right to even apply for membership for over two decades.

This bill is about access to the FHLB System for a segment of financial institutions that are not currently able to join. If enacted, privately insured credit unions would not be the first type of non-federally insured institution to be eligible for FHLB System members; under current law, insurance companies, which are not federally insured, may join the FHLB System. And, in fact, insurance companies borrow more from the FHLB System than all credit unions. Like insurance companies, privately insured credit unions are licensed and regulated by state financial services regulators. In fact, the insurance company that insures America's privately insured credit unions is likewise regulated by the Ohio Insurance Commissioner, and subject to supervision also by the regulators in the states in which it operates.

The Honorable Jeb Hensarling
The Honorable Maxine Waters
March 11, 2014
Page Two

The legislation presents no risk to the FHLB System because all advances from the FHLB System must be fully collateralized and subject to their strict uniformly applied standards. H.R. 3584 also makes it clear that the FHLB will have a superior lien over any assets it holds as collateral, irrespective of how the credit union's deposits are insured. Furthermore, the size of the potential universe of credit unions that would be made eligible for membership under this legislation is extraordinarily small relative to the collective size of the Federal Home Loan Bank System.

We are thankful that the House of Representatives has recognized this as a problem. Twice, in 2004 and 2006, the full House passed legislation to correct this. In fact, the bill before you today is nearly identical to a similar proposal passed by the House of Representatives on March 8, 2006 as Section 301 of H.R. 3505, the Financial Services Regulatory Relief Act of 2006, by a vote of 415 - 2. In 2008, as part of the Housing and Economic Recovery Act of 2008, Congress made a small change that permits privately-insured, state-chartered credit unions which are designated as Community Development Financial Institutions (CDFIs) to apply for membership to the Federal Home Loan Banks; however, of the 132 privately insured credit unions, only two hold CDFI status.

Some have sought to make the debate over this legislation a discussion of the merits of private deposit insurance. In fact, we note with disappointment the letter that NCUA Chairman Debbie Matz sent you in opposition to this legislation. NCUA raises historic concerns with private share insurance, which is not at issue in this legislation. Nevertheless, to address the NCUA's concerns, we would be pleased to support a modification to the underlying bill to clarify that the "NCUA has no legal authority, no regulatory power and no supervisory jurisdiction over either privately insured credit union or commercial insurance companies." However, we believe that Congress has provided sufficient guidance and direction through amendments enacted in 2006 and 2010 to the Federal Deposit Insurance Act, that the Bureau of Consumer Financial Protection (not the Federal Trade Commission, as NCUA indicates) has responsibility for federal oversight of private deposit insurance companies and the protection of consumer through appropriate disclosure provisions. In fact, the 2006 amendments greatly enhanced disclosures to members of privately insured credit unions, and required a special mailing to members. We believe these disclosure requirements are sufficient to ensure members understand that their deposits in privately insured credit unions are not federally insured.

The concerns of the NCUA notwithstanding, it is important for the Committee not to lose sight of what this bill does: H.R. 3584 would allow privately insured credit unions access to the Federal Home Loan Banks, providing them access to additional liquidity to better serve their mortgage borrowing members, and ultimately make their credit unions stronger. This is accomplished through a bill that creates no additional risk of loss to any Federal Home Loan Bank or the taxpayer. With the modification we suggest above, it can also be accomplished without involving the NCUA.

The Honorable Jeb Hensarling
The Honorable Maxine Waters
March 11, 2014
Page Three

On behalf of America's credit unions, thank you for holding a mark-up on this legislation. We encourage the Committee to support the bill and look forward to working with you to see its enactment.

Best regards,

A handwritten signature in black ink, appearing to read "Bill Cheney", with a long, sweeping horizontal line extending to the right.

Bill Cheney
President & CEO