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December 3, 2012

The Honorable Harry Reid The Honorable Mitch McConnell Majority Leader Minority Leader **United States Senate United States Senate** Washington, DC 20510 Washington, DC 20510

Dear Majority Leader Reid and Minority Leader McConnell:

On behalf of the Credit Union National Association (CUNA), I am writing to oppose S. 3637, a bill to temporarily extend the Transaction Account Guarantee (TAG) Program. CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's approximately 7,000 credit unions and their 95 million members. Congress should allow TAG to expire because it is no longer necessary; it is risky; it has not proven to enhance bank business lending; and, there are better policy options to help small businesses access credit.

TAG extends unlimited deposit insurance coverage for deposits in noninterest bearing transaction accounts at banks and credit unions. The idea was to ensure that very large deposits, often made by businesses, stayed in banks so that they would maintain liquidity during the banking crisis and continue to lend to small businesses. TAG is a crisis-inspired program which Congress intended to be temporary. The crisis is over. The program should expire.

Unlimited deposit insurance coverage for noninterest bearing transactional accounts injects an enormous amount of "moral hazard" into the banking system. Prior to the existence of this program, bank customers researched banks and had a vested interest in the proper governance and solvency of the institution that held their funds. This encouraged a significant amount of market discipline, without which we are likely to see more bank carelessness in maintaining adequate capital and making prudent lending decisions. Since TAG became effective on October 14, 2008, 438 U.S. banks have failed; and, through the end of 2011, TAG has cost the FDIC's Deposit Insurance Fund almost \$2.5 billion. It has created a taxpayer-guaranteed oasis for \$1.4 trillion in TAG-insured deposits. In the event that the FDIC is unable to cover TAG-insured losses at failed U.S. banks, the American taxpayer will be forced to once again bail out the nation's banking system.

With the economy in recovery and the banking crisis behind us, very large depositors have a number of other options at banks, credit unions and other financial services providers. Such uninsured deposits could be spread over a number of insured accounts in various banks and credit unions so long as each account is under the existing \$250,000 standard federal insurance for all accounts. Depositors could also leave uninsured deposits in a single account that is designed as a "sweep account" in which funds are "swept" into an interest-bearing account at the end of the day.

While the banking lobby argues that this program is critical to the survival of small banks, the Wall Street Journal points out in a November 27, 2012, editorial that, "FDIC-data show that the giant banks benefit most from TAG and rely on it for a larger share of deposits than do the little guys. So TAG is rightly seen as a subsidy for all banks, and especially giant ones." As of March 31, 2012, only 3.4% of TAG-insured deposits exceeding the existing \$250,000 FDIC account guarantee were held by banks with less than \$1 billion in assets; 75.5% of TAG deposits were held in banks with more than \$100 billion in assets.



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The small banks also argue that TAG provides liquidity to banks so that they, in turn, can make loans that will stimulate the economy. The truth is that the banking industry's average loan-to-deposit ratio is much lower than its historic averages. In fact, this loan ratio is nearly 20 percentage points lower than it was in 2002: the ratio was 70.4 percent in March of this year compared to 89.2 percent in 2002. More than \$500 billion in new deposits have entered banks since the 2008 banking crisis, and yet bank small business lending has been reduced while credit union small business lending has expanded. Banks would still have ample funds to lend even if the expiration of TAG caused some modest deposit outflows.

The level of concern expressed by the banking regulators speaks to the potential impact of the expiration of this program on banks. In July, Treasury Secretary Geithner told the Senate Banking Committee that he did not feel an extension of TAG was warranted. In August, the Acting Chairman of the FDIC wrote to Senator Corker and said, "Given the uncertainty in the near-term economic outlook, it is difficult at this time to anticipate the consequences of the expiration of temporary coverage at the end of this year for industry liquidity." If the regulators were concerned about the impact that the expiration of the TAG program was going to have on banks' ability to lend, surely they would have offered full-throated statements of support for its extension.

The fact of the matter is that if Congress wants to enhance and expand access to credit for small businesses, there are a number of other policy options it should pursue, including S. 2231, the *Small Business Lending Enhancement Act*. Credit unions are willing and able to lend to their small business members; but the most successful business lending credit unions have hit or are approaching the statutory cap on credit union business lending. The TAG program may provide security for very large depositors; but the banks are not lending the money. Credit unions see demand for small business lending in their markets and the most experienced credit unions face a statutory cap on how much they can help. Perhaps if Congress allowed these credit unions to do more business lending, banks would be inspired to lend more as well? They certainly have the liquidity to do so.

On behalf of America's credit unions and their 95 million members, we appreciate your consideration of our views.

Best regards,

Bill Cheney
President & CEO