

March 21, 2001

Dear Representative:

On behalf of the Credit Union National Association and the 80 million credit union members nationwide, I am writing in support of the provisions of H.R. 974 that mandate payment of interest by the Federal Reserve on sterile reserves maintained by member institutions.

The Federal Reserve Act currently requires depository institutions to maintain reserves against certain deposit liabilities. These funds, referred to as required reserve balances or sterile reserves, do not earn interest. As of the end of 2000, 1,285 credit unions were subject to reserve requirements, and file FR 2900 forms with the Federal Reserve either weekly or quarterly.

The proposed change allowing payment of interest on sterile reserves is important to credit unions for competitive reasons. Non-depository institutions are not subject to reserve requirements, but may offer accounts with unlimited transaction access. In contrast, credit union share draft accounts are subject to 10% reserving requirements as transaction accounts, while credit union share (savings) accounts are subject to strict rules on monthly transfers in order to avoid being categorized as transaction accounts. Payment of interest on monetary reserves will help address the disparate treatment of depository and nondepository institutions.

Payment of interest on monetary reserves will also lessen the need for institutions to develop elaborate sweep accounts. Unlike large banks, few credit unions have created operational systems to shift funds among a member's accounts in order to minimize the amount of deposits subject to reserve requirements. Sweep accounts increase the Federal Reserve System's challenge of carrying out monetary policy through use of reserve requirements.

CUNA is encouraged by this early and prominent attention being given by the Financial Institutions Subcommittee to the anachronistic prohibition on payment of interest on sterile reserves, and I look forward to working with you as the legislation moves through the Congress. Please do not hesitate to contact me if CUNA can render further assistance in this matter.

Sincerely,

Daniel A. Mica
President & CEO