



Credit Union National Association

cuna.org

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July 9, 2008

The Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of
Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
United States House of
Representatives
2246 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank and Ranking Member Bachus:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the upcoming hearings regarding regulatory restructuring. CUNA is the nation's largest credit union advocacy organization, representing approximately 90% of our nation's 8,300 state and federal credit unions, their state credit union leagues, and their more than 90 million members.

Despite the present economic conditions, the credit union segment of the financial service industry remains healthy. The vast majority of credit unions have very strong balance sheets and near-record-high capital levels. In fact, in virtually all cases, any decline in financial results stemming from the mortgage crisis or the economic slowdown is not due to credit union practices, but rather collateral damage from other events in the market. Throughout these difficult times, credit unions have not been a part of the problem and because of their strong financial condition, seek to be and are able to be a part of the solution.

We strongly believe that all consumers benefit from the uniquely democratic and consumer-owned structure of credit unions as well as from the better rates and services credit unions provide. We were encouraged by and appreciate Chairman Frank's comment on April 2 that credit unions need not worry about the Department of Treasury's proposal to eliminate the independent credit union regulator and ultimately the credit union charter. As these hearings proceed, we hope that Congress will consider how credit unions can continue to offer important choices to consumers in the financial marketplace.

One area where statutory provisions restrain credit unions from providing additional assistance involves capital requirements for the purposes of prompt corrective action (PCA). As you know, credit unions are subject to statutory capital requirements (7% net worth ratio of retained earnings to total assets for well-capitalized credit unions), which provides the regulator limited flexibility in determining proper capitalization levels for credit unions based on the institution's risk-assets.



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Credit unions have higher basic capital requirements than other depository institutions, even though because of their cooperative structure, credit unions are more risk-averse than for-profit institutions. Historically, credit unions have had the lowest default/delinquency rates in virtually all categories of loans. This phenomenon continues despite the economic downturn which should not be surprising given the fact that credit unions weathered even the Great Depression, every recession, and the savings and loan crisis with extremely low failure rates. In fact, credit unions are the only category of insured depository institutions that have never needed a federal bailout. These experiences over the seven and a half decades since the enactment of the *Federal Credit Union Act* reflect the lack of incentives for credit unions to engage in excessive risk-taking.

Unlike other depository institutions, credit unions lack access to capital markets. Without such access, in times of rapid savings growth (such as when members are concerned about the economy or financial markets) the ratio of net worth to assets can fall substantially even for healthy, well-managed credit unions. What should really matter is how those new assets are deployed, rather than just their sheer volume.

As a result of the rigid statutory capital requirement, the general risk-averse nature of credit unions and their inability to access secondary capital, the average capital ratio of credit unions is 11%, four percent higher than the statutory requirement to be considered "well capitalized." The difference between the current capital level of credit unions and the level required to be well capitalized represents unused capital which could be put safely to work to benefit consumers and the economy.

The National Credit Union Administration (NCUA) has developed a risk-based capital system for credit unions. Legislative language supported by NCUA is incorporated in Title I of H.R. 1537. The NCUA's proposal would lower the leverage requirement for credit unions while at the same time imposing a new, risk-based capital requirement to augment the leverage ratio. As you proceed with hearings on regulatory restructuring, which may also focus on risk-based capital for investment banks, we strongly urge you to consider whether a risk-based system is also appropriate for credit unions, and hope you will hold a hearing to examine this issue.

On behalf of America's credit unions and their members, thank you very much for your consideration.

Sincerely,



Daniel A. Mica
President & CEO