



Credit Union National Association

cuna.org

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November 1, 2007

The Honorable Mike Crapo
United States Senate
239 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Jon Tester
United States Senate
204 Russell Senate Office Building
Washington, DC 20510

The Honorable Tim Johnson
United States Senate
136 Hart Senate Office Building
Washington, DC 20510

The Honorable Chuck Hagel
United States Senate
248 Russell Senate Office Building
Washington, DC 20510

Dear Senators,

On behalf of the Credit Union National Association (CUNA) and America's 90 million credit union members, thank you very much for the opportunity to identify the top three regulatory relief priorities for credit unions.

For several years, we have supported legislation in the House of Representatives aimed at providing credit unions the type of regulatory relief that you talk about in your letter. The bi-partisan legislation, H.R. 1537 - the *Credit Union Regulatory Improvements Act* (CURIA), has been sponsored in the House by Representatives Paul Kanjorski (D-PA) and Ed Royce (R-CA), and has attracted more than 135 cosponsors.

CURIA contains three main provisions that represent our top regulatory relief priorities:

Member Business Lending Cap Relaxation
(H.R. 1537 – Title II, Sections 201-204)

Our top regulatory relief priority is a relaxation of the limits on credit union business activities put in place in 1998 as part of the Credit Union Membership Access Act (CUMAA).

When Congress initially imposed these limits, there was recognition that the cap would be examined in the future. Congress instructed the Treasury Department to conduct a thorough study of credit union member business lending. Released in January 2001, the Treasury study concluded that member business lending "is a niche market for credit unions. Overall, credit unions are not a threat to the viability and profitability of other insured depository institutions." The report also found that 45 percent of the business loans made by credit unions went to households with incomes under \$50,000.

A subsequent study by the Federal Reserve Bank of Atlanta also identified a real need for more small business lending. This report found that as financial institutions increased their size through mergers, they did less small business lending. Easing credit union member business lending restrictions would therefore help to fill this vacuum.



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We are seeking four changes with respect to the Member Business Lending cap. First, replace the 12.25 percent of assets cap on credit union member business lending with a more practical level of 20 percent of total assets. This update would facilitate member business lending without jeopardizing safety and soundness at participating credit unions. The new cap would still be equal to or stricter than business lending caps imposed on other depository institutions and, as the 2001 Treasury report found, "... the credit risk associated with member business loans may be less than that for most bank and thrift commercial loans."

Second, allow the National Credit Union Administration (NCUA) to exclude loans under \$100,000 from the calculation of the business lending cap. This number provides a necessary update to the \$50,000 small loan exemption that was included in 1998 and has not been adjusted since for inflation.

Third, exempt loans or loan participations by federally-insured credit unions to non-profit religious organizations from the member business loan limits. Fourth, exempt loans or loan participations by federally-insured credit unions in underserved areas. These final three changes would facilitate the ability of credit unions to make small business loans and support non-profit and underserved community development efforts.

Prompt Corrective Action Reform (H.R. 1537 – Title I)

We also seek language from CURIA that incorporates the net worth and Prompt Corrective Action (PCA) reform proposals of NCUA, the federal regulator responsible for the safety and soundness of the credit union system. In an April 2005 report, NCUA determined that the PCA system created by Congress in the 1998 Credit Union Membership Access Act was too inflexible and that a more fully risk-based system would both foster healthy capitalization levels and encourage more effective capital management.

We ask that Congress replace the current "one-size-fits all" leverage capital requirement for credit unions with a more rigorous two-part net worth structure that would more closely monitor actual asset risk. The revised credit union capital/PCA structure would more closely resemble the risk-based capital standards for comparably sized FDIC-insured banks and thrift institutions.

Increase Credit Union Service to Underserved Areas (H.R. 1537 – Title II, Sections 206-207)

Finally, credit unions seek language that clarifies that all federal credit unions may apply to NCUA to serve underserved areas.

We believe that the Congressional intent of the *Credit Union Membership Access Act* has been undermined now that only multiple group credit unions are eligible to expand credit union services to areas with high unemployment and below median income that have traditionally been underserved by other traditional depository institutions. In June 2006, in response to pending litigation, NCUA was virtually forced to revise its long-standing rules on underserved areas to restrict future service to underserved areas only to credit unions with multiple-group charters, effectively prohibiting 56% of all Federal credit unions with single-group and community charters from adding any new, or any additional underserved areas to their fields of membership.

We ask you to consider including language from CURIA that would provide all Federal credit unions with an equal opportunity to serve to individuals and groups working or residing in areas that meet the income, unemployment and other distress criteria identified by the Treasury Department.

CURIA also contains language that expands the criteria for determining whether a community or rural area qualifies as an underserved area. The bill's definition of a qualified underserved area includes not only areas currently eligible as "investment areas" under the Treasury Department's Community Development Financial Institutions (CDFI) program, but also census tracts qualifying as "low income areas" under the New Markets Tax Credit targeting formula adopted by Congress in 2000.

CUNA looks forward to working with you and your staff on these proposals. We have additional information that we can provide to assist you, and we are always available to answer any questions you may have regarding these or other proposals.

Thank you very much for the opportunity to contribute to the development of this regulatory relief legislation.

Sincerely,

A handwritten signature in black ink, appearing to be 'D. Mica', with a stylized flourish at the end.

Daniel A. Mica
President and CEO