



Credit Union National Association

cuna.org

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**STATEMENT ON BEHALF OF THE CREDIT UNION
NATIONAL ASSOCIATION BY MR. TERRY WEST,
PRESIDENT AND CEO OF VYSTAR CREDIT UNION,
BEFORE THE SENATE BANKING FINANCIAL
INSTITUTIONS SUBCOMMITTEE, MARCH 19, 2009**

Thank you, Chairman Johnson, and Ranking Member Crapo, for the opportunity to appear before the Subcommittee today on behalf of the Credit Union National Association on issues relating to deposit insurance.

I am Terry West, President and CEO of VyStar Credit Union in Jacksonville, Florida. I am also serving as the Chairman of CUNA's Corporate Credit Union Task Force, which was formed to address concerns regarding corporate credit unions, institutions that provide payments, settlement, liquidity and investment services for natural person credit unions. The Credit Union National Association is the largest advocacy organization for credit unions in this country, representing the



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nation's 7,900 state and federal credit unions, which serve approximately 92 million consumers.

VyStar CU

VyStar is a state-chartered, federally insured credit union serving the Jacksonville community; we have approximately 350,000 members and \$3.8 billion in assets. I am pleased to report that VyStar continues to be an important source of lending as well as a variety of financial services to our members during this period of economic crisis, offering a variety of loan products, including 30-year mortgage loans where we pay up to \$5,000 no closing costs at 5.375%, and small business loans. We also help our members modify existing loans and work with them to provide financial counseling and restructure their debt, particularly for those facing job losses or a reduced income. In addition, we help over 9,000 small businesses in our area meet their financial needs through deposit and loan services. We are also just now launching a Money Makeover on local television aimed at teaching consumers how to reduce debt and save, especially during this economic crisis.

Background on Natural Person and Corporate CUs

I am even more pleased to report that VyStar's efforts are being repeated in communities all across this country by the nation's state and federal credit unions, as highlighted by the Wall Street Journal supplement on Sunday, March 15th. As the article points out, credit union loans in 2008 rose by 7% to over \$575 billion, up about \$35 billion from the previous year.

Meanwhile, banks in this country saw loans decline about \$31 billion in 2007, from \$7.9 to \$7.876 trillion, as the Journal reported. I have attached a copy of the Journal article.

While credit unions are generally performing well, some natural person credit unions in states such as California, Florida, Arizona, Nevada and Michigan are facing real stresses, including capital reductions, primarily as a result of the collateral damage from their respective economic environments.

The corporate credit union network has been particularly hard hit, due in part to the impact of mortgage-backed securities, which are permissible investments for the corporate credit

unions, on their net worth. These concerns are highly relevant to the Subcommittee's consideration of deposit and share insurance because they have a direct impact on the costs of insurance to credit unions that is provided by the National Credit Union Share Insurance Fund (NCUSIF).

The NCUSIF

Like the Federal Deposit Insurance Corporation (FDIC), the NCUSIF provides account insurance, backed by the full faith and credit of the U.S. Government, to the institutions it covers. However, the NCUSIF differs from the FDIC in one very important way. The FDIC is generally funded by assessing premiums to insured banks. The costs of the NCUSIF are borne by federally insured credit unions, which must provide and maintain with the NCUSIF 1% of their insured shares. Federally insured credit unions may also be assessed an insurance premium, up to twice a year, to bring the NCUSIF to its normal operating level, which is set by the NCUA Board within a range of 1.2% to 1.5%, as directed by the Federal Credit Union Act ("FCU Act" or "Act"). The current level is

1.3%. If the NCUSIF equity level falls below 1.2%, a premium must be assessed under the Act.

This system has many positive features. It reflects the self-help, cooperative nature of the credit union system by calling on federally insured credit unions to serve as the first line of defense against insurance losses before any taxpayer funds would ever become involved. However, the current economic crisis has also exposed some dangers in the system. In particular, when, as now, the industry faces a general economic downturn, and individual credit unions need their capital the most to support continued lending to local communities, the insurance fund can impose sudden, large, and unexpected drains on the capital of credit unions all across the country. This, in turn, can limit the continuing ability of credit unions to carry on their core functions just when they are needed most. Some of the reforms proposed below are designed to mitigate this problem.

NCUA's Actions To Assist Corporate CUs

Because the National Credit Union Administration (NCUA) took action in January to provide \$1 billion in capital to the largest corporate credit union, U.S. Central, and to guarantee the uninsured shares of corporate credit unions, all federally insured credit unions have been hit with an estimated 80 plus basis points in insurance expenses this year and an average 62 basis point hit to federally insured credit unions' return on assets (ROA). This is comprised of more than 50 basis points to restore the 1% deposit and the remainder in the form of a premium assessment.

CUNA did not oppose NCUA's action in January to help the corporate credit unions, which we felt was necessary.

However, we did not support the agency's decision as to how the costs would be funded or when they had to be recognized for accounting purposes. We believe NCUA did not thoroughly consider alternatives to contain those costs for the credit union system.

As a result of NCUA's actions, a very large number of credit unions will experience negative "bottom lines" or "net income" and all will see their net worth decline, solely because of the insurance expenses.

On February 27, 2009, the FDIC issued an interim final rule with a request for comments calling for an emergency 20 basis point special insurance assessment in June and possibly an additional assessment of up to 10 basis points thereafter.

Bankers objected to the amount and according to the Washington Post and others, the FDIC has agreed to mitigate the impact of the assessment cutting it in half to 10 basis points. The FDIC has also adopted a rule that allows it up to seven years to bring the reserve ratio of its Deposit Insurance Fund up to 1.15%. This will allow the agency, under its "extraordinary circumstances" authority, to spread out future assessments for federally insured banks and thrifts for two additional years. The agency also made changes to its assessment rate regarding its Temporary Liquidity Guarantee Program that will help reduce insurance assessments.

Actions to Mitigate CUs Costs That Do Not Require

Legislation

We believe there are steps of a similar nature and effect that NCUA could take to help minimize the impact of insurance costs on federally insured credit unions. For example, while the 1% equity level in the NCUSIF arguably must be replenished in the same year that it is drawn down, the NCUA Board currently has authority under the FCU Act to spread out credit unions' premium expenses that fund the remaining .30% balance of the NCUSIF to bring the ratio to 1.30%. We urge this Subcommittee to encourage NCUA to use its current authority to help reduce the impact of insurance costs on federally insured credit unions this year.

We also note that limited assistance – up to \$10 billion – from the Treasury's Troubled Assets Relief Program (TARP), or Financial Stability Plan (FSP), to the NCUSIF and to a small number of individual credit unions could be extremely important in helping to blunt the impact of the insurance expenses on the credit union system. We believe such funding, which would be fully repaid by the credit union system in a reasonable amount

of time, is appropriate under the circumstances. Some banker groups have had the temerity, given where certain banks are regarding TARP money, to charge that credit unions' tax exemption would be threatened if we receive such funds. In our view, this should not be the case, because any funds from TARP would be reimbursed. Further, Treasury has developed a TARP program specifically for Subchapter S Banks, which receive very favorable tax treatment. No one is suggesting that this step undermines their generous tax benefits the Subchapter S banks receive from the federal government.

While this hearing is not focusing on accounting issues, the impact of accounting rules regarding fair value and assets that have to be reported as "other-than-temporarily impaired" have taken their toll on the credit union system, along with others in the financial system, particularly for corporate credit unions.

While positive developments from the Financial Accounting Standards Board (FASB) are in the offing, we urge the Senate to remain vigilant and keep the pressure on FASB to address these issues in a timely and effective manner.

Legislation is Needed

We also think it is imperative that NCUSIF have the statutory authority it needs to address insurance issues and manage insurance costs, both to facilitate its operations and to help credit unions handle their expenses. This is particularly important in light of the current financial crisis. More specifically, CUNA is supporting the following:

- Legislation to continue share and deposit coverage for accounts up to \$250,000. We feel this additional coverage has provided consumers with needed confidence in their financial institutions and hope the Senate will continue the current level of account insurance.
- Increased authority for the NCUSIF to borrow up to \$6 billion from the U. S. Treasury to facilitate its ability to spread out insurance costs to credit unions. The FDIC is seeking an increase in its borrowing authority from \$30 billion to \$100 billion, with additional authority to borrow up to \$500 billion with the concurrence of the Federal Reserve Board and the Treasury Department, in consultation with the President. NCUA has much more limited borrowing authority, which has not been

increased from \$100 million since the NCUSIF was created in the 1970's. As credit unions continue to be affected by the economy, and in recognition of the \$250,000 insurance ceiling which may be extended, thereby increasing the NCUSIF's exposure, we urge the Senate to increase the NCUSIF's borrowing authority. We also support additional authority for the NCUSIF under exigent circumstances, which would allow it to borrow an additional amount, up to \$30 billion, that we urge the Senate to approve for the NCUSIF.

- Authority for the NCUSIF to allow federally insured credit unions to spread out premium expenses for a period of up to eight years. CUNA strongly believes that NCUA has authority now to spread out about 30 basis points in insurance expenses for a reasonable period of time, without any new legislative authority, and we urge this Subcommittee to encourage NCUA to use that authority.

However, we also support legislation that would expressly permit NCUA to collect credit unions' premium costs over eight years, as the FDIC would be permitted to do. This change would provide an extremely important mechanism that would

allow NCUA to manage its resources more effectively while lessening the impact of assessments on federally insured credit unions.

- Enhanced authority for NCUA through its Central Liquidity Facility (CLF) to provide liquidity to all member credit unions, both natural person and corporate credit unions, and capital to those member credit unions that represent systemic risk to the NCUSIF. Such additional authority would provide another mechanism the NCUA Board could employ to spread out the costs associated with problem cases that are paid by credit unions. Authority for the program, which would be funded through the CLF's borrowing authority and that of the NCUSIF, would end after seven years. Borrowings would be repaid from within the credit union system. The NCUA Board would be directed to write regulations to implement the program and NCUA's implementation would be subject to Congressional review.

- Systemic risk authority to NCUA, on a similar basis to that provided to FDIC. While we cannot imagine that Congress intended NCUA would not have such authority, the FDIC was

able to point to specific provisions in its Act to provide unlimited deposit insurance coverage for non-interest bearing transaction accounts. Without a specific systemic risk provision, NCUA has been reluctant to take this action, even though we believe NCUA has such authority to act on a case-by-case basis under 12 U.S.C. §1788. We believe that given the uncertainty of the economic crisis, parallel authority for NCUA to address systematic risk issues in a timely fashion is reasonable.

Conclusion

While CUNA is supporting additional resources for the NCUSIF and urging Congress to help with other issues, such as mark-to-market accounting, that will have an impact on the credit union system including corporate credit unions, we are also supporting regulatory changes in the corporate credit union system that will substantially strengthen their capital, reduce their numbers to increase efficiencies, focus their services on core activities that are needed by natural person credit unions, and address corporate governance issues. All of these

changes are designed to prevent problems of the nature and magnitude that the credit union system is currently facing.

In closing, Mr. Chairman, Ranking Member Crapo and all the members of this Subcommittee, we appreciate your review of these issues today. Every day, credit unions reinforce their commitment to workers and a host of others seeking to better their quality of life by providing them loans on terms they can afford and savings rates that are favorable. We hope you agree that credit unions and other institutions that continue to do the right thing, despite impediments, should not be disadvantaged by the political process. We look forward to working with you to help ensure the credit union system continues to be a “safe haven” for the 92 million individuals and small businesses who look to their credit unions for financial services. I would be happy to respond to your questions.