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The Honorable Blaine Luetkemeyer
Chairman
Subcommittee on Financial Institutions and
Consumer Credit
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable William "Lacy" Clay
Ranking Member
Subcommittee on Financial Institutions and
Consumer Credit
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairman Luetkemeyer and Ranking Member Clay,

On behalf of America's credit unions, I am writing regarding the subcommittee's hearing entitled, "Examining Capital Regimes for Financial Institutions." CUNA represents America's credit unions and their 110 million members. We appreciate your consideration of our views.

As you know, credit unions are subject to statutory and regulatory capital requirements, including Tier I leverage ratio that is hardwired into statute and a risk-based capital requirement. These requirements differ from requirements on for-profit financial institutions in recognition of the structural dissimilarities between credit unions and banks. Nevertheless, capital is king for all financial institutions and it is essential that credit unions' capital regime is modernized to ensure credit unions remain safe and sound, and can grow to serve their members and communities.

There are two steps Congress should consider with respect to credit unions' capital regime: delaying the implementation of the National Credit Union Administration's recently finalized risk-based capital rule and enacting legislation that permit all credit unions to issue supplemental capital instruments.

Congress should delay NCUA's risk-based capital rule

We appreciate the efforts that Congress has taken toward the enactment of legislation to delay NCUA's new risk-based capital rule. H.R. 5288, the Common Sense Credit Union Capital Relief Act, introduced by Representatives Bill Posey (R-FL) and Denny Heck (D-WA), would delay this rule until 2021.

During the rulemaking process, credit unions across the country expressed their significant concerns with the new standards and many of these concerns pertain to whether NCUA has legal authority to impose the requirements. In addition, credit unions have a concern with the new risk-based capital standards for determining whether a credit union is well-capitalized as the Federal Credit Union Act permits the NCUA to impose a risk-based standard for the purpose of determining capital adequacy only. Credit unions also have significant concern with the additional regulatory burden imposed by these standards, and question whether the cost is justified. Our analysis shows that it would have done very little to reduce costs to the National Credit Union Share Insurance Fund (NCUSIF) had it been in effect during the most recent financial crisis. The current Prompt Corrective Action (PCA) system served very well during that crisis, with relatively few credit union failures. If a goal of a PCA scheme

is for covered institutions to hold sufficient capital to withstand a severe financial crisis without imperiling the deposit insurance fund, credit unions' performance during the recent financial crisis stands as compelling evidence that a major overhaul of current credit union capital requirements toward a Basel-style system is simply not required.

Simply put, NCUA's rule is a solution in search of a problem that does not exist.

We were pleased that the House of Representatives passed this measure by a vote of 400-2 as part of H.R. 5841, the Foreign Investment Risk Review Modernization Act, and we are encouraged that the House is poised to pass it again as part of upcoming jobs legislation. Thank you for your leadership and support on this matter.

Congress should permit all credit unions to issue supplemental capital instruments

Credit unions are the only financial institutions in the United States with capital requirements written into statute, and no ability to raise capital other than through retained earnings. Capital is the first line of defense in protecting taxpayers from deposit insurance losses. It is in everyone's best interest to have financial institutions that are well capitalized and able to weather whatever difficulties may occur.

H.R. 1244, the Capital Access for Small Business and Jobs Act, introduced by Representatives Peter King (R-NY) and Brad Sherman (D-CA), would allow credit unions to accept other forms of capital, if it does not alter the cooperative ownership structure of credit unions. The legislation requires that this capital be uninsured and subordinate to other claims against the credit union. Further, the bill authorizes the National Credit Union Administration to set maturity limits on this capital and restrict the ability to raise supplemental capital to credit unions which are sufficiently capitalized and well managed.

We believe this legislation would provide credit unions with the appropriate ability to raise capital from sources other than retained earnings without putting in jeopardy the "one member, one vote" principle that is the bedrock of the credit union ownership structure. This legislation would improve a credit union's ability to maintain safety and soundness by allowing them to develop a supplemental cushion which ultimately reduces risk to the NCUSIF. We encourage the Committee to consider H.R. 1244 soon.

On behalf of America's credit unions and their 110 million members, thank you for holding this hearing and for your consideration of our views.

Sincerely,



Jim Nussle
President & CEO