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National Association of Federally-Insured Credit Unions

May 15, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing: "Oversight of Financial Regulators"

Dear Chairman McHenry and Ranking Member Waters:

I write today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "Oversight of Financial Regulators." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial service products. NAFCU appreciates the Committee's ongoing oversight of federal financial regulators.

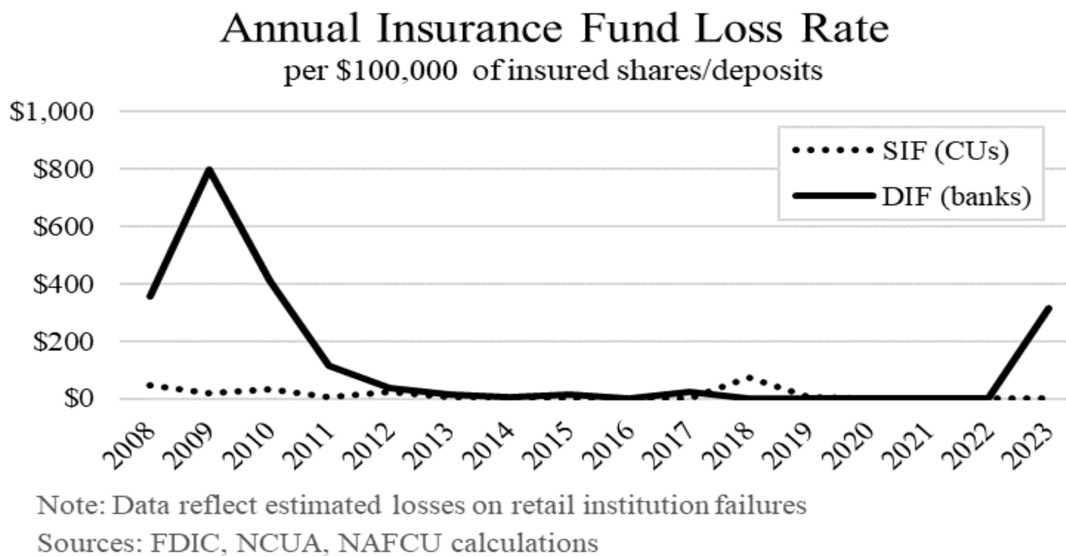
The credit union industry remains a strong, well capitalized, and safe place for consumers. As not-for-profit, member-owned cooperatives, credit unions' focus is on service to their members, not chasing profits. Unlike the banking system where roughly 50 percent of deposits were uninsured by the Federal Deposit Insurance Corporation (FDIC) before the recent failures, nearly 90 percent of credit union deposits are insured by the National Credit Union Administration (NCUA) and its National Credit Union Share Insurance Fund (NCUSIF). Even though the insurer is different, the coverage levels from the NCUSIF are the same as for the banks and the FDIC – an important element to ensure consumer confidence in the system.

In addition, credit unions have access to the full array of liquidity options, including Federal Home Loan Banks, the Federal Reserve discount window, the new temporary Bank Term Funding Program, and the NCUA's Central Liquidity Facility.

Credit unions have not seen runs on their deposits like some banks because of the relationship they have with their members – who know their money is safe at their credit union. That is the credit union difference. Our industry prioritizes members' financial well-being over profits. Credit unions do not make risky investments that could undermine their institution or harm their members; they invest in the programs and products that strengthen them.

While we are not advocating for changes for coverage limits for the NCUSIF at this time, any changes considered by Congress to FDIC coverage levels must include parity in coverage levels for the NCUSIF while not changing the tried and tested structure, funding, and operations of the NCUSIF. We reject any

calls for changes to change the Normal Operating Level (NOL) or ability to assess premiums on credit unions for the NCUSIF. As the chart below illustrates, after adjusting for the difference in size between the NCUSIF and the FDIC's Deposit Insurance Fund (DIF), the cost of the three bank failures to the DIF in 2023 alone is over 50 percent more than the cumulative losses from retail credit union failures since the financial crisis (2008-2023). There is no demonstrated need for the NCUA to have identical authorities over the SIF that the FDIC has over the DIF since the two funds have starkly different loss histories. We urge you to ensure that problems from a few banks do not create new burdens for well-run credit unions in an effort to respond to this recent situation.



Note: Data reflect estimated losses on retail institution failures
Sources: FDIC, NCUA, NAFCU calculations

NAFCU would also like to take this opportunity to note that we remain in opposition to calls for the NCUA to have the authority to examine third-party vendors. The NCUA has not explained in sufficient detail the need for such authority, as these vendors are already examined by other regulators, and the NCUA has access to information regarding them through the Financial Stability Oversight Council (FSOC) upon which it sits. Additionally, since the NCUA is funded by its member credit unions, the costs of this new authority would be borne by the credit unions themselves. The current banking situation was not a product of vendor relationships with institutions, and such a move would not be a proper response.

As the Committee examines the current regulatory environment for credit unions, we would like to flag a few areas where the Federal Credit Union (FCU) Act needs modernization. We were pleased to see quick action in the House on H.R. 582, the Credit Union Board Modernization Act, by the House earlier this year. Still, more needs to be done. For example, the FCU Act sets a 15 percent maximum interest rate that a credit union can charge for its financial products. However, the NCUA Board is also given discretion to set a temporary maximum interest rate for a period of 18 months. Since 1987 the maximum interest rate has been at least 18 percent, and this has been renewed every 18 months. NAFCU advocates that the maximal interest rate be a floating rate of the prime rate plus 15 percent. This would give credit

unions more flexibility to adjust policies in response to economic events, such as the inflationary environment we are currently in. Another area of the FCU Act in need of modernization is investment authorities. Federal credit unions are more limited than other types of institutions and even state-chartered credit unions in where they can invest their funds to earn a return. An increase in deposits on hand during the pandemic, combined with a limited ability to earn a return, presents a series of challenges for federal credit unions. The NCUA has indicated that it is limited in what it can do to offer more investment options for credit unions under the FCU Act. We encourage you to consider legislative action on these issues and allow the NCUA to provide a broader set of investment options for federal credit unions.

An important aspect of modernizing the regulatory environment for credit unions is modernizing lending provisions in the FCU Act. Credit unions proved their importance as a source of credit to small businesses during the pandemic. In many cases credit unions were the only source of Paycheck Protection Program loans for small businesses after they had been turned away by banks. Credit unions would like to continue to provide credit to businesses in their communities, however, they are constrained by the member business lending (MBL) cap in the FCU Act. This provision caps the total amount a credit union can lend to businesses at 12.25 percent of deposits, with loans under a de minimis threshold of $50,000 not counting towards that cap. With the current inflationary environment, this de minimis threshold is out of date and should be increased to allow credit unions to continue to aid businesses in their communities. In addition to raising the MBL cap, we urge the committee to consider legislation expanding the loan maturity limit in the FCU Act. Currently, credit unions are constrained to loans with a maturity limit of 15 years. NAFCU supports legislation that would increase this limit. In the 117th Congress, Representatives Vincente Gonzalez and Brian Fitzpatrick introduced bipartisan legislation, H.R. 5189, that would address both of these important issues.

Credit unions are proud that no one has ever lost a penny due to a failure of an insured credit union. The credit union system remains safe, strong and reliable. Credit unions stand ready to meet the financial services needs of the American consumer. We appreciate your ongoing supervision of federal financial regulators. Should you have any questions or require any additional information, please do not hesitate to contact me or Lewis Plush, NAFCU's Senior Associate Director of Legislative Affairs, at 703-842-2261.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Committee on Financial Services