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Memo

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Date: February 26, 2007

To: Freshman Members of the U.S. House of Representatives

From: Floyd E. Stoner, Executive Director, Public Policy & Congressional Relations

RE: Opposition to Credit Union Regulatory Improvements Act Legislation

In the 109th Congress, the American Bankers Association (ABA), and the two million bank employees that it represents, strongly opposed "The Credit Union Regulatory Improvements Act of 2005" (H.R. 2317). H.R. 2317 would have allowed credit unions to divert financial resources from consumers they were chartered to serve by increasing their commercial lending authority and would have made them more risky by reducing their statutory capital levels. It is our understanding that this bill will be re-introduced shortly in this Congress.

I am writing on behalf of our members and their employees to respectfully request that you, and other new Members of the 110th Congress, refrain from cosponsoring this measure for the reasons stated below.

Increasing Commercial Lending is Inconsistent with the Historic Mission of Credit Unions

A fundamental change has occurred within the credit union industry that has separated the industry into two distinct groups - diversified conglomerate credit unions and traditional credit unions that continue to embody Congress' original charge that they serve "people of small means." Today, 112 credit unions have grown to over *\$1 billion* in assets. These institutions dwarf the typical community bank which has served the varied financial needs of the local populace. The current tax-exempt status of these diversified conglomerate credit unions and lack of equivalent regulation has created huge competitive inequities in the local marketplace.

When Congress passed the Credit Union Membership Access Act of 1998 (CUMAA) to protect consumers served by credit unions, it imposed a limit of 12.25 percent of total assets on business lending. Congress made its intent clear. The legislative history for CUMAA explained that the business lending restrictions:

...are intended to ensure that credit unions continue to fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, through the emphasis on consumer rather than

business loans. The Committee action will prevent significant amounts of credit union resources from being allocated to large commercial loans that may present additional safety and soundness concerns for credit unions and that could potentially increase the risk of taxpayer losses through the National Credit Union Share Insurance Fund. (Senate Report 105-193, May 21, 1998, pp. 9-10)

An expansion in business lending will move the new breed of credit unions even further from their mission of serving persons of modest means. In recent years, a series of studies by the Government Accountability Office (GAO), the Woodstock Institute in Chicago, and the National Community Reinvestment Coalition show large credit unions are failing in their mission to serve people of modest means. As the GAO reported in November 2006, credit unions lag banks in their service to low- and moderate-income customers.

Credit Union Capital is Different from Bank Capital

Further, in 1998 Congress imposed capital requirements on credit unions that reflected the unique characteristics of credit unions. Credit unions, as member-owned cooperatives, can only build capital through retained earnings. To protect the safety and soundness of the credit union industry, Congress subjected credit unions to higher minimum capital requirements than banks. To weaken these requirements would be to forget the lessons of the 1980s about the importance of a strong capital base for depository institutions.

In sum, the credit unions' efforts to obtain increased commercial lending authority and lower capital requirements, which primarily benefit large, diversified conglomerate credit unions illustrates the reality that a significant portion of the credit union industry has out-grown its preferential regulatory and tax treatment. If they want to be treated like any other full service financial services provider, then Congress should establish a method for allowing these large credit unions to convert to mutual savings banks or thrifts and be subject to bank-like regulation and taxation. The proposed legislation is harmful to small credit unions that observe the intent of the law and to tax-paying community banks and savings associations.

For these reasons, ABA respectfully requests that you do not cosponsor the bill.

Thank you for considering our views on this important issue. If you have any questions, please contact me.