

April 19, 2023

The Honorable Jerome Powell
Chairman
The Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Powell:

On behalf of America's credit unions, we are writing regarding the exclusion of privately insured credit unions from participation in the Federal Reserve's new Bank Term Funding Program (BTFP). The Credit Union National Association (CUNA), the American Association of Credit Union Leagues (AACUL), and the state credit union leagues and associations (the leagues) represent America's credit unions and their more than 135 million members.

With more than 91% of credit union deposits insured, credit unions remain stable, safe, and secure during this time of uncertainty in the banking sector. The credit union difference makes us stronger by helping improve the financial well-being of Americans nationwide. Credit unions are member-owned, not-for-profit financial cooperatives that put our members ahead of the bottom line. Credit union members have equal ownership and voting rights, so we focus on what helps our members most versus the demands of outside stockholders.

On March 12, 2023, the Federal Reserve Board announced the creation of the BTFP, a new and temporary facility to make additional liquidity available to depository institutions. This new resource is designed to ensure that financial institutions have the ability to meet an unexpected and unordinary demand for withdrawals from their depositors. We agree that this action will not only enhance the security and soundness of the banking system by providing additional safeguards for deposits, but it will also ensure that credit remains available to address any liquidity pressures that may arise in the economy.

Funding from the BTFP is available to federally insured depository institutions that pledge assets as collateral for these loans. The vast majority of credit union deposits are insured by the National Credit Union Administration (NCUA) up to \$250,000 per individual depositor—the same level as any federally insured financial institution. However, under current terms, America's 106 privately insured credit unions are prohibited from accessing the BTFP.

The BTFP was created in the wake of the failures of Signature Bank and Silicon Valley Bank. The facility's purpose is to relieve contagion fear and the pressure that follows for federally insured depository institutions. Other non-federally insured depository institutions, like privately insured credit unions, are not necessarily immune from those same pressures. In addition, privately insured credit unions are being penalized by not being able to access the low-cost liquidity provided by the BTFP.

Private deposit insurance has been in existence in the credit union movement since the early 1960s. In fact, federal insurance for credit unions did not exist until 1971. A relatively small number of credit unions, 106 in ten states to be precise, have opted for private deposit insurance. Private insurance funds typically have an equity ratio even higher than the federal fund, and state regulators oversee privately insured credit unions just like other state-chartered credit unions. Privately insured credit unions range in size from under \$1 million to over \$1.5 billion in total assets and are well-governed financial institutions with over 93.5% of privately insured credit unions having a CAMELS score of 1 or 2. Also, a credit union opting for private

insurance is required to disclose this to its members. In addition, these credit unions are required to also notify new depositors, who must sign an acknowledgement that they understand that the institution is not federally insured.

Private deposit insurance is an integral part of the credit union dual chartering system. The dual chartering system provides states and credit unions with a choice of regulator and applicable law. It has been widely recognized that the dual chartering system has successfully served as an incubator for innovative approaches to regulation and administration of financial institutions. States should be able to retain the right to offer private insurance to their credit unions as an option, always subject to appropriate safety and soundness considerations.

We strongly encourage the Federal Reserve to allow all credit unions, regardless of the source of their deposit insurance, to access the BTFP. Privately insured credit unions have historically been included in government liquidity programs and their exclusion in this instance is a significant shift in government policy regarding access to liquidity. For example, non-federally insured credit unions have access to the Federal Home Loan Bank System and can become members of the Federal Reserve Bank. Finally, the Paycheck Protection Program and Health Care Enhancement Act (Pub. L. 116-139), signed into law on April 24, 2020, updated the definition of a credit union to include privately insured, state-chartered credit unions as eligible lenders in the Paycheck Protection Program.

On behalf of America's credit unions and their more than 135 million members, thank you for considering this needed change to the BTFP to protect all depositors by granting access to the facility to all credit unions.

Sincerely,

Credit Union National Association
American Association of Credit Union Leagues
Alabama Credit Union Association
Alaska Credit Union League
Arkansas Credit Union Association – a political division of Cornerstone League
Association of Vermont Credit Unions
California Credit Union League
Carolinas Credit Union League – North Carolina
Carolinas Credit Union League – South Carolina
Credit Union Association of New Mexico
Credit Union League of Connecticut
CrossState Credit Union Association
Dakota Credit Union Association
Delaware's Credit Unions – Cooperative Credit Union Association
Florida Credit Union Association
Georgia Credit Union Association
GoWest Credit Union Association – Arizona
GoWest Credit Union Association – Colorado
GoWest Credit Union Association – Idaho
GoWest Credit Union Association – Oregon
GoWest Credit Union Association – Washington
GoWest Credit Union Association - Wyoming
Hawaii Credit Union League
Illinois Credit Union System
Indiana Credit Union League
Kansas Credit Union Association – a political division of Cornerstone League

Kentucky Credit Union League
Maine Credit Union League
Maryland and DC Credit Union Association
Massachusetts' Credit Unions – Cooperative Credit Union Association
Michigan Credit Union League
Minnesota Credit Union Network
Mississippi Credit Union Association
Missouri Credit Union Association – a political division of Cornerstone League
Montana's Credit Unions
Nebraska Credit Union League and Affiliates
Nevada Credit Union League
New Hampshire's Credit Unions – Cooperative Credit Union Association
Ohio Credit Union League
Oklahoma Credit Union Association – a political division of Cornerstone League
Rhode Island's Credit Unions – Cooperative Credit Union Association
Tennessee Credit Union League
Texas Credit Union Association – a political division of Cornerstone League
Utah's Credit Unions
Wisconsin Credit Union League