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May 8, 2023

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairman Brown, Ranking Member Scott, Chairman McHenry, and Ranking Member Waters:

On behalf of the Credit Union National Association (CUNA), this letter addresses proposals to reform federal deposit insurance laws. CUNA represents America's credit unions and their more than 135 million members.

We commend Congress and the Federal Reserve for considering the issue of deposit insurance reform, especially considering recent high-profile failures in the banking sector. As was the case in the 2008 Financial Crisis, credit unions did not engage in behavior that led to the crisis but did suffer collateral damage from the downstream effects of institutional and market disruptions.

Our primary concern regarding any deposit insurance reform legislation passed by Congress is to ensure that credit unions receive parity, fair treatment, and equal protection with banks. CUNA is also concerned with any potential legislative impact on the National Credit Union Share Insurance Fund (NCUSIF) and resulting effects on the equity ratio and capital requirements required by the Federal Credit Union Act and implemented by the National Credit Union Administration (NCUA).

Parity with other Depository Institutions

America's credit unions are well-capitalized with a 10.7 percent net worth-to-asset ratio and an 8.8 percent equity capital ratio. The loan-to-savings ratio stands at 82.1 percent. The liquidity ratio (the ratio of surplus funds maturing in less than one year to borrowings plus other liabilities) was 11.5 percent in February of 2023, up from 11.1 percent in January. These statistics indicate that credit unions are healthy and stable.

Credit unions are not-for-profit financial cooperatives that exist to serve their members. Unlike banks, they do not issue stock or pay dividends to stockholders. Credit union profits are returned to their members in the form of lower fees and better loan and deposit rates since credit unions are owned by their members.

With more than 91 percent of credit union deposits insured, credit unions remain stable, safe, and secure during this time of uncertainty in the banking sector. The remaining nine percentage points represent deposits that exceed the federal maximum deposit insurance amount. The credit union difference makes us stronger by helping improve the financial well-being of Americans nationwide.

Similar to banks insured by the Federal Deposit Insurance Corporation's (FDIC) Deposit Insurance Fund (DIF), credit union deposits of up to \$250,000 per member are federally insured by the NCUSIF, a fund that is backed by the full faith and credit of the U.S. government. Higher insurance levels are available to certain types of accounts like joint accounts and trusts. This federal insurance is mandatory for federal credit unions and the vast majority of state-chartered institutions are also insured by the NCUSIF. A relatively small number of credit unions opt for private deposit insurance, which is regulated by state financial regulators. The NCUA, as well as state financial regulators, provide thorough oversight, examination, and supervision of America's 4,912 credit unions.

Historically, bank and credit union deposit insurance levels have been on par with each other. In line with this tradition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) raised the maximum deposit insurance amount for both credit unions and banks from \$100,000 to \$250,000. It is imperative that, should Congress amend the law and increase that coverage, credit union members should continue to receive parity with account holders at banks.

In addition, Congress is reportedly considering proposals to provide deposit insurance coverage for business transactional accounts at financial institutions. These accounts have daily balances that fluctuate frequently based on receipts, payments, payroll, and the many other transactions that occur in the normal cycle of business activity. The traditional model of fixed deposit insurance may not be the best way to insure such accounts. Should Congress direct the bank's DIF to provide higher or unlimited coverage for such accounts, the Committee should provide reciprocal instructions pertaining to the NCUSIF.

Credit unions have many members with accounts for their small and medium sized businesses. Furthermore, small businesses are more frequently reaching out to their community credit union for lending. These member businesses enjoy the service and stability of doing business with credit unions. Credit unions stand ready to serve small businesses and reform to deposit insurance accounts should reflect this. It stands to reason that their transactional business accounts should receive the same coverage as those insured by the FDIC.

Share Insurance Fund and Equity Ratio Concerns

The Federal Credit Union Act created a national system to charter and supervise federal credit unions. The federal regulator for credit unions, the NCUA, also administers the NCUSIF. The NCUA became an independent federal agency in 1970. Neither the NCUA, nor the NCUSIF, is funded by the federal government through the appropriations process. Rather, both are funded completely by the nation's credit unions.

As previously mentioned, the NCUSIF is healthy and provides the same deposit insurance coverage as banks to their member-owners. This system of deposit insurance parity between banks and credit unions benefits millions of Americans with a safe and reliable financial services partner, resulting in economic growth for traditionally underserved communities and giving millions of Americans access to mainstream financial institutions that treat and serve them as equal stakeholders.

Credit unions are required to keep on deposit at the NCUSIF an amount equal to one percent of their deposits. The NCUSIF equity ratio is defined as this one percent deposit, plus the Fund's operational costs and investment returns, to the total amount of insured credit union deposits nationwide. As defined in the Federal Credit Union Act, the NCUA acts to ensure that the NCUSIF's normal operating level for the Fund stays between 1.2 percent and 1.5 percent.

The NCUSIF equity ratio is the overall capitalization of the Fund to protect the credit union system against losses. When this equity ratio falls below, or is expected within six months to fall below, 1.2 percent, the NCUA must charge credit unions an assessment to replenish the Fund. On the other hand, when this equity ratio exceeds the normal operating level, the Fund must pay out distributions to insured credit unions.

If Congress increases the amount and scope of deposits covered by federal insurance, all credit unions will be required to make additional payments to the NCUSIF to ensure that the Fund meets its statutory requirements. We believe that Congress should consider the effect this will have on mandatory credit union capital requirements. We propose that Congress consider giving the NCUA flexibility to further adjust the level and management of the NCUSIF equity ratio as mandated under existing law.

Credit Union Capital Requirements Concerns

Any increase in deposit insurance could result in additional premiums for credit unions. While credit unions may welcome increased deposit insurance coverage, it will come at a cost to credit union member owners.

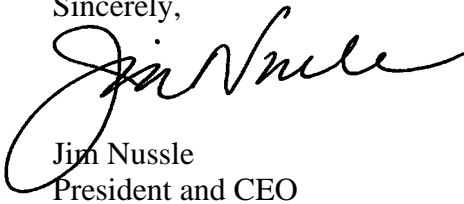
In 1998, at the urging of bank lobbyists, Congress adopted an amendment to the Credit Union Membership Access Act (P.L. 105-219) that placed new capital requirements on credit unions. The new law also required the NCUA to implement a new system of "Prompt Corrective Action" (PCA) on all federally insured credit unions. This PCA requirement is a rigid, cookie cutter approach that is not suitable to ensuring the safety and soundness of modern financial institutions.

Because the NCUA has very little regulatory flexibility to adjust the capital level for credit unions or to take into consideration unanticipated circumstances, a very well capitalized and healthy credit union can see its net worth ratio decline if it takes in a large amount of unplanned deposits. During the pandemic, many credit unions saw an influx of deposits from members receiving COVID-19 fiscal stimulus payments. This put downward pressure on their net worth ratios as member deposits are considered part of the denominator of the net worth ratio. There are several ways for a credit union to manage an unexpected influx of funds, including lowering the yield rate on new deposits to discourage deposits. However, in some cases, the only alternative is to cease the intake of deposits. During difficult economic times and with uncertainty surrounding many banks, it would be an absolute travesty for any credit union to have to display "no deposits" signs in its lobby.

Statutory changes should be made to modernize or radically change this PCA structure for credit unions in the event of legislation on deposit insurance reform. Such changes could include changing the capitalization definitions that initiate regulatory intervention. Another approach should be to provide the NCUA with flexibility and additional tools to utilize in the enforcement of PCA, especially during unexpected market shocks and federally declared disasters.

Finally, I would appreciate the opportunity to meet with you and your staff regarding deposit insurance reform and the unique needs of credit unions. On behalf of America's credit unions and their more than 135 million members, thank you for considering our views on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Nussle". The signature is fluid and cursive, with a large initial "J" and "N".

Jim Nussle
President and CEO