



1120 Connecticut Avenue, NW
Washington, DC 20036

1-800-BANKERS
www.aba.com

Memo

*World-Class Solutions,
Leadership & Advocacy
Since 1875*

Date: March 5, 2008

To: Members of the U.S. Senate

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

RE: Do Not Cosponsor Senators Landrieu and Lieberman's Credit Union Expansion Legislation

On behalf of the American Bankers Association and the more than two million men and women who work in the nation's banks, I am writing to respectfully request that you do not cosponsor legislation soon to be introduced by Senator Mary Landrieu (D-LA) and Senator Joseph Lieberman (I-CT) to expand the credit unions' lending authority and lower their capital requirements.

This legislation would allow credit unions to divert financial resources from consumers they were chartered to serve by increasing their commercial lending authority, and would make them more risky by reducing their statutory capital levels.

Increasing Commercial Lending is Inconsistent with the 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, 123 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 have created huge competitive inequities in the local marketplace.

When Congress passed the Credit Union Membership Access Act of 1998 (CUMAA), 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)

Under the proposed legislation, this Congressionally imposed limit would be increased from 12.25 percent to 20 percent of total assets. This substantial increase in business lending authority would move the new breed of credit unions even further from their mission of serving people of modest means.

Credit Union Capital is Different from Bank Capital

In 1998, Congress imposed capital requirements on credit unions that reflected credit unions' unique characteristics. 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. Under the Landrieu/Lieberman proposal, credit unions' regulatory capital leverage ratios would be lowered at a time when safety and soundness of the industry should be a top priority. To weaken these requirements would be to forget the lessons of the 1980s about the importance of a strong capital base for depository institutions.

Conclusion

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 portion of the credit union industry has out-grown its preferential regulatory and tax treatment. This legislation would be harmful to small credit unions that observe the intent of the law and to tax-paying community banks and savings associations.

Unanimous Opposition

ABA, state bankers associations, and bankers across the country are strongly opposed to this legislation.

Thank you for considering our views on this important issue. If you have any questions, please contact me at 202-663-5339 or fstoner@aba.com.