NASCUS

National Association of State Credit Union Supervisors

Submission for the Record

From Mary Martha Fortney, NASCUS President and CEO

To Senate Banking Committee for Hearing on the State of the Credit Union Industry, Dec. 9, 2010

The National Association of State Credit Union Supervisors (NASCUS) appreciates the opportunity to provide a submission for the record of the December 9, 2010 Senate Banking Committee hearing "The State of the Credit Union Industry."

NASCUS, the professional association of state credit union regulators, has been committed to enhancing state credit union supervision and advocating for a safe and sound state credit union system since its inception in 1965. NASCUS and state regulators would like to take this opportunity to brief the Committee on a needed critical reform: natural person credit union access to supplemental capital.

As this Committee knows, the credit union capital structure is unique among financial institutions. Credit unions can only rely on retained earnings for capital growth, an archaic structure that does not allow credit unions to raise capital in times of need. The current economic environment facing credit unions only reinforces NASCUS and state regulators' steadfast support of supplemental capital access for natural person credit unions. NASCUS and state regulators have believed for years that supplemental capital is appropriate for credit unions, a necessary tool for safety and soundness and critical to the credit union system's long term health and sustainability.

In addition to the general economic impact, credit unions are paying for the deterioration of the corporate credit union network through assessments to the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) at an estimated total cost of $13.9-16.1 billion spread across 10 years. This is putting additional stress on credit union balance sheets already challenged by a restrictive capital regime.

As evidenced by the development of the third iteration of Basel standards, international regulators are capital planning far into the future and addressing prospective capital considerations for banks and other financial institutions. What are U.S. credit unions doing as far as capital planning for the future? Unfortunately, relying on just retained earnings for net worth does not provide needed flexibility for capital planning. Credit unions cannot thrive and compete under these archaic capital standards.

Non-low income, natural person credit unions remain virtually the only class of depository institutions denied access to supplemental capital. This distinction carries enormous implications for natural person credit unions' ability to manage both the current economic climate, but also the eventual economic recovery. Further, from a regulatory standpoint, a well managed supplemental capital program can provide increased systemic stability, additional balance sheet management tools and an extra buffer to mutualized losses.

NASCUS encourages this Committee to make the necessary changes to the definition of net worth in the Federal Credit Union Act to allow access to supplemental capital. Following the legislative change, state and federal regulators would establish prudent regulatory standards for supplemental capital. However, state and federal regulators would not be starting from scratch – there are supplemental capital models in use around the world, and NCUA and state regulators have studied the regulatory considerations for its use in the United States.

For NASCUS and state regulators (many of whom are familiar with supplemental capital through bank regulatory responsibilities) achieving capital reform has long been a matter of safety and soundness. Increased capital and investor discipline can provide critical buffers during economic downturns. We believe credit unions can manage the complexities of supplemental capital. We know that state regulators can manage its regulation.

NASCUS urges this Committee to make credit union access to supplemental capital a priority in the upcoming Congress. NASCUS and state regulators welcome questions from the Committee on this issue.