



H.R. 3579: EXPANSION OF CREDIT UNION POWERS

The California Bankers Association (CBA) is in strong opposition to **H.R. 3579**, or any other legislative or regulatory effort to expand the powers of credit unions. The Credit Union Regulatory Improvements Act of 2003 makes fundamental changes to credit union powers and raises safety and soundness concerns. Specifically, the bill would increase credit unions' business lending authority from the current cap of 12.25 to 20 percent of total assets, exclude business loans under \$100,000 from the cap (up from \$50,000), and allow credit unions to make commercial loans to nonprofit religious organizations without restriction.

In addition, **H.R. 3579** would change the definition of "net worth ratio" for the purpose of determining required minimum capital levels for credit unions. This minimum capital system was developed by Congress to ensure that adequate funds are available as a cushion against unforeseen losses. The bill would change the definition of "net worth ratio" in a manner that has the effect of artificially inflating the capital cushion, thus reducing the actual funds available to protect depositors and taxpayers if credit unions were to experience financial difficulty.

Credit unions were given their tax-exempt charter to serve defined groups of individuals of modest means – not to make commercial loans. Under existing law, credit unions are no longer restricted to serving the members of a "defined" group but may offer financial services to anyone they choose (their regulators have allowed them to compete in geographic areas larger than some states). Furthermore, these tax-exempt entities that operate on a geographic basis do not have any obligation to serve the needs of low- and moderate-income individuals in their service area because they are exempt from the Community Reinvestment Act (CRA). As a result, the General Accounting Office (GAO) concluded in its October 2003 study on the credit union industry that credit unions were less likely to serve low- and moderate-income households than banks¹.

There are now more than 80 credit unions in the United States with more than \$1 billion in assets. These institutions, many of which offer the full range of financial products and span areas larger than many states, dwarf the typical, \$95 million-community bank. It is hard enough competing with these tax-exempt giants under the existing rules. The last thing community banks need is for these large credit unions to expand their unfair marketplace advantages in commercial lending.

The proposed major expansion of commercial lending authority in **H.R. 3579** only benefits the largest, most aggressive "bank-like" credit unions, while putting both smaller credit unions and tax-paying financial institutions at a greater competitive disadvantage. Before any action is taken on **H.R. 3579** or similar legislation, CBA believes Congress must first re-examine whether the justification for preferred tax status continues to exist in light of the significant structural changes that have occurred within the credit union industry during the last decade. The issue is one of charter choice. If credit unions want to engage in commercial lending like banks or thrifts they should be allowed to convert to either one of those charters and leave the credit union charter for those who want to perform the activities for which credit unions were created.

¹ The GAO reported that 36 percent of households using credit unions had low or moderate incomes, compared with 42 percent of households using banks. GAO also found that credit unions make fewer mortgage loans to low- and moderate-income consumers than banks of comparable size.

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