Credit Union National Association

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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

Dear Chairman Brown and Ranking Member Scott:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the hearing entitled, "Perspectives on Deposit Insurance Reform after Recent Bank Failures." CUNA represents America's credit unions and their more than 135 million members.

America's Credit Union System is Healthy

America's credit unions are well-capitalized with a 9.2 percent equity capital ratio. The loan-to-savings ratio stands at 83.6 percent. The liquidity ratio (the ratio of surplus funds maturing in less than one year to borrowings plus other liabilities) was 12.6 percent in May 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.

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.

Share Insurance Fund Remains Strong

The National Credit Union Administration's (NCUA) National Credit Union Share Insurance Fund (NCUSIF or Fund) remains strong, with an equity ratio of 1.30 percent. Given the overall health of credit unions, the health of the Fund and its historically favorable performance, we strongly object to any suggestion that the NCUA should consider charging a premium and/or that statutory changes to the NCUSIF funding guidelines are needed.

Every dollar spent over-insuring the Fund is a dollar that is not being used to the benefit of credit union members. We believe any changes to the NCUSIF are unwarranted and counterproductive. Credit union members need their credit unions in the market working to improve their financial well-being and advancing the communities they serve. Please do not take money out of credit union members' accounts to over-insure a Fund that historically has performed exceedingly well.

Deposit Insurance Reform Should Include Credit Unions

Like 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 fact. It stands to reason that their transactional business accounts should receive the same coverage as those insured by the FDIC.

Importance of Privately Insured Credit Unions

Privately insured credit unions are currently excluded from participation in the Federal Reserve's new Bank Term Funding Program (BTFP). These privately insured credit unions are vital to the financial health of the people and communities they serve.

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 improves the financial well-being of Americans nationwide. Credit unions are member-owned, not-for-profit financial cooperatives that put their members ahead of the bottom line. Credit union members have equal ownership and voting rights, so they focus on what helps their 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 safety 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 financial institutions that pledge assets as collateral for these loans. As noted above, the vast majority of credit union deposits are insured by the NCUA up to $250,000 per individual depositor—the same level as any federally insured financial institution. However, under current terms, America's privately insured credit unions are prohibited from accessing the BTFP. We ask the Federal Reserve to allow privately insured credit unions to 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. The private insurance fund typically has 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 percent 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.

On behalf of America's credit unions and their more than 135 million members, thank you for holding this important hearing and considering our views.

Sincerely,

Jim Nussle
President and CEO