Testimony of

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on Behalf of

The National Association of Federal Credit Unions

The Need for Credit Union Regulatory Relief and Improvements

Before the

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Introduction

Good morning, Chairman Frank, Ranking Member Bachus and Members of the Committee. My name is Mike Lussier and I am testifying today on behalf of the National Association of Federal Credit Unions (NAFCU). I serve as the President/CEO of Webster First Federal Credit Union, headquartered in Webster, Massachusetts. I first became President/CEO of Webster First FCU in 1990 at the age of 29 and have served in this role since then. Webster First FCU is a community credit union with approximately 32,000 members and more than $430 million in assets. Originally, Webster First FCU was founded as a Polish-ethnic credit union on January 14, 1928. We changed to a community credit union in 1956 and became a federally-chartered credit union in 1995.

In addition, I also serve as the chairman of the Political Action Committee and treasurer of the Board of Directors for the National Association of Federal Credit Unions. I am a past member of the Small Business Loan Review Board, past Director for the Credit Union League of Massachusetts Insurance Agency and past Chairman of the Massachusetts Share Insurance Corporation.

I am also the Building Committee chairman and a board member of the regional American Red Cross, and I volunteer with numerous charitable organizations such as the Webster/Dudley Rotary Club. I earned my Bachelor of Business Administration, majoring in Accounting from Bentley College and my Masters of Finance from Nichols College.

NAFCU is the only national organization exclusively representing the interests of the nation's federally chartered credit unions. NAFCU is comprised of nearly 800 federal credit unions—member-owned financial institutions across the nation—representing approximately 30 million individual credit union members. NAFCU–member credit unions collectively account for approximately 40 percent of the assets of all federally insured credit unions. NAFCU and the entire credit union community appreciate the opportunity to participate in this discussion regarding regulatory relief for America's credit unions.

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created and has been recognized as a way to promote thrift and to make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Congress established credit unions as an alternative to banks and to meet a precise public need—a niche that credit unions fill today for over 90 million Americans. Every credit union is a cooperative institution organized "for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes." (12 USC 1752(1)). While nearly 75 years have passed since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- credit unions remain totally committed to providing their members with efficient, low-cost, personal service; and,
- credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

Credit unions are not banks. The nation's approximately 8,100 federally insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

Credit unions have an unparalleled safety and soundness record. Credit unions—unlike banks and thrifts—have never cost the American taxpayer a single dime. Unlike the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC), which were both started with seed money from the United States Treasury, every dollar that has ever gone into the National Credit Union Share Insurance Fund (NCUSIF) has come from the credit unions it insures. Furthermore, unlike the thrift insurance fund that unfortunately cost American taxpayers hundreds of billions of dollars, credit unions have never needed a federal bailout.

Although not the subject of this hearing, I would like to address some common misconceptions and criticisms of the credit union industry. In the past, some have stated that credit unions have changed over the years and today are really no different than banks, which pay corporate income tax. The reality is that the defining characteristics of credit unions remain unchanged. Credit unions are not-for-profit cooperatives that serve defined fields of membership, generally have volunteer boards of directors and cannot issue capital stock. They are restricted in where they can invest their members' deposits and are subject to stringent capital requirements and a cap on business lending. A key difference between banks and credit unions is that when a credit union generates earnings, it distributes those earnings to its members in the form of lower fees, higher dividends, better rates or more services, or it increases its net worth which increases the stability of the organization. When a banker claims that credit unions have it so well and do not need regulatory relief, ask them why there has only been one bank that has ever converted to a credit union.

Credit unions have grown steadily in membership and assets, but in relative terms, they are still quite small compared with banks. Federally insured credit unions have approximately $753 billion in assets as of year-end 2007. By contrast, FDIC-insured institutions held $12 trillion in assets and last year these institutions grew by an amount that exceeds the total assets of credit unions. The average size of a federal credit union is $81.7 million compared with $1.4779 billion for banks. Over 3,600 credit unions have less than $10 million in assets. The credit union share of total household financial assets is also relatively small, just 1.1 percent as of September 2007.

Furthermore, size has no bearing on a credit union's structure or adherence to the credit union philosophy of service to members and the community. While credit unions have grown, their relative size is still small compared with banks. Even the world's largest credit union, with $33 billion in assets, is dwarfed by the nation's biggest banks with hundreds of billions in assets. (JP Morgan Chase has over $1.3 trillion in assets.)

America's credit unions have always remained true to their original mission of "promoting thrift" and providing "a source of credit for provident or productive purposes." In fact, Congress acknowledged this point when it adopted the *Credit Union Membership Access Act* (CUMAA – P.L. 105-219). In the "findings" section of that law, Congress declared that, "The American credit union movement began as a cooperative effort to serve the productive and provident credit needs of individuals of modest means … [and it] continue[s] to fulfill this public purpose."

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. As consolidation of the commercial banking sector has progressed with the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided but also—and in many cases more importantly—to quality and cost. Credit unions are second to none in providing their members with quality personal service at the lowest possible cost. According to the 2005 American Banker/Gallup Consumer Survey, credit unions had the highest rated service quality of all covered financial institutions. This has held true each year since the survey was initiated.

Furthermore, while many banks and thrifts have helped to create the recent subprime mortgage debacle by placing many into predatory subprime mortgage loans, data collected under the *Home Mortgage Disclosure Act* illustrates that credit unions are not part of the problem. The difference between credit unions and banks is highlighted when one examines the 2006 HMDA data for loans to minority applicants with household incomes under $40,000. According to the 2006 HMDA data, banks charged at least 3 percent higher than the comparable Treasury yield on 34.2 percent of loans made to minority applicants with household income under $40,000. Credit unions, on the other hand, were only outside of the yield spread on 4.7 percent of their loans. This clear distinction is proof that credit unions are less likely to put minority applicants into subprime loans than banks are. Credit unions applaud these numbers as a reflection of the responsible lending practices that credit unions are engaging in, by not putting consumers in to unaffordable loans.

Looking Beyond CUMAA to Today

Credit unions have been the target of criticism by some in the banking industry for decades, and the criticisms that the bankers are lodging are nothing new. The Supreme Court's decision in 1998 in the AT&T Family Federal Credit Union field of membership case, followed by Congress' prompt passage of the *Credit Union Membership Access Act* (CUMAA) in the summer of 1998, brought the issue to a head. The fact of the matter is that when CUMAA was signed into law it overturned in eight short months a decision that had encompassed eight years of costly litigation initiated by the banks.

CUMAA was a necessary piece of legislation for credit unions at the time of its enactment because it codified a number of fundamental credit union concepts embraced by both federal and state-chartered credit unions. In addition to the previously mentioned "findings" section, these include:

- the multiple-group policy that the National Credit Union Administration (NCUA) had initiated in 1984;
- the "once a member, always a member" principle followed by virtually every credit union in the country; and

- the “family member” concept followed by many credit unions.

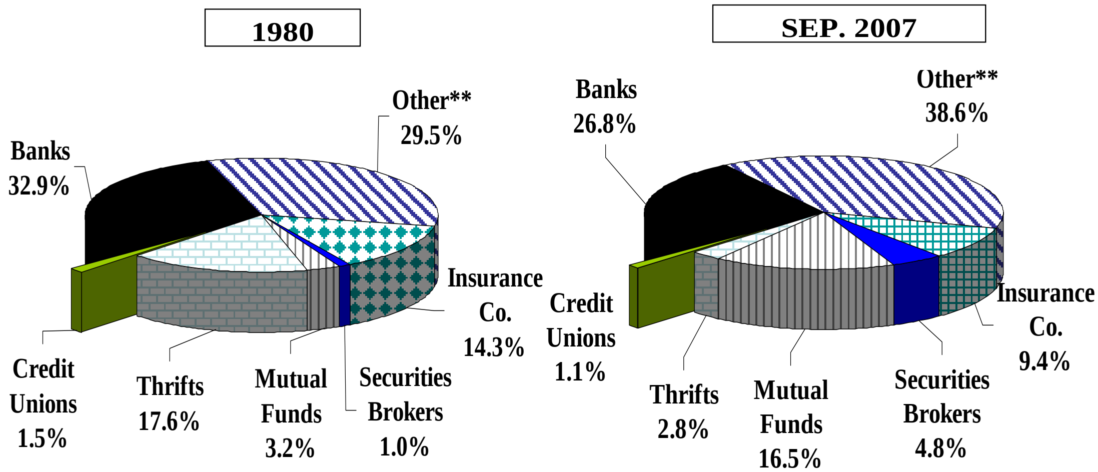
Yet CUMAA came with some provisions that were not widely supported by the credit union community. These include:

- limitations on member business loans;
- imposition of a bank-like prompt corrective action or “PCA” requirement that, given the structure of credit unions, serves in many respects as an overly restrictive constraint on growth; and
- various artificial and arbitrary limitations on growth.

It has been 10 years since the passage of CUMAA, the last major credit union legislation addressed by Congress. In that time, NAFCU and our member credit unions have recognized that there are aspects of that legislation that have worked, and some that have not, and need to be revisited. We are pleased that the NCUA and over 145 members of Congress have recognized the need for additional credit union legislation.

NAFCU is pleased to report to the Committee that credit unions today are vibrant and healthy. Membership in credit unions continues to grow with credit unions serving over 90 million Americans—more than at any time in history. Despite what you may have heard from other parties, credit unions provide little competitive threat to other financial institutions. According to data obtained from the Federal Reserve Board, during the 27 year period from 1980 to September 2007, the percentage of total household financial assets held by credit unions decreased from 1.5 percent to 1.1 percent or 0.4 percent over the course of 27 years.

DOMESTIC FINANCIAL ASSETS

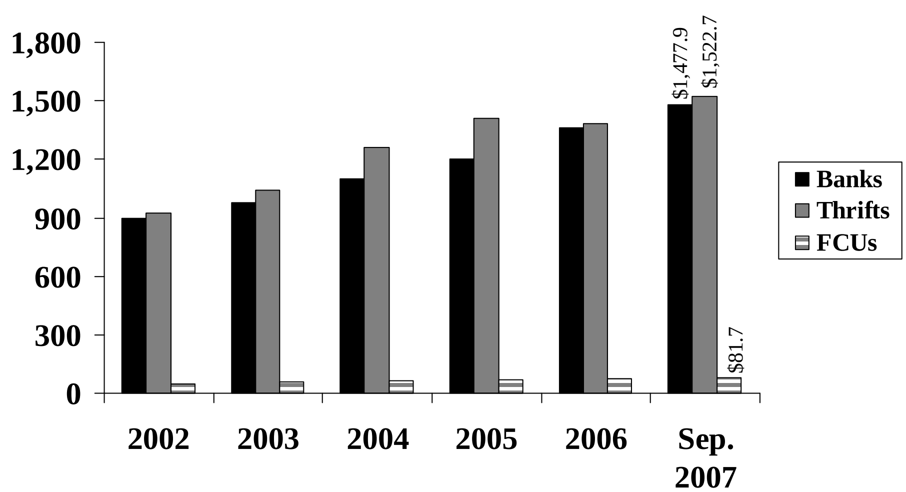


****Other includes items such as private pension funds, mortgages, asset-backed securities, finance companies, and investments in bank personal trusts.**

Source: Flow of Funds Accounts of the United States, FRB

The above chart only tells part of the story. Credit unions remain small financial institutions. The chart below indicates that the average credit union has $81.7 million in assets.

AVERAGE ASSETS BY INSTITUTION (MILLIONS $)



Source: NCUA 5300 Call Reports & FDIC Quarterly Banking Profiles

As you can see from the chart, it is no surprise that a number of individual banks have total assets greater than the entire credit union community combined.

As is the case with the banks and thrifts, there has been consolidation within the credit union community in recent years. The number of credit unions has declined by more than 65 percent over the course of the past 38 years, from an all-time high of 23,866 in 1969 to 8,268 at year-end 2007. Similar to the experience of all credit unions, the number of federal credit unions has declined by just about 61 percent over that same period, from a high of 12,921 in 1969 to 5,036 today.

Regulatory Relief Proposals

Credit unions are more heavily regulated than any other consumer financial services provider. Restrictions on the operations of credit unions limit not only who can avail themselves of credit union services, but also how credit unions can raise capital. While banks and their trade associations state that about one-third of banks and thrifts have fewer than 25 employees, I must point out that over three-fourths of credit unions have fewer than 25 employees and almost two-thirds have fewer than ten employees.

NAFCU has been working with legislators on both sides of the aisle to address the need for credit union regulatory relief and improvements. In the 110th Congress, a number of initiatives have been proposed, which we applaud. NAFCU supports the efforts of H.R. 1537, the *Credit Union Regulatory Improvements Act* (CURIA); H.R. 5519, the *Credit Union Regulatory Relief Act of 2008*; H.R. 1849, the *Credit Union Small Business Lending Act*; and H.R. 3113, the *Affordable Financial Services Enhancement Act*. We believe that all of these initiatives recognize that today's credit unions exist in a very dynamic environment and that the laws and regulations dealing with credit union issues are currently in need of review and refinement. NAFCU urges the Committee to consider these proposals and to pass these bills.

Moreover, NAFCU believes that comprehensive credit union regulatory relief is needed to help credit unions further serve their members in today's sophisticated financial marketplace. NAFCU believes that CURIA, introduced last March by Representatives Paul Kanjorski (PA) and Ed Royce (CA) is a fundamental step toward comprehensive relief, as it addresses many of the regulatory burdens and restrictions on federal credit unions. We are pleased to see continued, growing support for CURIA, which is now co-sponsored by over one-third of the entire United States House of Representatives, while support continues grow. NAFCU believes this support demonstrates a clear recognition of the need to modernize credit union net worth standards, advance credit union efforts to promote economic growth and modify credit union regulatory standards. CURIA is a balanced and common-sense regulatory relief bill that addresses the important issues that America's credit unions are currently facing. Enactment of CURIA would improve the ability of credit unions to better serve their members and promote economic growth within their communities.

PCA Reform

NAFCU strongly supports reform of the credit union prompt correction action (PCA) system, which would provide a much-needed update to the capital structure of credit unions. The current capital structure for credit unions is a system that was enacted with the passage of the *Credit Union Membership Access Act of 1998*. Under the current PCA system, credit unions are classified based on their net worth ratio to one of five capital categories that range from "well capitalized" to "critically undercapitalized." However, these capital categories have proved inefficient, not taking into account the level of asset risk. Explained most simply, under the current capital system, a new one-year unsecured $10,000 loan is treated the same as a 30-year mortgage in its last month of repayment. Title I of CURIA would address this by modernizing by redefining the net worth ratio to include risk assets. This would result in a new, more appropriate measurement to determine the relative risk of a credit union's assets and improve the safety and soundness of credit unions and the National Credit Union Share Insurance Fund (NCUSIF). It is important to note that this proposal was developed in conjunction with the NCUA, which has nearly 10 years of experience in dealing with the current one-size-fits-all system established under CUMAA.

The American Bankers Association (ABA) expressed three concerns regarding a risk-based capital system for credit unions in a comment letter to the NCUA dated November 18, 2004. We believe that Title I of CURIA addresses these concerns. Specifically, the ABA said that:

(1) credit unions need a meaningful leverage ratio;
(2) there should be no substantive difference between bank and credit union leverage ratio standards; and,
(3) secondary capital would undermine the unique character of credit unions.

Specifically, Title I of CURIA would not expand the authority for NCUA to authorize secondary capital accounts. Title I also establishes meaningful leverage ratios, and we support the complimentary and risk-based standards proposed by the NCUA. Notably, Title I of CURIA closely resembles the bank-like, risk-weighted capital system. Having addressed the ABA's concerns, NAFCU believes that the current PCA reform proposal included in CURIA is well-balanced and would give the NCUA a meaningful risk-based system.

On June 9, 2005, NCUA Chairman JoAnn Johnson testified before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit saying "While NCUA supports a statutorily mandated PCA system, the current statutory requirements for credit unions are too inflexible and establish a structure based primarily on a 'one-size-fits-all' approach, relying largely on a high leverage requirement of net worth to total assets. This creates inequities for credit unions with low-risk balance sheets and limits NCUA's ability to design a meaningful risk-based system." As noted earlier, Title I of

CURIA incorporates the recommendations made by the NCUA, in addressing this "one-size-fits-all" approach. For example, CURIA proposes that a well-capitalized credit union would have to maintain both a leverage net worth ratio of 5.25 percent and a risk based ratio of 10 percent. Similarly, CURIA proposes complimentary leverage and risk-based standards for the other capital categories. The proposed risk-based approach reflects a trend among all financial regulators to shift from a focus on leverage ratio to a focus on risk-assessment in determining the safety and soundness of financial institutions.

A modernized risk-based approach for credit unions would more closely emulate the capital standards for FDIC-insured banks, better enabling NCUA to detect and address potential safety and soundness concerns as soon as possible. It would allow credit unions with low-risk balance sheets to hold less capital while requiring high-risk institutions to hold more capital. This is an important feature as credit unions, unlike banks, are generally not allowed to raise capital through the sale of stock. Title I of CURIA effectively addresses the concerns with PCA reform, while at the same time incorporating the recommendations of our regulator with regard to making much-needed updates to the credit union capital structure. We urge the Committee's action on this important matter.

Limits on Member Business Loans

NAFCU supports modification of the current asset limit on member business loans at a credit union from the current formula of the lesser of 1.75 times net worth or 12.25 percent of total assets to a flat rate of 20 percent of the total assets of a credit union. This provision will facilitate member business lending without jeopardizing the safety and soundness of participating credit unions. While the current cap was first arbitrarily imposed on credit unions as part of the *Credit Union Membership Access Act* in 1998, CUMAA also directed the Treasury Department to study the need for such a cap. In 2001, the Treasury Department released its study entitled "Credit Union Member Business Lending" in which it concluded that "credit unions' business lending currently has no effect on the viability and profitability of other insured depository institutions." That same study also found that over 50 percent of credit union loans were made to businesses with assets under $100,000, and 45 percent of credit union business loans go to individuals with household incomes of less than $50,000. Furthermore, a 20 percent cap for credit union member business lending would be less than or equal to the business lending caps for other institutions. We would urge the Committee to review this study and give it the weight it deserves when considering credit union member business lending.

Webster First FCU experiences the restrictions of the present credit union member business loan cap first-hand. We are currently at our cap and as a result, are forced to turn our member-small business owners away on a weekly basis. Often times, we will extend a line of credit to a member, many of which go unused seasonally or even for a couple of years. Many of our small business owners like to have a line of credit available should they need it, even if they are not using it. Despite the fact that many of these lines of credit are not currently being used, they count toward our member business lending cap. This is a common problem that I see with federally-chartered credit unions that participate in member business lending. An increase in the member business lending cap to 20 percent of total assets would enable Webster First to do $32 million more in member business loans. At Webster First FCU, we have 100 percent of the liquidity to do this and 100 percent of the want to be able to put $32 million back into Massachusetts small businesses and the community. There are many credit unions like Webster First in Congressional Districts across the country. All we need is for Congress to enact this provision.

NAFCU also supports revising the current definition of a member business loan by giving the NCUA the authority to exclude small loans of $100,000 or less as de minimus, rather than preserving the current threshold of $50,000. This would adjust the threshold for inflation, from the $50,000 level set in 1998. These much needed updates to the limits on credit union member business loans would promote economic growth by providing additional sources of credit for small businesses.

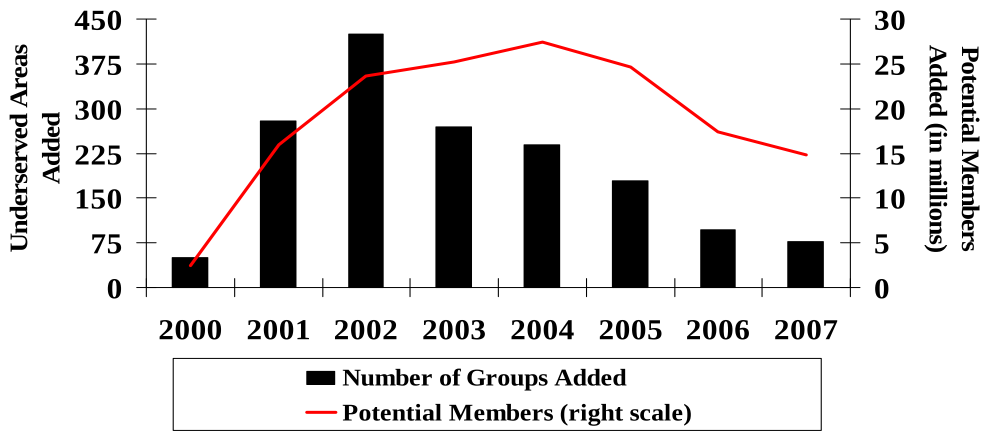
Underserved Areas

Credit unions play an important role in helping those that other financial institutions have turned their backs on and left behind. NAFCU supports making a necessary clarification to the 1998 *Credit Union Membership Access Act*, such as the one included in CURIA, the *Credit Union Regulatory Relief Act of 2008* and the *Affordable Financial Service Enhancement Act*. This would seek to clarify that credit unions are able to add underserved areas to their fields of membership, regardless of charter type. In 2005, the American Bankers Association brought litigation against NCUA arguing that under the plain language of CUMAA (American Bankers Association et al. v. NCUA, No. 2:05-cv-000904 (D. Utah, filed Nov. 1, 2006)), only multiple-common-bond credit unions could add underserved areas to their fields of membership. Up to that point, NCUA had permitted all types of credit unions to add underserved areas to their field of membership. Even though there was legislative history supporting the NCUA interpretation, the case settled out of court and as a result, NCUA modified its rules to prohibit community and single-sponsor federal credit unions from adding underserved areas to their field of membership. An underserved area under CURIA is defined as an "investment area" under the Community Development Financial Institutions Act or as a "low income community" under the New Market Tax Credit program.

NAFCU and the credit union community believe that addressing this issue through legislation would clear up the ambiguity surrounding the ability of federal credit unions to add underserved areas to their fields of membership. Regardless of charter type, these proposals would enable credit unions to be part of the solution of the unbanked problem in America, serving those who are not served by other institutions. It is disingenuous for the banking industry to falsely say credit unions are not fulfilling their mission in service to the underserved, while simultaneously working to prevent credit unions from serving those same people. Since the passage of CUMAA in 1998, federal credit unions have added over 1,500 underserved areas, bringing low-cost financial services being made available to over 150 million people. However, with the necessary clarification to

CUMAA, credit unions will be able to do even more in providing service to the underserved.

UNDERSERVED AREAS & POTENTIAL MEMBERSHIP ADDED TO FCU MEMBERSHIP



Source: NCUA Underserved Area Reports

Additionally, NAFCU supports the provision in CURIA that would enhance the ability of credit unions to assist distressed communities with their economic revitalization efforts. The proposal would allow a credit union to lease space in a building or on property in an underserved area, in which it maintains a physical presence to other parties on a more permanent basis.

Regulatory Modifications

Several provisions currently included in legislative proposals before this Committee passed the House in the 109th Congress as part of H.R. 3505, the *Financial Services Regulatory Relief Act of 2005*. Despite passing the House, they failed to be enacted and these regulatory modifications are still very much needed.

Community charter conversions involving employee group credit unions

NAFCU supports efforts that give NCUA the authority to allow credit unions to continue to serve and add members from their select employee groups (SEGs) after a credit union converts to a community charter. This provision seeks to ensure that groups within the credit union's existing membership are able to remain a part of the credit union if they wish, even though they are located outside the new community charter's geographic boundaries. Additionally, this provision would require NCUA to establish criteria to ensure that if a member chooses to remain with the credit union's field of membership, they will receive adequate service.

Member business loan exclusion for loans to non-profit religious organizations

NAFCU supports a provision that would exclude loans or loan participations by federal credit unions to non-profit religious organizations from the member business loan limit. Specifically at Webster First FCU, we have provided $4.1 million in loans to non-profit religious organizations. Accordingly, this provision would provide some much-needed relief to credit unions, such as mine that believe these non-profit religious organizations are important and greatly contribute to community growth.

Investments in securities by federal credit unions

NAFCU supports this effort to increase investment options for federal credit unions by allowing certain limited investments in securities. The current limitations in the FCUA unduly restrict federal credit unions in today's financial marketplace and have the potential to adversely impact both safety and soundness in the future. We believe that the track record of safe and sound performance by credit unions warrants expanded investment authority in accordance with regulations promulgated by the NCUA Board.

Authority of NCUA to establish longer maturities for certain credit union loans

NAFCU supports providing NCUA with the flexibility to provide for loan terms exceeding 15 years, for certain types of loans. As part of regulatory relief efforts in the 109th Congress, the NCUA was allowed to increase the 12-year limit on non-real-estatesecured loans to 15 years. However, NAFCU believes that greater flexibility is warranted for certain products, such as student loans.

Increase in investment limit in credit union service organizations

Currently, an individual federal credit union may invest in aggregate no more than one percent of its unimpaired capital and surplus in credit union service organizations, or CUSOs. We support raising the amount a credit union may invest in all CUSOs.

Credit union governance

The FCUA contains many antiquated "governance" provisions that, while perhaps appropriate in 1934, are outdated, unnecessary and inappropriate restrictions on the day-to-day operations and policies of a federal credit union. For example, credit unions are not allowed to expel disruptive or threatening members without a two-thirds vote of the membership. NAFCU supports giving credit union boards this necessary flexibility. Additionally, NAFCU supports allowing credit unions to limit the length of service of members of the board of directors to ensure broader representation.

Providing NCUA with greater flexibility in responding to market conditions

NAFCU supports the idea of giving NCUA greater flexibility to adjust interest rates depending on market conditions. Under current law, federal credit unions are the only type of insured institutions subject to federal usury limits on consumer loans. This proposal would maintain a cap, but it would also provide the NCUA with greater flexibility to modify those limits depending on market conditions.

Exemption from pre-merger notification requirement of the Clayton Act

NAFCU supports the inclusion of this language, which would exempt credit unions, just as banks and thrifts are already exempt, from the pre-merger notification requirements and fees for purposes of antitrust review by the Federal Trade Commission under the Clayton Act.

In addition to these proposals, which previously passed the House in the 109th Congress, there are several regulatory modification proposals in various bills before this Committee that we believe will enhance the federal charter.

Voluntary mergers involving multiple common bond credit unions

Current law imposes a numerical limitation of 3,000 on the size of a group that can go forward with a credit union merger before considering spinning off the group and requiring it to form a separate credit union. There is no sound reason for this restriction; NAFCU believes the 3,000 limit is arbitrary. In addition, a credit union that converts to (or merges into) a community charter should be allowed to retain all employee groups in its field of membership at the time of conversion. Current law does not allow this, penalizing not only the credit union, but also those in its field of membership. Furthermore, the retroactive effective date of August 7, 1998, (the date of enactment of CUMAA), is an important part of this section and should be maintained.

Credit union conversion voting requirements

NAFCU believes that credit unions should have the ability to convert their charters when in the best interest of the members. NAFCU supports the credit union conversion voting requirements provision of CURIA that would increase the minimum member participation requirement in any vote to approve a conversion to 30 percent of the credit union's membership. NAFCU considers this provision to be consistent with its principle that transparency is paramount in the conversion process. We believe that a minimum voting requirement is an effective way to ensure that the best interest of the membership is being pursued. Additionally, this provision would require that a general membership meeting be held one month prior to sending out notices regarding a conversion vote that contains a voting ballot. This will provide credit union members with a more meaningful opportunity to engage in a dialogue with the credit union board about the conversion process and to comment on that process and the conversion plan. Under current rules, credit union members are not necessarily informed of the board of directors' decision to convert until called upon to vote on the conversion.

Short-term payday loan alternatives within field of membership

NAFCU supports efforts to allow federal credit unions to offer short term payday loan alternatives to anyone within their fields of membership. We believe this new authority, which would be discretionary and not mandatory, will allow credit unions to help combat abuses by non-traditional financial institutions that prey on consumers, particularly those who live and work in underserved communities.

Member business loan exclusion for loans in underserved areas

NAFCU supports excluding member business loans made in underserved areas from the credit union member business lending cap. We feel that this proposal reflects an understanding that the credit union member business lending cap is often times restrictive, hindering credit unions from promoting economic growth in underserved areas. While NAFCU supports an overall modification in the member business lending cap to better facilitate economic growth in all the communities that credit unions serve, we also recognize that there continues to be an urgent need to address this matter with regard to underserved areas.

Credit union participation in SBA programs

NAFCU supports a clarification in existing law, which permits credit unions to participate in the SBA's 504 Certified Development Companies loan program. Because the terms of SBA's 504 loan program are specified in regulation and not in statute, credit unions risk non-compliance with NCUA lending rules without this clarification. A proposal to make this necessary clarification is included in both H.R. 1849, the *Credit Union Small Business Lending Act*, and H.R. 5519, the *Credit Union Regulatory Relief Act of 2008*. Additionally, NAFCU supports provisions in H.R. 1849 permitting the guaranteed and non-guaranteed portions of SBA 7(a) loans to not count against the regulatory cap for business lending, providing credit unions with greater capacity to make business loans. Furthermore, NAFCU supports the establishment of a credit union outreach program within SBA to increase credit union participation. NAFCU also believes that an 85 percent guaranty on member business loans up to $250,000 for loans made to small businesses in underserved areas will encourage more credit unions to make

SBA loans in these areas. H.R. 1849 is a pivotal step toward facilitating more SBA loans by credit unions and thus encouraging greater credit union business lending. These proposals would undoubtedly benefit the entrepreneur and small business credit union members.

We hope that the Committee will consider these issues and their importance as these various proposals moves forward in the legislative process.

Conclusion

The state of the credit union community is strong and the safety and soundness of America's credit unions is unquestionable. Nevertheless, there is a clear need for easing the regulatory burden on credit unions as we move forward and the financial services marketplace becomes more innovative. It has been 10 years since Congress has enacted major credit union legislation. Credit unions need comprehensive regulatory relief. NAFCU strongly believes that CURIA, which has over one-third of the House as cosponsors and continues to gain support, is the best vehicle to accomplish this. We also recognize that H.R. 5519, the *Credit Union Regulatory Relief Act* is an important non-controversial first step at regulatory relief and should be passed by the Committee in short order.

We continue to urge the Committee to consider the CURIA proposal, which makes much-needed refinements and improvements to the credit union regulatory structure. Moreover, NAFCU supports any regulatory relief effort that will enhance the ability of credit unions to fulfill their mission. Even though Congress has enacted major banking reforms in the 10 years since that enactment of CUMAA, we recognize that other financial institutions are also seeking regulatory relief. We firmly believe that if regulatory relief efforts are pursued by the Committee for financial institutions, such efforts must be balanced between credit unions, banks and thrifts. We hope that the Committee will consider the legislative efforts before it and included in this testimony.

These proposals will make the improvements and offer the relief needed to enable credit unions to better serve their 90 million members.