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Memo

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Date: April 28, 2008

To: Members of the U.S. House of Representatives

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

Re: Vote against H.R. 5519, the Credit Union Regulatory Relief Act

On behalf of the American Bankers Associations and the more than two million men and women who work in the nation's banks, I am writing to urge you to vote against H.R. 5519, the Credit Union Regulatory Relief Act of 2008.

H.R. 5519, which is scheduled for House floor consideration on Tuesday, April 29, was never voted on by the House Financial Services Committee.

H.R. 5519 is not the credit unions' much-sought Credit Union Regulatory Improvements Acts (CURIA). It does not include either the capital reduction or the explicit increase in the commercial lending cap included in CURIA. However, H.R. 5519 is a major expansion of the credit union charter that should receive full consideration and deliberation before being fast tracked on the House suspension calendar. If enacted, H.R. 5519 would severely undermine the concept of the common bond and greatly expand the ability of credit unions to make multi-million dollar commercial loans to large businesses.

Background

Congress gave credit unions tax exempt status to serve people of modest means who are within a common bond. Congress gave credit unions limited commercial lending authority to further their primary goal of serving people of modest means. H.R. 5519 would allow credit unions to operate on virtually a nationwide basis and would vastly expand their commercial and consumer lending authority. Very few credit unions have the experience, expertise, or capital to exercise this authority in a safe and sound manner, nor does the credit union regulator have the expertise or resources to service such new powers and authority.

This legislation contains extensive authorities for credit union expansion in three areas, which are outlined below.

H.R. 5519 allows credit unions broadly to expand their geographic areas with no requirements to serve their local communities.

The National Credit Union Administration (NCUA) has taken a provision clearly intended by Congress to cover low-income neighborhoods and interpreted it so that entire cities – such as Washington, D.C., Houston, Philadelphia, and more than 600 other cities and counties – have been declared “underserved.”

This legislation would allow all credit unions to enter these cities and permit broad areas of other cities to be made eligible for expansion, as well. The bill would give credit unions access to all of these geographic areas without any oversight to determine if loans or services are, in fact, reaching low-income residents. For example, any credit union could come to Washington, D.C., and open branches only in Georgetown.

H.R. 5519 allows credit unions to lend to large national retailers.

The second problem is that the bill would allow commercial lending in areas that qualify under the new definition of underserved to be excluded from the limits on credit union commercial loans. The language, as written, actually permits loans to all businesses that happen to have any location in one of the designated areas. For example, a multi-million dollar loan could be made to a national retailer that had a store in one of the qualifying areas and that loan would not count toward the commercial lending cap.

H.R. 5519 allows consumer loans to non-members under the guise of alternatives to payday lending.

The drafters of this legislation have presented this bill as providing an alternative to payday loans. The legislation as drafted does not clearly define what is a permissible substitute for payday loans, and a credit union could use this provision to provide consumer loans to non-members. For example, the NCUA could rule that a credit card loan is a substitute for payday lending.

H.R. 5519 should be opposed.

Because of the number of outstanding issues that need to be resolved in this legislation, H.R. 5519 should not be considered under a fast-track method that would bypass normal committee consideration.

We respectfully request that members vote against H.R. 5519 when it comes to the House floor on April 29.

Thank you for considering our views on this important issue. If you have any questions, please contact me.