

July 22, 2015

The Honorable Randy Neugebauer  
Chairman  
Subcommittee on Financial Institutions  
and Consumer Credit  
House Financial Services Committee  
Washington, DC 20515

The Honorable Lacy Clay  
Ranking Member  
Subcommittee on Financial Institutions  
and Consumer Credit  
House Financial Services Committee  
Washington, DC 20515

Dear Chairman Neugebauer and Ranking Member Clay:

We understand that the Subcommittee plans to hold an oversight hearing Thursday, July 23 to look into the National Credit Union Administration (NCUA). We strongly commend the Subcommittee's efforts to provide much needed oversight of the NCUA. Although the hearing will be focused on NCUA's budget, we write to make you aware of what we believe are much more serious issues that warrant strong Congressional oversight. Once called a "rogue federal agency" by a federal judge, over the past month it has become obvious that NCUA has again become a cheerleader for the \$1 trillion industry it is charged with supervising.

Congress established a very specific statute designed to focus the credit union industry, which enjoys a massive \$25.39 billion federal subsidy over 10 years from its tax exemption, on its mission to serve consumers of modest means. However, in the name of "regulatory relief," NCUA's Chairman has announced her intention to circumvent the most critical statutory limits, despite Congress's continued choice not to enact reforms. In a June 25, 2015 speech, NCUA's Chairman announced that she will provide what amounts to the credit union industry's entire legislative agenda—dramatically increased business lending authorities, field of membership expansion, and supplemental capital—through regulation. **"Regulatory relief" does not mean promoting explosive growth of the credit union industry at the expense of taxpayers, community banks, or the communities those banks serve.**

The agency's new proposed rule on business lending is a stunning snub to Congress. NCUA claims authority to raise the statutory cap on credit union business lending through regulatory fiat. The 12.25% of assets cap was a deliberate policy choice made "to ensure that credit unions continue to fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, *through an emphasis on consumer rather than business loans.*"-- Senate Banking Committee Report 105-193. Acting with willful blindness to Congressional intent, NCUA now claims 12.25% is "shorthand" for the cap, and that the agency can raise it on its own. This is a striking about face; NCUA's current Chairman testified to Congress twice in 2011 that 12.25% is the cap, and advocated for legislation to raise it—legislation unnecessary if NCUA had these powers all along. NCUA's creative reading of the statute is also incorrect, a detailed conversation we are happy to have with the Committee.

NCUA's proposal would also make the cap irrelevant, an even more troubling reality. By removing limits on business loan participations to non-members and "clarifying" that these loans are exempt from the 12.25% cap, NCUA will enable a massive, risky loan syndication program that will allow credit unions a much higher concentration in business loans. This will enable credit unions to engage

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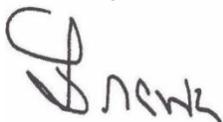
even further in risky activities like large multimillion-dollar commercial real estate lending, fueled by a taxpayer subsidy. NCUA has not established that it is prepared to supervise institutions with a dramatically expanded business loan portfolio. This is an agency with a demonstrated poor track record when it comes to supervision, as has been chronicled by the Government Accountability Office and NCUA's own Inspector General. NCUA says it will provide guidance to credit unions and a comprehensive examiner re-training program. However, this amounts to on-the-job training for a federal agency that has time and again shown a lack of sophistication, yet whose insurance program enjoys the full faith and credit of the United States.

Compounding these abuses, NCUA's Chairman promised in that June 25th speech that the agency will propose new rules before the end of 2015 to expand fields of membership and provide authority for partial supplemental capital. While these proposals have not been finalized, we are troubled by multiple public statements from at least one NCUA board member suggesting that a primary goal is to help the industry grow. Facilitating growth at credit unions is not NCUA's job. Rather, it is charged with protecting the taxpayers who back its insurance fund. We must remember that as this massive tax exempt industry seeks to expand, it does so at the expense of taxpayers. Congress should ask the difficult questions of NCUA about why the agency is undertaking these efforts. In particular, Congress should examine the potential impact such actions could have on safety and soundness and lost federal tax revenue, and if they undercut the very purpose of the credit union tax exemption.

In the same speech, NCUA's Chairman also took credit for the agency's efforts to "streamline" the designation for low-income credit unions, which Congress established to help credit unions in poor communities. It is no coincidence that the authorities provided to low income credit unions—an exemption from the business loan cap, supplemental capital authority, and the ability to accept non-member deposits from any source—are the perennial favorites on Capitol Hill for the credit union lobby. According to Chairman Matz, 47% of all federal credit unions now receive the low-income designation. These numbers are so high that we question whether the agency is giving credit unions a serious look at whether the "low-income" designation is appropriate. Moreover, NCUA's definition of "low income" is so broad as to capture tens of millions of people who are far from low income, such as the campus communities at Harvard and Georgetown, and the residents of Connecticut's Gold Coast, including Stamford, Greenwich, and Norwalk. We encourage Congress to ask for an explanation of whether NCUA is using the low income designation as intended, or using it as a tool to empower credit unions to skirt the law.

For years, NCUA has demonstrated its greatest interest is serving as an enabler for an industry that is already subsidized by its tax exemption. Congress should be very concerned at NCUA's recent actions. We hope NCUA will reconsider its statutory obligations and focus its efforts on reaching those for whom the credit union industry was truly created. Meanwhile, we hope Congress will aggressively exercise its oversight function and reorient this out of control agency.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Keating". The signature is stylized and written in a cursive-like font.

Frank Keating

cc: Members of the House Committee on Financial Services