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Statement of the Shadow Financial Regulatory Committee

on

The Credit Union Membership Access Act, H.R. 1151

May 4, 1998

The U.S. Congress is currently considering legislation, H.R.1151, which, among other things, changes the law in response to a U.S. Supreme Court decision that struck down an interpretation by the National Credit Union Administration (NCUA) permitting credit union common bonds among unrelated employers. In addition, the proposed legislation would impose FDICIA type capital, prudential banking, and prompt corrective action standards on NCUA and credit unions. The Act also continues the capped insurance premium scheme in the National Credit Union Share Insurance Fund.

The Shadow Financial Regulatory Committee supports FDICIA type capital, prudential banking and prompt corrective action provisions in H.R. 1151, particularly as amended by the Senate substitute. The Committee does not believe that statutory limitations should be placed on credit union fields of membership. The Committee also believes that the current credit union tax exempt status is no longer justified. In addition, the Committee is on record in Statement No. 107 (May 1994) against capping the insurance fund. The cap results in some institutions not paying any premium, which in turn destroys the concept of a risk based deposit insurance premium.

It is commonly understood that the original purpose of the common bond statutory provision was to describe how a group of workers could organize and successfully run a consumer savings institution. It was not intended to protect either banks or other credit unions from competition. While the Federal Credit Union Act of 1934 specified a common bond of occupation, association, or residence within a well-defined community, neighborhood, or rural district, many state laws stated simply that a credit union's field of membership could be whatever was determined favorable to the success of the credit union. For instance, under some state laws an occupational credit union could serve residents

of a local town as well. Credit union opponents base much of their opposition to expansion of credit union fields of membership on credit unions' current tax exempt status. Today, most credit unions are no longer the tiny institutions that existed in 1934 and should now have tax treatment similar to banks.

H.R.1151 replaces the current law of just several paragraphs with some thirteen pages of detail and legislative micro-management. What had been a statutory success test would clearly become an anti-competitive structure. Although H.R.1151 might help credit unions currently threatened by the court decision, it would create a market structure that would inevitably have perverse affects. By not permitting a more flexible evolution of credit union markets, the law will expose credit unions to dangers of concentration of risk. As with H.R.10, this latest effort by Congress to modernize financial institution laws has created a voluminous detailed micro-managed competitive structure in the common bond provisions of the Act, instead of a simple repeal of outmoded laws.