



STATEMENT OF  
THE HONORABLE DENNIS DOLLAR  
CHAIRMAN  
NATIONAL CREDIT UNION ADMINISTRATION  
ON THE  
“FINANCIAL SERVICES REGULATORY RELIEF ACT OF 2002”  
BEFORE THE  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT  
U.S. HOUSE OF REPRESENTATIVES

MARCH 14, 2002

Chairman Bachus, Ranking Member Waters and Members of the Subcommittee, thank you for providing me the opportunity to appear on this panel today on behalf of the National Credit Union Administration. The NCUA is pleased to provide your Subcommittee with our suggested legislative proposals in response to Chairman Oxley's earlier request to our agency asking for suggestions designed to reduce regulatory burden, improve productivity or make needed technical corrections to current laws affecting federally chartered credit unions.

We share your interest in seeking more efficiency in the way we conduct our regulatory responsibilities and likewise in the way the law and regulations require credit unions to conduct their business. To this end, the NCUA has been taking significant action on its own initiative to implement "regulatory relief" where appropriate for the safety and soundness and long term viability of America's credit unions. As you may know, NCUA recently enacted a final rule on a regulatory flexibility program (RegFlex) which, as of its March 1 effective date, will permit credit unions with advanced levels of net worth and consistently strong CAMEL ratings to be exempt, in whole or in part, from certain NCUA regulations that are not specifically required by statute nor required for safety and soundness purposes when applied to a credit union with such an advanced capital and financial performance position. This proposal has been well received by our stakeholders and has resulted in over 1,400 comment letters – the most ever received on a regulatory proposal issued by NCUA.

Additionally, the NCUA Board approved in 2001 and is presently in the process of implementing a policy that would permit flexible examination schedules for qualifying credit unions. This policy provides NCUA with the flexibility to identify credit unions posing little or no risk to the National Credit Union Share Insurance Fund (NCUSIF) and to extend the examination cycle beyond the 12-month cycle where feasible and appropriate. By adopting such a policy, we can better allocate agency resources and focus our efforts and technical skills where they are needed most and where the risk to the share insurance fund is greater. This policy, in conjunction with a more risk-based examination and supervision program which will also be implemented in 2002, should bring about greater efficiencies in the operational structure at NCUA even as it improves our safety and soundness program. To help strengthen this risk-focused effort, the NCUA Board this week acted to require quarterly financial reporting from all credit unions, regardless of size. These quarterly call reports will provide the current information needed to base examination, supervisory and regulatory decisions more productively than ever before. Bringing these regulatory initiatives, along with any improvements your Subcommittee chooses to initiate through legislation, to a successful conclusion should indeed be an effective way NCUA and Congress can work together to deliver appropriate regulatory relief to America's credit unions.

On behalf of the NCUA Board, I am pleased to present the Subcommittee the following suggestions, in no order of preference, to address regulatory relief and

productivity improvements for federal credit unions (FCUs). These proposals are consistent with the mission of credit unions and the principles of safety and soundness. They address statutory restrictions that now act to frustrate the delivery of financial services because of technological advances, current public policy priorities, or market conventions.

**Check cashing, wire transfer and other money transfer services.**

The Federal Credit Union Act authorizes FCUs to provide check cashing and money transfer services to members. 12 USC 1757(12). To reach the “unbanked,” FCUs should be authorized to provide these services, within the established parameters of the Bank Secrecy Act, Patriot Act and other Treasury Department regulations, to anyone eligible to become a member of the credit union. This is particularly important to the overwhelming majority of FCUs whose field of membership includes individuals of limited income or means. These individuals often do not have mainstream financial services available to them and often pay excessive fees for check cashing, wire transfer and other services. Allowing FCUs to provide these limited services to anyone in their field of membership would provide a lower-fee alternative for these individuals while at the same time encouraging them to trust conventional financial organizations. If credit unions are to be – as we feel that they are and must remain – a part of the solution to the predatory lending problem in this country, their potential members need to know the types and value of services such as check cashing and wire

transfers that they can receive much more economically by becoming a member of their credit union.

**The twelve-year maturity limit on loans.**

FCUs are authorized to make loans to members, to other credit unions and to credit union organizations. The Federal Credit Union Act imposes various restrictions on these authorities, including a twelve-year maturity limit that is subject to only limited exceptions. 12 USC 1757(5). This “one-size-fits-all” maturity limit should be eliminated. It is outdated and unnecessarily restricts FCU lending authority. FCUs should be able to make loans for second homes, recreational vehicles and other purposes in accordance with conventional maturities that are commonly accepted in the market today. As is the case with other federally-chartered financial institutions, we believe appropriate rulemaking authority should be granted by statute for NCUA to establish any maturity limits necessary for safety and soundness.

**One percent investment limit in CUSOs.**

The Federal Credit Union Act authorizes FCUs to invest in organizations providing services to credit unions and credit union members. An individual FCU, however, may invest in aggregate no more than one percent of its shares and undivided earnings in these organizations. 12 USC 1757(7)(I). These organizations, commonly known as credit union service organizations or

"CUSOs," provide important services. Examples are data processing and check clearing for credit unions, as well as services such as financial planning and retirement planning for credit union members. When these services are provided through a CUSO, any possible financial risks are isolated from the credit union, yet the credit unions that invest in the CUSO retain control over the quality of services offered and the prices paid by the credit unions or their members. The one percent aggregate investment limit presently in the statute is unrealistically low and often forces credit unions to either bring services in-house, thus potentially increasing risk to the credit union and the Insurance Fund, or turn to outside providers and lose their institutional control. We feel the one percent statutory limit should be increased or eliminated and the NCUA Board be allowed to set a limit by regulation that is appropriate for safety and soundness purposes.

**"Reasonable proximity" requirement.**

The Credit Union Membership Access Act enacted in 1998 expressly authorized multiple common-bond credit unions. The Access Act provided, however, that an FCU may add a new group to its field of membership only if the credit union "is within reasonable proximity to the location of the group." 12 USC 1759(f)(1)(B). This, in effect, often requires a credit union to establish a costly physical presence that could potentially, if unchecked, present long term safety and soundness concerns and, unfortunately, in many cases serves as a financial deterrent to credit unions who otherwise have a desire to extend financial

services to the group when ATMs (or other technologies) could be used more efficiently. This “bricks and mortar” limitation on FCU services is unnecessary in today's “clicks and windows” financial marketplace, where most services can be provided electronically. This limitation prevents NCUA from allowing an FCU and a group to “match up” when it is their wish to do so, and may even prevent NCUA from adding groups to the FCU best suited to serve them. The “reasonable proximity” requirement is an unnecessary hindrance to providing credit union services and should be made more flexible, thus allowing NCUA to define and implement reasonable and appropriate “ability to serve” requirements within the provisions of established field of membership law.

### **Expanded investment options**

The Federal Credit Union Act limits the investment authority of FCUs to loans, government securities, deposits in other financial institutions and certain other very limited investments. 12 USC 1757(7). This limited investment authority restricts the ability of FCU's to remain competitive in the rapidly changing financial marketplace. In our view, the Act should be amended to provide such additional investment authority as is approved for other federally regulated financial institutions and in accordance with regulation of the NCUA Board. This would enable the Board to approve additional safe and sound investments, such as highly rated asset-backed securities or other conservative investments that

have a proven track record with other federally-regulated, as well as state-regulated, financial institutions.

**Voluntary merger and conversions authority.**

The Federal Credit Union Act, as amended by the Credit Union Membership Access Act, allows voluntary mergers of healthy FCUs, but requires that NCUA consider a "spin-off" of any group of over 3,000 members in the merging credit union. 12 USC 1759(d)(2)(B)(i). When two healthy multiple common-bond FCUs wish to merge, and thus combine their financial strength to both improve service to their members as well as their long term safety and soundness position, they should be allowed to do so. There is no logical reason to require in connection with such mergers that groups over 3,000, or any group for that matter, be required to spin off and form a separate credit union. These groups are already included in a multiple group credit union in accordance with the statutory standards, and that status is unaffected by a merger. Similarly, when a multiple bond credit union either merges into, or converts to, a Federal community charter, there are cases where a limited number of presently served groups lie outside of the community boundaries. The community FCU should be allowed to serve new members from these groups, to avoid discrimination among group members and continue credit union service to all of the group members.

Again, thank you for the opportunity to provide input on these important matters before your Subcommittee. As the Subcommittee proceeds to gather responses on these proposals and additional suggestions from interested parties within and outside the credit union industry, we would be pleased to continue to work with you and your staff as a resource in your committee's deliberations.

In particular, it is our understanding that the Subcommittee has under consideration additional items of regulatory relief affecting FCUs which NCUA certainly considers appropriate and would support as public policy initiatives should the Congress decide to so enact. Included among these are parity for credit unions under the Securities Exchange Act of 1934 and the Investment Act of 1940; extension of the current allowance for leases on land on federal facilities for credit unions; permitting the NCUA to share appropriate supervisory information to other financial regulatory bodies; clarification of suspension, removal and prohibition authority in cases of institution-affiliated parties; and a number of minor technical corrections which we understand are under consideration.

Likewise, we understand that there is under consideration in early drafts of the regulatory relief bill certain revisions to NCUA's recommended items or other language that would seek to bring about the same results of regulatory relief as we seek. As always, we look forward to working with the Subcommittee to draft the most effective language possible to accomplish the purposes of the

legislation and NCUA stands ready to assist the Subcommittee in any way possible.

As we move forward from this hearing today, our goal at NCUA as we implement any regulatory relief provisions the Congress ultimately chooses to enact will be, as I know yours is here today, to take any and all actions with an eye towards removing *unnecessary* regulatory burden while maintaining, as is proven by the historical strong financial performance of America's credit unions, our first and foremost priority and commitment to both *safety and soundness* and *necessary* regulation to protect the American public.

Thank you, Mr. Chairman for providing us a place at the table. We commend you, the Subcommittee and Committee for examining areas of appropriate regulatory relief. I would be pleased to attempt to answer any questions you or members of the Subcommittee may have.