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Fred R. Becker, Jr.
President and CEO

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The Honorable John Boehner
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Speaker Boehner and Minority Leader Pelosi:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade organization exclusively representing the interests of our nation's federal credit unions, I am writing to you to highlight some of NAFCU's top legislative priorities for the incoming 112th Congress. We ask that this Congress attend to the following matters of high importance for our nation's credit unions and their members over the next few months.

- Credit Union Tax Exemption: Numerous studies have shown that the value of the credit union tax exemption to the American financial services consumer far outweighs any revenue that the government could obtain by taxing credit unions. As you may know, credit unions must function on a not-for-profit basis, organize without capital stock, and operate for mutual purposes in order to receive the exemption. NAFCU therefore asks that no legislative change be made to the tax exempt status of credit unions. Altering this exemption will have a disastrous impact on the 92 million Americans served by credit unions, including the working poor and those of modest income who were unable to obtain credit elsewhere.

- Data Security and Interchange Fees: Data security breaches have unfortunately become more prevalent in recent years, and financial institutions like credit unions have suffered steep losses in re-establishing member safety after they occur. Credit unions are often forced to charge off fraud losses, many of which stem from the failure of merchants to protect sensitive financial information about their customers. In light of these deficiencies and resulting financial burdens, NAFCU strongly urges Congress to investigate the problem of data breaches and to consider legislation making important improvements to data security. While interchange fees have traditionally been a way in which the cost of such breaches could be offset, the recent passage of certain provisions in the *Dodd-Frank Act* will result in limits being imposed on this important source of business-to-business revenue. Since credit union interchange income is being capped, we therefore also ask that credit union expenditures for breaches resulting from card use also be reduced. A reasonable and equitable means of addressing this concern would be to require merchants to be accountable for costs of data breaches that result from their own neglect. We also urge Congress to provide strong oversight to the Federal Reserve's proposed rule to implement the Durbin debit interchange price cap and be ready to act if the implementation will ultimately harm small institutions like credit unions.

- Regulatory Reform: with the recent enactment of significant financial reforms under *Dodd-Frank* and the creation of a new Bureau of Consumer Financial Protection, credit unions will be subject to an additional layer of regulation that increases their compliance burdens and could stifle their ability to lend and limit services they can provide. NAFCU therefore asks that Congress consider taking up regulatory reform corrections legislation to address some of the overlapping and confusing regulations called for by the bill, along with ambiguities in the legislation's application to credit unions. NAFCU would like to work with Congress to enact certain clarifications that would ease the legislation's burden from a compliance perspective, and could help prevent unnecessary expenditures and uncertainty for credit unions and other financial institutions.

- Housing Finance Reform: As Congress considers proposals to address current deficiencies in the secondary market, NAFCU asks that you keep in mind the impact they will have on credit unions and their members. Government Sponsored Enterprises like Fannie Mae and Freddie Mac have been critical partners for credit unions, allowing them to obtain the necessary liquidity to create new mortgages for their member-owners. It is important that during any transition to a new system, credit unions have uninterrupted access to the GSEs. NAFCU also believes it is crucial that a healthy and viable secondary mortgage market be maintained, with a central role for the U.S. government but without federal appropriations.

- Member Business Lending: As you may be aware, credit unions have a 12.25% asset cap on their business lending, with loans of only $50,000 or less exempt from this cap. Passed in 1998, these arbitrary thresholds are severely outdated, and have not increased with inflation and economic fluctuations. NAFCU asks that the Congress increase the *de minimis* exclusion to exempt loans under $100,000, which would allow credit unions to continue to lend to small business owners in dire need of credit during this tough economic time. We also believe it is imperative that Congress increase the arbitrary 12.25% cap to help ensure that small business owners have as many resources as possible to access credit. NAFCU supports a carefully crafted compromise between the Department of Treasury, the National Credit Union Administration (NCUA), and key lawmakers in the previous Congress that would accomplish this goal.

- Capital Reform: Credit unions currently rely almost exclusively on retained earnings as capital, and cannot count other sources toward their net worth. Federally-insured credit unions, unless they are designated as "low-income," are the only U.S. financial institutions that cannot count other sources of capital toward their statutory capital requirements. A legislative change to the Federal Credit Union Act (FCUA) is necessary to give credit unions the authority to raise supplemental capital. Additionally, the FCUA states that only federally-insured credit unions considered "complex" meet a risk-based net worth requirement, but all credit unions need this flexibility to determine their own risk and ability to lend. NAFCU therefore asks that Congress amend current law to make all credit unions subject to this rule, and direct NCUA to consider risk standards comparable to those of FDIC-insured institutions when drafting risk-based requirements for credit unions.

Thank you for your consideration and attention to these important matters. If we can answer any questions or provide you with further information on this matter, please do not hesitate to contact myself or NAFCU's Director of Legislative Affairs, Brad Thaler, at 703-842-2204.

Sincerely,

Fred R. Becker, Jr.
President/CEO

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