For Details, Contact
NCUA Public &
Congressional Affairs
E-mail: pacamail@ncua.gov
Phone: 703.518.6330

National Credit Union
Administration
1775 Duke Street
Alexandria, VA 22314-3428
Fax: 703.518.6409

Media Release

FOR IMMEDIATE RELEASE

Marquis Testifies on Insurance Fund Issues

March 19, 2009, Alexandria, Va. -- National Credit Union Administration Executive Director David M. Marquis testified today before the Senate Banking, Housing, and Urban Affairs Committee on deposit insurance issues – making $250,000 insurance protection permanent; extending NCUSIF replenishment to 5 years; increasing the NCUSIF borrowing authority; and providing systemic risk authority to NCUA.

“Financial institutions play a critical role in our economy, and it is vital we ensure they remain safe and sound,” Executive Director David Marquis told the committee. “It is important and timely to consider methods to improve the framework for deposit insurance coverage and the operational authorities available to the federal deposit insurers.”

“NCUA attributes the stability of credit union insured shares during the fourth quarter of 2008 to public confidence in credit unions,” Marquis said. “NCUA recommends making the $250,000 insurance increase permanent because reverting to $100,000 would likely have a destabilizing effect on public confidence and create burdens for institutions and consumers. Conversely, continuing $250,000 coverage would allow federally insured credit unions at all asset levels to better meet contemporary member needs.”

Extend NCUSIF replenishment authority to 5 years

If the NCUSIF equity ratio falls below 1.20 percent, NCUA is required to assess a premium; and, if necessary, credit unions must recapitalize their 1 percent deposit.

“NCUA believes extending the time the agency has to restore the equity ratio from one to five years would provide important flexibility for credit unions,” Marquis said. “A five year period is a sensible way to address this strain on credit unions without sacrificing soundness of the insurance fund. In turn, a premium assessment reduces the amount of dollars credit unions can lend to their members, which stimulates and supports the economy in a very direct way. Every dollar charged in premiums translates to $10 unavailable for credit union member loans.”

NCUA also requests increasing the maximum cap when premiums may be charged from 1.30 percent to 1.35 percent to provide another anti-cyclical tool and thereby reduce the likelihood of charging premiums in adverse times.

Increase NCUSIF borrowing authority

Congress established the NCUSIF in 1970, and provided authority for the Fund to borrow a maximum $100,000,000 from the Treasury. Over time, the size of the credit union system, the amount of insured shares, and the size of the NCUSIF have grown significantly.

“To keep pace and help position NCUSIF for challenges to the economy and the financial system, NCUA believes Congress should increase the maximum amount the NCUSIF may borrow from the Treasury to $6 billion, “Marquis said. “Additionally, NCUA requests adding temporary NCUSIF emergency borrowing authority, similar to that proposed for the FDIC, not to exceed $30 billion. Maintaining public confidence if an extraordinary event should occur strongly suggests the Congress update the NCUSIF figure to a more realistic number based on the size of the industry today versus the early 1970s.”

System risk authority

“In its role as share insurer, NCUA functions much like the Federal Deposit Insurance Corporation (FDIC) insuring bank deposits,” Marquis said. “However, the Federal Deposit Insurance Act (FDIA) provides FDIC with statutory authority related to bank insurance called “systemic risk” authority, which NCUA is without. NCUA believes the Federal Credit Union Act (FCUA) should be amended to provide NCUA with a systemic risk authority similar to that of FDIC.”

In the past year, the FDIC employed its systemic risk authority. The NCUA Board considered taking similar action, but lacking authority was unable to do so.

“In order to quickly, effectively respond, NCUA needs authority that enables it to take action in response to systemic risk,” Marquis said, “The problems facing financial markets and the institutions that serve them are real. But so is the safety and stability provided by a sound, well-functioning deposit insurance regime,” Marquis said.

Access Executive Director Marquis’ testimony online at: click here.

-NCUA-