November 19, 2008
Text of Chairman Michael Fryzel's Letter to Congress

As the regulator and insurer of federally chartered credit unions and the insurer of almost every state-chartered credit union in the country, the National Credit Union Administration (NCUA) is responsible for monitoring the safety and soundness of the nation's nearly 8,000 credit unions, as well as making sure that the deposited funds of nearly 90 million Americans are well protected.

In previous correspondence to Treasury Secretary Henry M. Paulson, I requested the assistance of the Department of the Treasury regarding the guarantee of non-interest-bearing transaction accounts at credit unions, similar to the debt insurance program currently being put in place by the FDIC, as well as the implementation of the Troubled Assets Relief Program (TARP) title of the Emergency Economic Stabilization Act.

The decision announced last week by Secretary Paulson, and reinforced in appearances on Capitol Hill, not to undertake the purchase of distressed assets from financial institutions as authorized under TARP is of concern to me. While I appreciate the complexity and expense of such an effort, the forestalling of this option removes an important potential avenue of relief for financial institutions. For credit unions, which of course were explicitly included in the Act's definition of financial institutions, it leaves one less access point to TARP funding where I see a demonstrated need.

Recent credit union examination data indicates that a TARP-like program, which creates a market for certain distressed assets, would be of significant and tangible benefit to credit unions. I therefore request your assistance in securing funds authorized under TARP to enable NCUA to construct a program identical to the one set forth in Section 101 of the Emergency Economic Stabilization Act. NCUA would establish standards and procedures for the use of such funds and would consult with your Committee in the process.

I also want to bring to your attention on-going discussions with the Treasury Department and the Federal Reserve Board concerning efforts to mitigate mortgage foreclosures through the modification of qualifying, at-risk home loans made and held by the nation's credit unions. While the home loan default rates of credit unions are generally far below those of other types of lenders, every avoidable foreclosure is an unnecessary contributor to the country's mortgage crisis.

The establishment of the Credit Union Homeowners Affordability Relief Program (CU HARP) will improve mortgage affordability by significantly reducing monthly mortgage payments for eligible homeowners. The CU HARP will offer mortgage relief to struggling homeowners who are in default or danger of default on their mortgages.

The CU HARP will provide low-cost financing to credit unions through NCUA's Central Liquidity Facility (CLF)[1]. The CLF will borrow from the Department of the Treasury through the Federal Financing Bank and make term loans of three to five years to eligible credit unions. The rate on a CU HARP loan will be lower than the rate available on a Federal Home Loan Bank advance and represents a "rate break" for the credit union. Under the proposed CU HARP, a participating credit union would transfer this rate break through to struggling homeowners by reducing the interest rates on their mortgages. The credit union also will match the rate break, doubling the benefit to the consumer.

The NCUA took into account other mortgage relief programs in developing appropriate criteria for mortgagor eligibility and modification requirements under the CU HARP. Eligible homeowners must be in default or in danger of default, as determined by the credit union, provide proof of income (subject to a maximum income requirement to qualify), and occupy the home as their principal residence. The homeowners also must agree not to take on a second mortgage during the rate-break period.

Participating credit unions will modify mortgages by lowering the mortgage interest rate to reach a target payment-to-income ratio of between 31 and 38 percent and passing through an aggregate of at least two times the rate break they receive. Credit unions may extend the loan maturity to 40 years and/or reduce the principal balance on the loan in order to reach the target payment-to-income ratio.

The CU HARP program will be administered at no cost to taxpayers. CLF loans are made to credit unions on a fully secured basis. Risk to the taxpayer is further reduced by the capital of the CLF. The CLF will repay all advances to the Federal Financing Bank with interest. The program will run for three years, through year-end 2011, with five-year loan terms through 2016.

I intend to propose the Credit Union Homeowners Affordability Relief Program to the NCUA Board for their approval and request the necessary concurrences from the Secretary of the Treasury and the Board of Governors of the Federal Reserve System.

I look forward to the opportunity to brief the Committee in greater detail. I welcome your comments, and I thank you for your consistent support for the nation's credit union system.

Sincerely,

Michael E. Fryzel
Chairman

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1. Congress created the Central Liquidity Facility in 1979 to improve the general financial stability of the credit union industry by serving as a back-up provider of liquidity for individual credit unions.