

## MEMORANDUM

TO: Chairman Sparkman

FROM: John Evans

DATE: November 4, 1971

SUBJECT: Proposed National Credit Union Bank Act of 1971

### Brief Outline of the Proposal

The proposal would create a National Credit Union Bank which would be an instrumentality of the United States. An interim board, composed of the National Credit Board, the Secretary of the Treasury, and the Administrator of the National Credit Union Administration would provide management of the Bank during a period of not to exceed six months. By the end of that period, the management would vest in a permanent board, consisting of a president of the Bank, the Secretary of the Treasury or his designee, the Administrator of the National Credit Union Administration, and one board member elected from each of the six Federal credit union regions. The President of the United States would appoint the Bank president with the advice and consent of the Senate and he would serve at the pleasure of the President. Each of the elected directors would serve terms of six years, except that they would be staggered during the first six years. Each elected director would be a person of tested credit union experience, nominated by at least 25 member credit unions from his region and receive a plurality of votes cast by credit unions based on the shares of the Bank which they held. Required stock purchases of the Bank would be \$100 par value in an amount equal to 1 percent of a credit union's total assets during the month prior to application and adjusted at the end of each calendar year.

The president of the Bank may not vote except in the event of a tie. The board would elect a chairman, vice chairman and secretary annually. Five members would constitute a quorum and the board would meet at least six times a year. The President of the United States may remove any board member or, if cause exists and he doesn't act, Congress may remove a member through impeachment proceedings.

The proposal authorizes a \$500,000 advance from the Secretary of the Treasury for initial organization and operating expenses. Capitalization of the Bank would be capital stock of \$100 par value equal to 1 percent of each subscriber's total assets.

Every credit union insured by the Administrator of the National Credit Union Administration which is not prohibited by the laws under which it is organized is required to apply for membership within three months of enactment of the proposal. Non-insured credit unions may apply for membership if they desire. Insured credit unions may not withdraw their membership voluntarily.

The Bank has broad powers to do all the things necessary or incidental to the proper management of its affairs. The proposal also authorizes a draw on the Federal Treasury not to exceed \$500 million annually.

Obligations of the Bank would be fully and unconditionally guaranteed as to principal and interest by the United States Government. The Bank is authorized to make loans to its shareholders. It is also authorized to accept demand and time deposits from credit unions and pay interest at rates determined by the Bank; make time and demand deposits in credit unions and other financial institutions; invest in shares of credit unions; pay dividends; and arrange for a commitment from the National Credit Union Administration of the loans and purchase of notes from liquidating credit unions to extent of member accounts insured by the National Credit Union Administrator.

At the end of 10 years or thereafter, at a time when there are no loans outstanding from the Federal Treasury, the management and operations of the Bank would vest in the elected directors and the three members originally designated by the President of the United States would cease to be members of the board. The Bank would cease to be an agency of the United States at that time but would continue to be a U. S. instrumentality. The obligations issued by the Bank would no longer be fully or unconditionally guaranteed by the United States Government and the authority for Treasury advances would terminate.

The Bank, its property, capital, reserves, surplus and other funds, including its income, would be exempt from all taxation by the U. S. or State or local taxing authorities, except that real property and tangible personal property would be subject to taxation and all obligations issued by the Bank would be subject to taxation.

### Comments on the Proposal

The major criticism that could be leveled against the proposal is the basic conflict between private ownership and control and the provisions for financial backing of the Federal Government and the mandatory membership required of federally-insured institutions. The control of the Bank would be private from the outset (6 elected directors of the 9), yet federally-insured institutions would be required by law to be members. CUNA, who proposes this legislation, would undoubtedly have effective control over the election of members of the board because of the Association's pervasiveness in the industry (approximately 92 percent of U. S. credit unions are affiliated with CUNA).

Congress has never before required federally-chartered or insured institutions to be members of a privately controlled institution. We do have Federal charters for corporations which are now or are scheduled to become privately controlled, such as the Federal National Mortgage Association or the recently established Rural Telephone Bank. The Congress, however, has not required membership in these institutions. Membership along with the purchase of stock is required only for those who desire to use the facilities and the services provided. Furthermore, the Congress has not provided access to Treasury financing to privately controlled institutions. This proposal provides such access in an amount not to exceed \$500 million annually.

You will recall that our Banking Committee turned down a proposal to allow private control of the Securities Investor Protection Corporation because of access to the Treasury, even though in order to obtain access to these funds, approval was required by the Chairman of the SEC and the Secretary of the Treasury.

The proposal also plows new ground by providing the full faith and credit of the United States Government to guarantee payment of principal and interest on the debt obligations of the privately controlled institution. No other private organization has such a U. S. Government guarantee.

The ratio of allowable debt to capital of 20 to 1 is unusually high. The Federal Home Loan Banks' outstanding debt may at no time exceed five times the paid-in capital. The Rural Telephone Bank's outstanding debt is limited to eight times the paid-in capital and retained earnings. The privately controlled Bank would have full bank powers to make loans, accept demand and time deposits, pay interest as determined by the board, etc. with no Federal or State regulatory control.

After 10 years, if no debt to the Treasury is outstanding, the entire board would become privately elected, yet the President of the United States and the Congress would still have power to remove board members. At that time, the U. S. guarantee of debt obligations would be withdrawn. One wonders what the status of obligations outstanding at that time would be. There are other questions, such as, why shouldn't the central bank facility be part of the National Credit Union Administration, such as is the case with the Federal Home Loan Bank System structure? The segmented structure in the commercial bank system has been much criticized and has created some problems. Is the requirement to purchase 1 percent of a credit union's assets in bank stock too high? With that requirement and the ability to borrow twenty times the amount of stock on the basis of presently insured credit unions, the Bank could borrow nearly \$2 billion. There is also no Federal Government approval of the time or amount of such borrowings.

In discussing the proposal with the staff of the Federal Reserve Board, they question seriously whether such a complex structure is desirable or necessary for credit unions.

The major problem with the proposal, however, appears to be the conflict between private ownership and the use of Federal authority to require membership and the ability to obtain funds from the Treasury. It may be desirable to withhold a decision on whether it would be wise to introduce this legislation until after the report from the President's Commission on Financial Structure and Regulation. If you feel some obligation to introduce it, considering the problems contained in the proposal, it may be wise to do it by request.