



**STATEMENT OF MR. RALPH REARDON, SENIOR VICE PRESIDENT AND  
CHIEF FINANCIAL OFFICER, COASTAL FEDERAL CREDIT UNION**

**ON BEHALF OF THE**

**CREDIT UNION NATIONAL ASSOCIATION**

**JANUARY 23, 2004**

**Background and Current Situation**

In August 2002, CUNA President and CEO Daniel A. Mica, accompanied by his senior legal staff, met with Federal Housing Finance Board (FHFB) Chairman John T. Korsmo and key FHFB staff. The purpose of the meeting was to bring to the Chairman's attention CUNA's concerns about how credit unions could be better represented in the Federal Home Loan Bank (FHLB) system. By way of background, the Credit Union National Association represents over 90% of the nation's more than 9,000 state and federal credit unions.

During the course of the meeting, which CUNA requested, Mr. Mica explained the credit union system, who CUNA represents, credit unions' growing presence in housing finance, and why it would be productive for the FHLB Boards to have greater credit union member representation.

We are encouraged that the agency, at the direction of the Chairman, is holding a hearing today to look into issues raised by CUNA and others regarding the election process for directors to the FHLB Board, including representation on those boards by credit unions. Our comments today reflect the views we expressed in the summer of 2002.

As you know, approximately 600 credit unions are members of the twelve district Federal Home Loan Banks (FHLBs), which are regulated by the FHFB. Although the percentage of member credit unions varies among the FHLB districts, 2002 data show that credit unions as a whole represent about 10% of the total number of financial institutions that are members of the twelve FHLBs.

Currently, the FHLB structure severely limits the ability of credit union representatives to serve on any of the FHLB boards of directors. That is because members' votes are counted based on the amount of their FHLB assets. Today, credit unions comprise only a small minority of the membership. Thus, as minority interests, it is extremely difficult for credit union representatives to be elected as directors. Having twice stood for election myself for the Atlanta Federal Home Loan Bank, I can personally attest to the virtually insurmountable barriers the current system has created for credit unions. Further exercising my initiative to serve the Atlanta FHLB, I found it equally problematic to be appointed either as a Public Interest Director or as a member of the Consumer Advisory Committee (2003).

Credit union officials can be appointed (at least 6 of FHLB directors are appointed), but such directors cannot be employed by or serve on the board of a FHLB member institution while they are serving on the board of the FHLB in their district. This means that I possibly could be appointed to serve on the Seattle Federal Home Loan Bank Board, but not on the board of the Atlanta Federal Home Loan Bank, of which Coastal is a member institution.

### **The Current Arrangement is Inadequate and Does not Serve the FHLB System Well**

In CUNA's view the present system for FHLB Board elections, in effect, excludes credit union service. This system is patently unfair to member credit unions. Further, it precludes the Bank Boards from being able to draw on credit union experiences in developing policies and procedures that affect all member institutions, including credit unions.

In addition, the Federal Home Loan Banks share a common purpose that is very close to one of the key objectives of credit unions -- providing affordable financial services to those who may not be able to obtain such services elsewhere. We believe having credit union representatives on the Boards of the Banks of which they are members will be useful to the Banks as they continue to help meet the need for accessible and affordable housing finance.

I believe it is instructive to point out that since 1988, I have served on the Eastpay, Inc. Automated Clearing House (ACH) Board with many of the same banks that are FHLB members, three times as chairman. I also serve with some of the same member banks on the Federal Reserve Bank of Richmond Operations Advisory Committee. That fact that both of these entities have been open to credit union participation, at least to an extent, is in marked contrast to the situation for credit unions within the FHLBank System.

Many FHLB member credit unions, Coastal included, look to incorporate credit unions for competitive products and services, and they can potentially be elected to the board of such corporates. In my view, the FHLBanks might be able to attract more credit union members and business from credit unions if the board selection process were more representative of minority interests.

### **Recommendations to Address the Problems**

We request that the FHFB consider whether it has the authority to allow credit union officials to be appointed to the FHLB Boards of which their institutions are members.

If after such review the FHFB determines it does not have this authority, it should work with Congress to develop legislation that will direct the election of credit union representatives, as well as representatives of other FHLB member groups in a minority position, to the FHLB Boards or allow their appointment.

CUNA wants to cooperate with the FHFB to coordinate efforts to achieve this goal of assuring that credit unions and other minority groups are adequately represented on the FHLB Boards.

Thank you again for the opportunity to express our views on this important issue. CUNA looks forward to working with the FHFB to coordinate efforts to assure that credit unions are adequately represented on the Federal Home Loan Bank Boards and would be pleased to meet with Chairman Korsmo and his staff at their convenience to discuss this issue further.