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August 30, 2007

Joanne Conrad
Project Manager/Specialist Consultant
Washington Department of Financial Institutions
P.O. Box 41200
Olympia, Washington 98504-1200

Re: Proposed Rule: Credit Union Alternative Share Insurance Program

Dear Ms. Conrad:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to offer comments in connection with the Washington State Department of Financial Institutions (WDFI) proposed rule regarding an alternative share insurance program for credit unions chartered by the State of Washington. **For a number of reasons, ICBA believes that allowing primary private share insurance for credit unions would be bad public policy and therefore urges the WDFI to withdraw its proposal.**

ICBA opposes the privatization of federal deposit insurance for financial institutions whether such institutions are credit unions or commercial banks.

Deposit insurance has certain public policy goals that cannot be served by a system of private insurance. Private insurance practices—risk avoidance, risk retention, loss control and risk transfer—are incompatible with the public policy objectives of federal deposit insurance. Federal deposit insurance is designed to foster the confidence of the public in the financial system and to maintain stability in the overall economy particularly when disruptions in the market occur. A federal deposit insurance system also protects small depositors and facilitates intermediation between borrowers and

¹*The Independent Community Bankers of America represents 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than \$908 billion in assets, \$726 billion in deposits, and more than \$619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

savers. The ultimate assurance, the government guarantee, is key to the success of our deposit insurance system which supports our nation's financial stability. **Without the government guarantee, the public would eventually lose confidence in our deposit insurance system and its ability to withstand a financial crisis.**

In contrast to the National Credit Union Share Insurance Fund (NCUSIF) which insures the share balances of federal credit unions, any private insurance plan that the state of Washington adopts will not be backed by the full faith and credit of the United States government. Furthermore, the only private share insurance program currently in operation for credit unions has no reinsurance. We therefore believe that Washington will unfairly expose credit union members, the credit union industry and ultimately state taxpayers to unnecessary risks if it goes forward with its plans to allow private share insurance for credit unions.

ICBA believes that systemic risk protection cannot be privatized. Preventing a systemic failure will always remain a government function and a top government priority. A plan with anything less than the backing of the unlimited resources of the federal government would not be able to handle a banking crisis, and stem panic or contagion. As Alan Greenspan has said, "there is no private insurer substitute for deposit insurance from the government."²

History has demonstrated the failures of private primary deposit insurance for banks. At least eight privately operated insurance funds for financial institutions have failed or ceased to operate since 1976, including funds in Mississippi, Nebraska, California, Ohio, Maryland, Utah, Colorado, and most recently in 1991 in Rhode Island. The collapse of a private insurer of state bank deposits can be devastating to the economy of that state. For instance, the collapse of the Rhode Island Share and Deposit Indemnity Corporation resulted in the state subsequently stepping in and using taxpayer funds to pay out the insurer's debts to share account holders. All privately insured deposits were frozen for an extended period of time and many Rhode Island citizens were not able to access their money until the crisis was over. For over a decade, Rhode Island taxpayers paid for the bailout.

Ohio and Maryland also experienced similar problems when their private share insurance program failed. In Ohio, the state had to issue over \$150 million in bonds to cover the losses that the state insurer was unable to cover and in Maryland, over a billion dollars of bank deposits were frozen and thus unavailable for withdrawals by bank customers. These failures demonstrate that inadequate reserves and lack of diversification can undermine state-sponsored or private primary deposit insurance funds.

We understand that some state chartered credit unions will seek private primary deposit insurance as a way to avoid regulations that applies to federally insured credit unions, including the aggregate business loan cap of 12.25% of assets established by Congress in 1998. **It would be poor public policy to permit state privately insured credit unions the opportunity to circumvent federal regulation and in particular, federal**

² Federal Deposit Insurance Reform: Hearing Before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, April 23, 2002.

restrictions on business loans. The purpose of the business loan cap, as the legislative history of the Credit Union Membership Access Act indicates, is to ensure that credit unions fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, and avoid additional safety and soundness concerns through an emphasis on consumer rather than business loans.³ Allowing state credit unions to circumvent the federal business loan cap and engage in riskier lending activities would jeopardize the private insurance fund and put the entire state financial system at risk.

ICBA also believes that any private insurer for credit unions in Washington should be subject to the supervision and regulation of the Washington Insurance Commissioner. A credit union private insurance fund should be required to comply with the reserve, capital and diversification requirements that other insurers are subject to in that state. Since the Washington Insurance Commissioner is the regulator most familiar with insurance operations, he would be best able to evaluate the risks associated with insuring credit union share deposits and to protect credit union members and state taxpayers from an overextended insurance system.

Approximately four years ago, the state of Colorado concluded that primary private deposit insurance was not comparable to that provided by the NCUSIF and determined that its state chartered credit unions should not be privately insured. The statutory standard in Washington requires that the private insurance program be equivalent to federal insurance. ICBA believes that no private insurance system can ever be equivalent to federal deposit insurance and that allowing credit unions to engage in riskier activities will unnecessarily expose credit union members, the credit union industry, and ultimately the taxpayers to financial risks. Accordingly, we urge the WDFI to consider the conclusions that other state regulators have reached about private insurance programs and withdraw its private share insurance proposal.

ICBA appreciates the opportunity to offer comments in connection with WFDI's proposed rule regarding an alternative share insurance program for credit unions. If you have any questions about our letter, please do not hesitate to contact me at 202-659-8111 or Chris.Cole@icba.org.

Sincerely,



Christopher Cole
Regulatory Counsel

³ *Report of the Senate Committee on Banking, Housing and Urban Affairs*, 105-193, pp.9 -10