

*Prepared, not delivered*

Opening Statement  
**Chairman Michael G. Oxley**  
**House Financial Services Committee**

**Hearing of the Subcommittee on Financial Institutions  
and Consumer Credit**

**H.R. 1042, Net Worth Amendment for Credit Unions Act**  
**April 13, 2005**

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I commend Chairman Bachus for convening this hearing on H.R. 1042, the Net Worth Amendment for Credit Unions Act, bipartisan legislation which addresses specific unintended consequences that a Financial Accounting Standards Board (FASB) accounting rule will have on credit union mergers.

FASB's Statement of Financial Accounting Standard 141, scheduled to take effect for mutual enterprises such as credit unions early next year, requires credit unions to follow purchase method accounting rules when calculating the retained earnings of a credit union that results from a merger. Under purchase method accounting, the retained earnings of the acquired credit union in a merger become part of the acquired equity — but not the retained earnings — of the surviving credit union, potentially resulting in a significant understatement of the credit union's net worth — and thus its capital — for purposes of the prompt corrective action (PCA) requirements of the Federal Credit Union Act.

H.R. 1042 remedies this unintended consequence by amending the Federal Credit Union Act's definition of net worth so that the retained earnings of both credit unions in a merger transaction count toward the net worth of the surviving entity. Without this statutory change, credit unions will face an extremely high hurdle when considering whether to merge with another institution, because in many circumstances, such mergers will mean a radical reduction in capital, leading to the possible imposition of regulatory constraints on growth and other operations of the credit union. The National Credit Union Administration (NCUA) has pointed out that this disincentive to credit union mergers will complicate its task of finding willing acquirers of troubled credit unions, which could in turn increase costs on the deposit insurance fund that the NCUA administers for the benefit of credit union members.

It is important to highlight that H.R. 1042 is non-controversial legislation that provides a narrow statutory fix, and does not touch on the more contentious issue of secondary capital for credit unions, which was the subject of a recent study by the Government Accountability Office (GAO) that Mr. Frank, Mr. Sherman and I commissioned. It should also be emphasized that FASB has assured the Committee

that H.R. 1042 in no way undermines or negatively affects its authority to set general-purpose accounting standards for both public and private enterprises. Rather, this legislation simply ensures that the tools the NCUA presently have are preserved after the FASB rule goes into effect, which will help to maintain the safety and soundness of the credit union industry and ultimately benefit the members and communities they serve.

In closing, let me again commend Chairman Bachus and the cosponsors of his legislation, and also welcome back to the Committee NCUA Chairman JoAnn Johnson, who was instrumental in calling the issue addressed by H.R. 1042 to the Committee's attention last year.

I yield back the balance of my time.