September 10, 2014

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Crapo:

On behalf of the American Bar Association and its nearly 400,000 members, I am writing in support of S. 2698, legislation requiring in part that “the National Credit Union Administration [provide] pass-through share insurance for the deposits or shares of any interest on lawyers trust accounts” (IOLTAs). The ABA also supports S. 2699, a narrower bill containing solely the IOLTA credit union provision.

IOLTA revenue is a significant source of funding for programs providing civil legal services to the poor in the United States, with close to 90 percent of grants awarded by IOLTA programs going to legal aid offices and pro bono programs. IOLTA funds provide legal aid to people at or near the poverty line, including veterans, the working poor, and persons with disabilities.

All 50 states have IOLTA programs; 45 states require lawyers to place client funds in IOLTAs if the funds cannot earn interest for the client in excess of the costs incurred to secure that interest. Banks in turn forward the interest earned on these accounts to the respective state IOLTA program, which uses the money to fund a variety of charitable causes.

S. 2698 and S. 2699 would provide credit unions with the same amount of insurance protections that funds held in IOLTAs at banks currently enjoy. IOLTAs held at banks currently have FDIC insurance providing $250,000 of protection per client per institution. However, the National Credit Union Administration (NCUA) only currently provides coverage for funds held in IOLTAs in two circumstances: if the client is a member of the credit union, or if the credit union is designated as low-income.
Under the proposed legislation, NCUA would provide IOLTAs with the same level of coverage that the FDIC provides to banks. This would ensure that client funds are protected regardless of whether the IOLTA is in a credit union or in a bank. Granting credit unions the ability to protect funds held in IOLTAs could also have a positive impact on states’ IOLTA programs, as credit unions may offer higher interest rates than banks.

IOLTA funds provide assistance to important charitable programs across the country, and this legislation would benefit state IOLTA programs by potentially creating new revenue for the programs. Please move this legislation out of committee and work with Senator Reid to have it brought to the Senate floor for a vote. The ABA stands ready to work with you to assist in moving this bill forward. Thank you for your leadership on this matter.

Sincerely,

William C. Hubbard

cc: Members of the Senate Banking Committee