

Testimony
**Senate Committee on Banking, Housing and Urban Affairs Financial Institutions and
Consumer Protection Subcommittee**

Doug Fecher, President and CEO, Wright-Patt Credit Union
Tuesday, October 4, 2:30 p.m.
Dirksen Senate Office Building, Room 538

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak to you about responsible consumer lending practices.

My name is Doug Fecher, and I am President and CEO of Wright-Patt Credit Union, a \$2.1 billion financial cooperative serving more than 210,000 members in Dayton, Ohio, a community hit hard by a challenging economy. In the last three years, Dayton has lost thousands of jobs, leaving many of our credit union members to face an uncertain financial future.

Attached to my testimony are several alarming statistics that put the struggles of the typical consumer into perspective.

- A decade ago, the ratio of household debt to disposable income was roughly 80%, which, proportionally, allowed people to effectively manage their debt. Today, that ratio is closer to 120%, leaving the typical consumer with little safety margin to help them cope in difficult times.
- Consumer savings rates have plummeted. Two decades ago, consumers saved nearly 12% of their disposable income; today they save less than 5%.
- Home prices have dropped dramatically in the last five years, decreasing in value more than 13% in 2008 and 5% so far this year.

Clearly, the need for affordable financial services has never been greater.

This is precisely where credit unions like Wright-Patt excel. To some, our nation's credit unions, as not-for-profit, democratically-controlled cooperatives – are anachronisms in our modern financial system. But credit unions are different by design with an intensely local focus that has paid enormous dividends during this time of financial crisis and slow economic growth. The numbers speak for themselves:

- Every year of the past four (2007-2010) our nation's 7,300-plus credit unions have granted over \$250 billion in loans;
- Credit union members have over 45 million loans outstanding;
- Credit union loan quality is the strongest of all insured financial institutions, with 60-day delinquency of just 1.6%, compared to bank 90-day delinquency of 4.4%;
- Credit union net charge-offs peaked in 2009 at 1.22% of all loans and are now below 1.0%;

- Credit union auto loan market share reached its peak of 22.7% when the auto market was at its most difficult point ever during the Great Recession (and in many cases credit unions were the only active lenders in their communities);
- When home prices were failing at the greatest rate, credit unions achieved 5.8% market share in mortgage originations, its highest ever; and
- Credit union real estate loan modifications total over \$10 billion helping nearly 60,000 members stay in their homes.

Indeed, credit unions in the United States support over 900,000 jobs. We have tripled our mortgage-lending market share in 3 years and become the nation's #1 manufactured housing lender. And we've restarted a moribund private student market – at affordable rates - so far making more than \$1 billion in student loans that have enabled more than 220,000 students advance their education.

And we've done these things by being true to our core values of helping America's consumers make smart money choices with organizations they can trust to help them gain a sense of financial stability in an otherwise difficult environment.

Here's how this plays out at Wright-Patt Credit Union. Our mission is to help folks achieve financial freedom for themselves and their families. Specific to members' use of debt we follow four common-sense principles:

1. Wright-Patt only makes affordable loans members will be able to repay;
2. We tell members exactly what their loans will cost without hidden fees or penalties;
3. We take every opportunity to advise members on how to increase their savings even when they are taking out a loan; and
4. We treat those who fall behind with dignity and respect, and we work closely with members to develop reasonable plans – including modification when appropriate –to return them to sound financial health.

These principles are the foundation of the way we lend. They create an environment where we get to help people change their lives. Here are just a few examples.

Mortgage Modification: Wright-Patt Credit Union makes mortgage loans to help members enjoy affordable long-term home ownership. One member – typical of many -- recently found herself in a predatory mortgage loan with a rate and payment she couldn't afford. She was faced with losing her home. Thanks to WPCU's partnership with Miami Valley Fair Housing, she came to Wright-Patt Credit Union. After a lot of hard work by our staff and by the borrower herself, we were able to find a mortgage that lowered her payment and reduced the loan term to 15 years. Had it not been for her credit union, our member would have lost her home through sheriff's sale. Now she gets to keep her house with a payment she can afford and a loan that will help her build equity.

Credit Cards: We also lend for credit cards differently than most. The nation's largest banks offer credit cards that are designed to get consumers to spend more in the hopes of receiving rewards or cash-back on their purchases. Interest rates on these cards routinely exceed 20%. At Wright-Patt, we think credit

cards are a convenient payment mechanism, and not a temptation to run up debt. Our credit card does not feature rewards that entice more spending, and we charge a rate starting at just 6.25% so members have a reasonable chance of paying their card in full in a manageable period of time.

Emergency “Payday” Loans: Wright-Patt Credit Union also offers a small-dollar loan product called StretchPay so members aren’t tempted to visit payday lenders when they run low on cash. StretchPay is now being offered by 51 other credit unions in Ohio, eight other states, and the District of Columbia. StretchPay is a “payday loan alternative,” and does three things for members:

1. It offers an emergency line of credit up of \$250 at an interest rate of 18% and an annual fee of \$35. With no new advances until paid in full, we help members avoid a “circle of debt”;
2. It improves credit ratings since, unlike payday lenders, we report payments to credit bureaus with the ultimate goal of qualifying members for even lower-cost loans on the strength of a new repayment history; and
3. It helps members start a savings account and provide free financial education to teach them how to build savings rather than use high cost loans to deal with cash emergencies.

First-Time Car Buyers: WPCU serves the airmen and airwomen of Wright-Patterson Air Force Base. Many of these young servicemen and women come to base straight from high school with little or no financial education. To help them gain reliable transportation without visiting “buy-here, pay-here” lots, we help them locate an affordable car, have it examined by a certified mechanic, and offer a loan rate and payment that fits their financial profile.

Savings Rates: Our credit union’s responsibilities to members don’t end with lending products. We also incorporate savings programs that encourage members to become financially stronger by building up safety reserves. Every member receives a 5% dividend rate on the first \$500 they are able to save in their WPCU primary membership account. We use the 5% dividend in a time when average rates are less than 0.5% as incentive to save. We pay this rate even on accounts with balances as low as \$5 so that every member has the opportunity to earn a decent rate on whatever they’re able to save.

The Savings Race: Wright-Patt Credit Union, in conjunction with a local television station, plays “The Savings Race” with five local families from October through June. The game plays out on local newscasts and is a contest to see which of the five families is able to improve their net worth the most over the eight months of the contest. (The game is similar to “The Biggest Loser” on network television which is devoted to losing weight; in our version we improve net worth.) Using WPCU employees as coaches, in three years our families have improved their net worth by a combined \$389,623 of savings growth and debt reduction - that's an improvement in net worth of more than \$25,000 per family. The next season of “The Savings Race – Home Edition” starts October 6.

Financial Education: Financial education is important at Wright-Patt Credit Union. Much of this education is around helping members know how much their loans actually cost and, if we can help them save money, bring their loans to the credit union.

In March 2011 we challenged members to save at least \$50 on high-interest loans by refinancing with Wright-Patt. If we couldn't save at least \$50 on their loans, we'd pay them \$50. Part of the deal was letting us review their credit report alongside them in detail – an act which opens more than a few eyes to just how much more money folks are spending than they need to. In just six months of the credit review program we've helped thousands of members reduce interest payments on existing debt by more than \$10 million dollars.

Free Financial Counseling: WPCU provides free budget and debt counseling to members at no cost from their credit union. Our counselors will help negotiate lower payments and settlements so members have a better chance of financial recovery.

Total Savings: In the last three years Wright-Patt Credit Union programs have put more than \$23 million dollars back in consumers' pockets. Across Ohio, credit unions have put direct financial benefits of \$132 million back into the pockets of Ohio's 2.68 million credit union members. Nationwide, credit union members have saved almost \$6.5 billion by using credit unions.

We are proud of how much we've helped members save. But, like all smaller financial institutions, we face challenges that hinder our ability to spend time helping consumers.

Since 2008 we've been given more than 160 new rules and regulations from some 27 different federal agencies. While credit unions would rather hire loan advisors and financial counselors to help consumers improve their financial situation, we're instead hiring compliance offers to deal with the new rules. The largest banks have armies of attorneys to deal with these regulations - we don't. It is not an exaggeration to say our nation's small, community-based financial institutions are exposed to a situation where they ultimately may be regulated out of business. This should concern us all.

I'd also like to comment briefly on the new Consumer Financial Protection Bureau. Credit unions are generally in support of the bureau's goals; to us, the greater transparency and consumer disclosure required by the new agency simply highlights the way credit unions have always done business. Richard Cordray, a fellow-Ohioan who has been nominated as the agency's director, has outstanding qualifications and understands the unique role credit unions play in the lives of consumers. We hope the agency empowers credit unions to do their jobs of helping consumers make smart use of credit without creating even higher regulatory costs.

Let me close with an e-mail I received just last week from a member who personifies the typical financial conundrum faced by our membership:

"I'm writing you today to inform you of the difference your company has made in my life. My previous car payment was \$348 and with my rent being \$699 a month including my other household bills I could barely make ends meet. Some weeks I could not feed myself due to the strain of having this enormous car payment. Just two weeks ago your credit union approved me for a car payment of \$192. You guys saved me \$156 dollars each month. My interest rate went from 23.9% down to 8.9%. You guys helped me keep food on the table."

This e-mail is one of many I regularly receive, and affirms to me that we are doing what you want us to do – we are taking care of consumers, helping them improve their financial situation, and putting money back in their pockets to use in supporting their families. I believe we need to strengthen America's cooperative credit unions as an essential resource for the current fiscal crisis plaguing this country.

To conclude, I frequently tell my staff that we are not doing our job if our members are not in better financial health today than when they first sought our services. I hope this testimony gives you a glimpse into the benefit we bring to our nation's financial table.

Thank you for the opportunity to present to you today. I will be glad to answer any questions.