NAFCU

Testimony of

Ed Templeton
President/CEO of SRP Federal Credit Union

on Behalf of

The National Association of Federal Credit Unions

"The Effects of the Economic Crisis on Community Banks and Credit Unions in Rural Communities"

Before the

Senate Committee on Banking, Housing and Urban Affairs
Financial Institutions Subcommittee

United States Senate

July 8, 2009

Introduction

Good afternoon, Chairman Johnson, Ranking Member Crapo and Members of the Subcommittee. My name is Ed Templeton and I am testifying today on behalf of the National Association of Federal Credit Unions (NAFCU). I serve as the President and CEO of SRP Federal Credit Union, headquartered in North Augusta, South Carolina. I have been President and CEO of SRP FCU for the last 22 years. SRP FCU is a community credit union serving over 92,000 members in several counties in South Carolina along the Georgia border. Our membership includes Allendale and Barnwell counties which are some of the most rural in South Carolina. They are also some of the poorest, with over 20% of the population in Barnwell and over 35% of the population in Allendale living below the poverty level. SRP FCU has a strong presence in these counties, with over 20% of the adult population in Allendale and over 50% of the adult population in Barnwell being members of SRP FCU.

I currently serve as the Secretary of NAFCU's Board of Directors. I formerly served on the NAFCU Education Committee and was President of the Columbia Chapter of Credit Unions. I received my BBA from Augusta College, graduated from the Georgia School of Banking and the BAI School of Bank Administration at the University of Wisconsin.

NAFCU is the only national organization exclusively representing the interests of the nation's federally chartered credit unions. NAFCU–member credit unions collectively account for approximately 63.9 percent of the assets of all federally chartered credit unions. NAFCU and the entire credit union community appreciate the opportunity to participate in this discussion regarding how the current economic crisis has impacted America's credit unions serving those in rural communities.

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created, and has been recognized, as a way to promote thrift and to make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Congress established credit unions as an alternative to banks and to meet a precise public need—a niche that credit unions fill today for nearly 90 million Americans. Every credit union is a cooperative institution organized "for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes." (12 USC 1752(1)). While over 75 years have passed since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- credit unions remain totally committed to providing their members with efficient, low-cost, personal financial service; and,
- credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

Credit unions are not banks. The nation's approximately 7,800 federally insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions, to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

Credit unions have grown steadily in membership and assets, but in relative terms, they make up a small portion of the financial services marketplace. Federally insured credit unions have approximately $856.4 billion in assets as of March 2009. By contrast, Federal Deposit Insurance Corporation (FDIC) insured institutions have $13.6 trillion in assets. The average size of a federal credit union is $97.6 million compared to $1.647 billion for banks. Almost 3,200 credit unions have less than $10 million in assets. The credit union share of total household financial assets is also relatively small, at only 1.5 percent as of March 2009.

Size has no bearing on a credit union's structure or adherence to the credit union philosophy of service to members and the community. While credit unions may have grown, their relative size is still small compared with banks. Even the world's largest credit union, with $38.7 billion in assets, is dwarfed by the nation's biggest banks who hold trillions of dollars in assets.

America's credit unions have always remained true to their original mission of "promoting thrift" and providing "a source of credit for provident or productive purposes." In fact, Congress acknowledged this point when it adopted the *Credit Union Membership Access Act* (CUMAA – P.L. 105-219) a decade ago. In the "findings" section of that law, Congress declared that, "The American credit union movement began as a cooperative effort to serve the productive and provident credit needs of individuals of modest means … [and it] continue[s] to fulfill this public purpose."

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. As consolidation of the commercial banking sector has progressed, with the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided but also—more importantly—to quality and cost. Credit unions are second to none in providing their members with quality personal financial service at the lowest possible cost.

While the lending practices of many other financial institutions led to the nation's subprime mortgage debacle, data collected under the *Home Mortgage Disclosure Act* (HMDA) illustrates the value of credit unions to their communities. The difference between credit unions and banks is highlighted when one examines the 2007 *HMDA* data for loans to minority applicants with household incomes under $40,000. According to the 2007 *HMDA* data, banks have a significantly higher percentage of mortgage purchase loans (20.8 percent), charging at least 3 percent higher than the comparable Treasury yield for minority applicants with household income under $40,000. Credit unions, on the other hand, had only 4.4 percent of their loans in that category.

Credit Unions in the Current Economic Environment

While credit unions have fared better than most financial institutions in these turbulent economic times, many have been impacted, through no fault of their own, by the current economic environment. Many credit unions, including smaller ones, have seen an increase in delinquencies and charge-offs in recent quarters. Some of this impact has been regional, depending on local economic conditions.

In particular, the corporate credit union system has felt the biggest impact, and the National Credit Union Administration (NCUA) placed the two largest corporate credit unions, U.S. Central Federal Credit Union and Western Corporate Federal Credit Union, into receivership earlier this year. The passage and enactment of S. 896, *The Helping Families Save Their Homes Act of 2009,* and the temporary corporate credit union stabilization fund that it created provided important relief to natural-person credit unions in these challenging times. We thank you for work on this matter.

It is also widely recognized by leaders on Capitol Hill and in the Administration that credit unions were not cause of the current economic downturn, but we believe we can be an important part of the solution. As credit unions have fared well in the current environment, there are many that have capital available. Surveys of NAFCU member credit unions have shown that many are seeing increased demand for mortgage loans and auto loans as other lenders leave the market. A number of credit unions are also seeing local small businesses, who have lost lines of credit from other lenders, turn to them for the capital they need.

Credit unions are helping meet those needs in rural areas. Despite the economic downtown, an analysis of NCUA Form 5300 Call Report data shows that credit unions have seen a growth in the percentage of total amount of credit union farm loans to members for the last nine consecutive quarters during the current recession. Additionally, on examination of 2007 HMDA data (the last year that is available) shows that credit union mortgage loans to American Indians grew at an annual rate of 9.23% over the previous year and that credit unions had a higher percentage of approved loans to American Indians (75.31 %) than other types of financial institutions.

The NCUA has been working to assist small credit unions as well. In April, the NCUA Board finalized actions to centralize NCUA's chartering within the Headquarters' Office of Small Credit Union Initiatives (OSCUI), thereby creating a national chartering program to reduce regulatory burden on credit union charter applicants. The revisions delegate OSCUI authority to approve and reject new charters, and require OSCUI's concurrence to revoke new charters. This new process should assist individuals in understanding the process of chartering a new institution and help keep new growth in the credit union industry.

Additionally, many smaller credit unions rely on other credit unions for support and to provide effective service to their respective memberships. Throughout the country small credit union roundtables have emerged for credit unions to discuss operational concerns with like institutions. Larger credit unions also serve as partners for smaller institutions, and perform functions ranging from shared branching to back office operations.

We at SRP FCU are actually expanding at this time in some of the most rural areas of our field of membership, and we are about to break ground on a new credit union branch in Allendale County.

Current Challenges

Credit unions are the most highly regulated of all financial institutions, facing restrictions on who they can serve and their ability to raise capital, among a host of other limitations. There are other statutory limitations on credit unions that hamper their ability to serve their members, including those in rural areas. These include:

Credit Union Member Business Lending Cap: The *Credit Union Membership Access Act* (CUMAA) established an arbitrary cap on credit union member business lending of 12.25% of assets in 1998. CUMAA also directed the Treasury Department to study the need for such a cap. In 2001, the Treasury Department released its study entitled "Credit Union Member Business Lending" in which it concluded that "credit unions' business lending currently has no effect on the viability and profitability of other insured depository institutions." That same study also found that over 50 percent of credit union loans were made to businesses with assets under $100,000, and 45 percent of credit union business loans go to individuals with household incomes of less than $50,000. The current economic crisis has demonstrated the need to have capital available to help our nation's small businesses, especially in troubling times. Many credit unions have the capital that other lenders do not in this environment, but are hamstrung by such an arbitrary limitation. We are pleased that Senator Schumer has indicated that he plans to introduce legislation to remove this arbitrary cap, and we urge the Subcommittee to support and advance those efforts.

Underserved Areas: As the Subcommittee is aware, many rural areas are also underserved. Credit unions play an important role in helping those on whom other financial institutions have turned their backs and left behind. The 1998 *Credit Union Membership Access Act* (CUMAA) gave the NCUA the authority to allow federal credit unions to add underserved areas to their field of membership; however, the language was unclear as to what types of charters were permitted to add underserved areas. For an area to be ‘‘underserved,’’ CUMAA requires the NCUA Board to determine that a local community, neighborhood or rural district is an ‘‘investment area’’ as defined in the Community Development Banking and Financial Institutions Act of 1994, and also that it is ‘‘underserved by other depository institutions.’’ 2 U.S.C. 1759(c)(2)(A).

NAFCU supports making a necessary clarification to the CUMAA that credit unions are able to add underserved areas to their fields of membership, regardless of charter type. In 2005, the American Bankers Association brought litigation against NCUA, arguing that under the plain language of CUMAA (American Bankers Association et al. v. NCUA, No. 2:05-cv-000904 (D. Utah, filed Nov. 1, 2006)), only multiple-common-bond credit unions could add underserved areas to their fields of membership. Up to that point, NCUA had permitted all types of credit unions to add underserved areas to their field of membership. Even though there was legislative history supporting the NCUA interpretation, the case settled out of court, and as a result, NCUA modified its rules to prohibit community and single-sponsor federal credit unions from adding underserved areas to their field of membership. NAFCU and the credit union community believe that addressing this issue through legislation would clear up the ambiguity surrounding the ability of federal credit unions to add underserved areas to their fields of membership.

NCUA's current rules do not address how a rural district should be defined for the purposes of adding underserved areas. Recognizing that there was a need to streamline the process for credit unions in rural areas to add underserved areas to their fields of membership, NCUA proposed an amendment to their Chartering and Field of Membership Manual in 2008. NAFCU provided feedback from many of our rural members during the notice and comment period, and we look forward to Congress clarifying this issue and seeing NCUA continue its work to provide streamlined guidelines.

Regulatory Reform

While credit unions have generally performed well in the current economic crisis, we remain concerned that well-intentioned efforts at regulatory reform could ultimately have a negative impact on credit unions and their members. As not-for-profit member-owned cooperatives, credit unions are unique institutions in the financial services arena. We believe that the NCUA should remain an independent regulator of credit unions and are pleased to see that the Administration's proposal would maintain the federal credit union charter and an independent National Credit Union Administration (NCUA).

NAFCU does support the creation of a Consumer Financial Protection Agency (CFPA), which would have authority over non-regulated institutions that operate in the financial services marketplace. However, we do not believe such an agency should have authority over regulated federally-insured depository institutions, and do not support extending that authority to federally-insured credit unions. Giving the CFPA such authority to regulate, examine and supervise credit unions that already are regulated by the NCUA would add an additional regulatory burden and cost.

Additionally, it could lead to situations in which institutions regulated by one agency for safety and soundness find their guidance in conflict with their regulator for consumer issues. Such a conflict and burden will surely increase compliance costs to credit unions, leading to diminished services to their members. Credit unions already fund the budget for NCUA. Under the Administration's proposal for the CFPA, it also appears that the agency would be funded by the industry, meaning an additional cost burden to credit unions and their 90 million members.

Recognizing that more should be done to help consumers, we would propose that, rather than extending the CFPA to federally-insured depository institutions, each functional regulator of federally-insured depository institutions strengthen or establish a new office on consumer affairs. Such an office should report directly to the Presidential appointees at the regulator and be responsible for ensuring that the regulator is looking out for consumer concerns in writing rules, supervising and examining institutional compliance, and administratively enforcing violations. Consumer protection offices at the functional regulators will ensure that those regulating consumer issues at financial institutions have knowledge of the institutions they are examining and can provide expertise and guidance on consumer protection. This is particularly important to credit unions, as they are regulated and structured differently than others in financial services. We believe that it is imperative that any regulator examining credit unions should understand their unique nature. This approach would strengthen consumer protection while not adding unnecessary regulatory burdens on our nation's financial institutions. We are pleased to see that NCUA Board Chairman Michael Fryzel recently announced the creation of such an office at NCUA.

Finally, some have advocated expanding the Community Reinvestment Act (CRA) as part of the regulatory reform effort. NAFCU opposes extending CRA to federal credit unions. Federal credit unions are already examples of CRA in action. Furthermore, analysis of 2007 HMDA data shows that despite banks and thrifts being subject to CRA requirements, credit unions regularly outperform them in terms of lending to low-income and minority populations. Adding a CRA requirement to federal credit unions would be a solution in search of a problem.

Conclusion

In conclusion, the current economic crisis is having an impact on credit unions in rural areas, but many are continuing the serve their members well. The enactment of legislation earlier this year, such as S. 896 and the temporary corporate credit union stabilization fund it created, are providing relief, but additional statutory challenges remain. We urge the Subcommittee to support efforts to remove the credit union member business lending cap and to clarify that ability of credit unions of all charter types to add underserved areas. Finally, while there are positive aspects to consumer protection in regulatory reform, we believe that federal credit unions continue to warrant an independent regulator that handles both safety and soundness and consumer protection matters.

I thank you for the opportunity to appear before you today on behalf of NAFCU and would welcome any questions that you may have.