Federation

Credit Unions United to Serve the Underserved

April 14, 2017

The Honorable Mike Crapo
Chairman
Senate Committee on Banking, Housing
and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 2010

The Honorable Sherrod Brown
Ranking Member
Senate Committee on Banking, Housing
and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the National Federation of Community Development Credit Unions (the Federation), I respectfully submit this response to the Committee's March 20, 2017 call for legislative proposals to "create real economic growth and jobs, and help reverse years of stagnant wages and widening inequality."

The National Federation of Community Development Credit Unions promotes the financial independence and well-being of working families and communities by expanding access to safe and responsible financial products and services through credit unions. More than 280 credit unions are certified as Community Development Financial Institutions (CDFIs) investing in economically vulnerable communities. These CDFI credit unions or CDCUs currently serve more than 7.4 million members with more than $70 billion in combined assets in rural and urban communities across 46 states. As the national trade association and CDFI intermediary committed to expanding, growing and strengthening these mission-driven credit unions, we advocate for policies that strengthen the institutions *and* the members and communities they serve.

1. **Invest in Community Development Financial Institutions (CDFIs) to rebuild American infrastructure and local economies**

CDCUs are one of the most effective mechanisms to channel capital into under-resourced communities. As financial cooperatives, deposits are invested locally and earnings are returned in the form of interest on deposits, better rates on lending and more services offered. CDCUs provide affordable credit to consumers, boost entrepreneurship, expand businesses and facilitate homeownership.

Rebuilding America's infrastructure must include targeted investment to CDCUs. The largest dedicated funding source is Treasury's CDFI Fund. CDFI Fund awards generate billions of dollars annually in loans and investments to build and improve homes, increase energy efficiency, grow businesses, create jobs, increase job mobility, expand access to affordable health and child-care, and create greater financial capability to expand consumer purchasing power.

The Federation proposes a full restoration of funding to and a strengthening of the CDFI Fund. Specifically we propose Congress:

- Preserve and grow appropriations to the CDFI Fund, directing a portion of those resources to expanding consumer lending in underserved communities.
- Maintain standards and definitions of what constitutes a CDFI.

- Achieve greater institutional diversity in CDFI Fund awards and increased transparency in the evaluation process. The Federation recommends that the CDFI Fund's authorizing statute be amended to empower the CDFI Fund to redesign its evaluation process such that it results in a diverse group of awardees by institutional type, including regulated and nonregulated CDFIs, that is proportional to the applicant pool for each funding round.
- Increase technical assistance to credit unions to expand their financing activities and better compete across ***all*** CDFI programs including: New Markets Tax Credits, Capital Magnet Fund, and CDFI Bond program guarantee program which yield returns to institutions and communities.

Attachment A provides the growth of depository institution representation in the CDFI field and the failure of allocations to account for that growth and impact. Creating a level playing field in the CDFI Program evaluation process between regulated and nonregulated CDFIs will promote economic growth in underserved communities that have not fully benefitted from the Program – particularly in rural communities – where a large portion of regulated CDFIs operate.

2. Fulfilling the Promise: Placing the Member\Consumer First

As financial cooperatives, our institutional interests align with the success and well-being of our members. This alignment of interests requires a long-term approach to growth and financial sustainability rather than short-term gains from the high-cost products or services prevalent in for-profit financial service providers. Predatory lenders undermine the financial and economic security of community development credit union members, borrowers and communities. CDCU members are healthier and stronger when rational, consistent and durable consumer protections are in place.

> In the lead-up to the Great Recession, rampant and irresponsible lending drove consumers and homeowners into dangerous levels of financial and economic insecurity. Fully one-half of the wealth of African American households was eliminated; and 67% of Latino household wealth Legislators must maintain strong consumer protections that do place an undue burden on already regulated community development financial institutions but continue to monitor credit activities of non-regulated entities.

CDCUs must have a greater voice and engagement in the development of regulation that will curb abuses from predatory players while not curbing the ability for good practices to thrive. Smart regulation can serve to both level the playing field and ensure healthier borrowers, members and consumers. We seek to engage with legislators and regulators to get it right, protect our members and our markets, and allow all Americans to thrive together in the future.

The Federation recommends the Committee support the legal authority for the CFPB under Dodd-Frank. The Federation asks legislators to provide greater time horizons for institutions to become compliant with new regulations and greater opportunity for input into crafting regulations, prioritize enforcement to non-regulated entities, focus consumer protections on products\services that are most harmful to low-income people and communities. Legislators should ensure that for-profit non-regulated financial service providers are subject to equal supervision and accountability standards as regulated depository institutions and support stepped-up enforcement of existing regulation particularly in industries that currently lack oversight including: payday lenders, auto title loan companies, mortgage finance companies and private, for-profit Fintech firms pushing high-cost credit on consumers.

3. Sustain and grow service to and engagement with low-income and underbanked consumers through regulatory opportunity and incentives at NCUA

Legislators in their oversight capacity can encourage regulators to recognize the unique value-add of community development financial institutions. Specifically, the National Credit Union Administration must work to reduce regulatory burden on community development credit unions and foster innovative solutions to serving underserved marketplaces. Successful CDCUs use a lot of complicated products and programs to reach underserved members of our community and have a different set of metrics than a typical mainstream financial institution. Regulators need to have a better understanding of financial tools and mitigation strategies that enable institutions to take appropriate risk to serve their market well. They need to support and foster growth into underserved communities and better recognize how leveraging outside capital enable institutions grow and better serve their communities. Credit union regulators must have a greater understanding and appreciation of the role of financial instruments, particularly secondary capital. Specifically we propose legislators:

- Provide regulatory incentives for credit unions to expand field of membership to serve people of modest means by streamlining the process for to expand into LMI communities.
- Allow greater access to supplemental capital to grow institutions and increase service and impact.
- Prioritize the retention of service to low-income members and communities of color in credit union mergers by establishing a higher standard for credit unions that are not low-income and/or minority designated or have not established a proven track record of serving low-income and/or minority credit union members regardless of asset size.
- Establish greater transparency in regulatory agencies to include examination tools, examiner training and supervisor materials, and clear and transparent processes for addressing grievances with particular agency personnel that provides for greater accountability and resolution.

4. Creating financial stability for individuals and families for all

American working families are struggling. More than 40 percent of American jobs today pay less than $15 an hour, and most of these low-wage jobs lack important benefits such as paid leave, health insurance or retirement plans. Our history as credit unions demonstrates that we are uniquely positioned to invest and lend during times of economic stress. Credit union flexibility combined with policy that promotes homeownership, business creations and wealth retention in lower-income rural and urban areas will help rebuild communities and strengthen families. The Federation proposes:

> We embrace policies that expand homeownership opportunities, fight against the wealth-stripping practices of predatory lenders, increase access to capital and increase investment in financial education and counseling.

- Expanded Homeownership Supports for low-wealth homeowners including down payment assistance, homeownership counseling, family self-sufficiency programs for section 8 and public housing residents, second mortgage and foreclosure prevention efforts.
- Small Business and Microenterprise Capitalization: Expansion of guarantees on small business lending through the SBA and USDA will provide dramatic returns in terms of small business growth and job creation.
- Increased capacity of local community partners to generate a pipeline of qualified borrowers for credit union flexible financing by targeting resources for financial counseling and coaching, homeownership counseling and business development services.

- Expanded technical assistance with programs that target institutions that can create jobs, income and self-sufficiency in rural and urban America.

Economic resurgence of our neighborhoods, towns and cities relies upon local economic development and the reinvestment of capital in local economies. By keeping money within the community, credit unions have always provided the mechanism to stimulate local economic activity and growth.

We are committed to building a broad-based coalition of all organizations that seek to place local, cooperative credit unions at the center of revitalizing and rebuilding communities. We urge you to support a strengthened CDFI Fund that recognizes financial inclusion as a critical component of community development; better representation of credit unions across all programs of the CDFI Fund; strong protections against predatory players and practices and the reduction of regulatory obstacles to credit unions seeking to invest in high-return and high social impact community economic development projects.

We greatly appreciate the Committee consideration of these proposals and welcome the opportunity to discuss these further with you. Please do not hesitate to reach out for more information.

Sincerely,

Cathleen Mahon
President\CEO
National Federation of
Community Development Credit Unions