Testimony of

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On behalf of
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“An Examination of the Decline of Minority Depository Institutions and the Impact on Underserved Communities”

Before the
House Financial Services Subcommittee on Consumer Protection and Financial Institutions

October 22, 2019

Introduction

Good afternoon, Chairman Meeks, Ranking Member Luetkemeyer, and Members of the Subcommittee. My name is Mara Falero, and I am testifying today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU). I have been employed with JetStream Federal Credit Union for over 25 years, currently serving as the Vice President of Marketing and Communication. Thank you for holding this hearing today. We appreciate the opportunity to share our views on the important role that minority depository institutions serve in our economy. In addition to our testimony, NAFCU member credit unions look forward to continuing to work with you beyond this hearing to ensure access to robust financial services products for all Americans.

Founded in 1948 and headquartered in Miami Lakes, Florida, JetStream FCU has $212 million in assets and serves more than 18,000 members in seven locations, including one in Puerto Rico. Membership is open to those who live or work in Miami-Dade County, Florida, or in Carolina, Trujillo Alto, or San Juan, Puerto Rico. Today, the credit union offers a variety of products, including checking and savings accounts, credit cards, and auto loans.

Background on Credit Unions

Credit unions serve 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 serves as a way to promote thrift and make financial services available to all consumers, many of whom would otherwise have limited access to financial services. 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)). Congress established credit unions as an alternative to banks and to meet a precise public need, and today credit unions provide financial services to over 118 million people. Since President Franklin D. Roosevelt signed the *Federal Credit Union Act* (FCUA) into law over 85 years ago, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

1. Credit unions remain totally committed to providing their members with efficient, low-cost, personal financial services; and,

2. Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

The nation’s approximately 5,000 federally-insured credit unions serve a different purpose and have a fundamentally different structure than traditional banks. Credit unions exist solely for 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, epitomizing the true volunteer spirit permeating the credit union community.

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the Great Recession, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. At a time when for-profit banks are deemphasizing the human touch for financial services, credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Credit Unions as MDIs, CDFIs

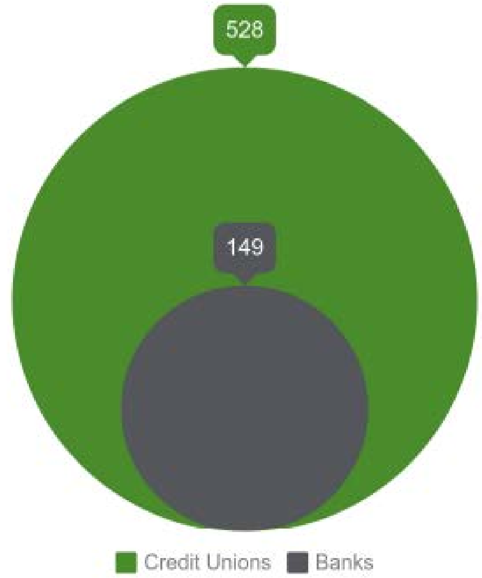
Credit unions are also proud of their record of diversity. As you can see from the charts on the next page, credit unions outpace banks when it comes to minority-designated institutions and in having female CEOs. According to NCUA's "2018 Minority Depository Institutions Report to Congress," 528 of federally-insured credit unions are minority depository institutions (MDIs), 418 of which also have the low-income credit union designation. The number of credit union MDIs decreased by 6% from 2017 to 2018, largely due to mergers. Credit union MDIs are located in 37 states, Washington, D.C., Puerto Rico, and the U.S. Virgin Islands. These institutions serve 3.9 million members and tend to be smaller institutions: 87% of MDI credit unions have assets of $100 million or less. They also tend to underperform growth in all categories, including asset size, membership, and loan volume, in comparison to the rest of the credit union industry, largely due to a decline in membership.

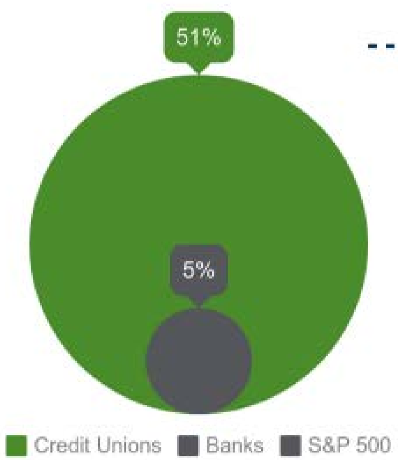
Credit unions are also proud of their participation in the Community Development Financial Institution (CDFI) program, which provides grants to allow credit unions to better serve low-income members and underbanked communities. There were 285 CDFI-designated credit unions as of Nov. 30, 2018, and those institutions held more than 50 percent of total CDFI assets. In addition to helping credit unions in low-income areas serve members in need, the CDFI program gives credit unions access to funds that they are not able to raise from the capital markets. As Congress continues to work on Fiscal Year 2020 appropriations bills, NAFCU urges lawmakers to fully fund the CDFI program at the levels approved by the House earlier this year. It is this program that gives credit unions like JetStream an important resource to help create programs to serve our community.

MORE **DIVERSE**

The credit union industry is committed to diversity and inclusion.

There are more than 3X as many minority-designated credit unions as banks.





There are more than 10X as many female CEOs in credit unions than in banks.

JetStream FCU’s Role as an MDI/CDFI

In 2011, JetStream became an NCUA designated low income credit union, and a year later became CDFI certified, the first credit union that services both Miami-Dade County, FL, and Puerto Rico to do so. Since 2014, we have worked to ensure that every person employed at JetStream, including interns, receive certification from the National Cooperative Business Association in Community Development Certified Financial Counseling. This program trains our staff to identify financial distress within our membership and proactively work to prevent financial catastrophe.

Our membership is diverse, and reflective of the communities Jetstream serves:

- 71% of JetStream members are classified as low income or below;
- 40% are classified as extremely low income;
- 67.5% of our members are Hispanic (27% of which are Puerto Rican)
- 18.8% of our membership is African-American.

JetStream is also a “Juntos Avanzamos” credit union (“Together We Advance”), which is a community of credit unions committed to serving and empowering Hispanic communities. We were the first credit union in Florida to receive such a designation. JetStream is committed to meeting the needs of our members, and that has led us to offer a number of products to help immigrants and those with lower incomes, such as a second chance checking program, low dollar loans, and even a resettlement loan program for those moving from Puerto Rico to the mainland.

Due to the geographical areas JetStream services, Hurricane Irma and Hurricane Maria critically affected our membership in September 2017. The two Hurricanes were a life-defining moment for many of our members, and we knew that we had to act. JetStream provided $2.5 million of critical financial relief to our members during the first 8 months of recovery, including no-cost 0% APR short-term loans, deferment of existing loan payments, elimination of transactional fees, and financial coaching for our members who were dealing with active insurance cases, attempting to rebuild their home.

We played a big role for our members with small businesses after the hurricanes. When Hurricane Maria hit the island of Puerto Rico, almost every household was affected. During this time, residents looked for ways to help their neighbors. One of our members saw the necessity on the island for accessible diesel gas to refuel generators in people's houses. He and his wife bought a truck in the states and brought it to the island to start their new business, *Chester Energía y Transportes*. He worked with the credit union to open a business account to help their business get off the ground. Due to need, their business took off rapidly and they were able to assist other large and small businesses.

Recommendations

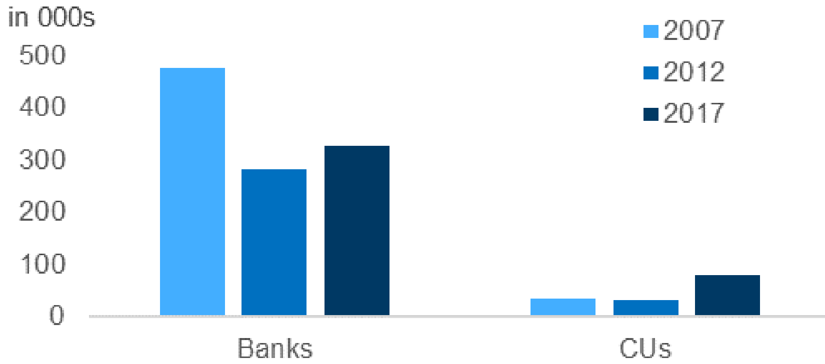
As the Subcommittee examines approaches to aid minority designated institutions, we would urge you to consider the following areas to assist credit unions:

Allow all Credit Unions to Serve Underserved Areas

As has been noted by Members of Congress across the political spectrum, credit unions were not the cause of the Great Recession, and an examination of their lending data indicates that credit union mortgage lending outperformed bank mortgage lending during the downturn. This is partly because credit unions did not contribute to the proliferation of subprime loans. Before, during, and after the financial crisis, credit unions continued to make quality loans through sound underwriting practices focused on providing their members with solid products they can afford.

In addition, both during and after the crisis, credit unions have been committed to helping the portions of their communities that are most in need with high quality products and services. As an example, recent *Home Mortgage Disclosure Act* (HMDA) data indicates the extent of credit union lending to communities within census tracts defined as "distressed" in 2007 by the Federal Financial Institutions Examinations Council (FFIEC). As evidenced in the chart below, the one-to-four family, first-lien purchase loan originations made by credit unions in these communities held up better through the Great Recession than those made by banks (from 2008 to 2012, there was a 33 percent decline in credit union mortgages versus a 59 percent decline in bank mortgages). In 2017, credit unions expanded their mortgage loan originations by 70 percent in these distressed areas as compared to 2007, whereas bank mortgage lending decreased by 46 percent during that same period. This is just one example of credit unions' willingness to serve communities that other lenders have abandoned.

Nbr. of Mortgage Originations in Distressed Areas



Note: Figures reflect 1- to 4-family, first-lien purchase loan originations in MSAs where median income declined between 2007 and 2012
Source: FFIEC

There is still more that credit unions may offer. Credit unions are limited in who they can serve by the FCUA, which restricts credit unions to serving a distinct field of membership. Many credit unions want to help those in underserved areas but the ability to add underserved areas to their field of membership is restricted. Currently, only multiple-common-bond credit unions have the authority to add underserved areas. We would urge the Committee to amend the FCUA to allow all credit unions the ability to petition NCUA to add underserved areas to their field of membership. Representatives Gwen Moore (D-WI) and Paul Cook (R-CA) introduced a bill to this effect in the 115th Congress, H.R. 4665, the *Financial Services for Underserved Act of 2017*, but the House Financial Services Committee did not act upon it.

De Novo Credit Unions

The rising cost of compliance deters many would-be de novo (start-up) credit unions. Additionally, the initial capital infusion and cash outlays are often too great for many communities and associations, and there is little to no return on investment. Starting a new credit union is essentially an altruistic endeavor, as there is no ultimate financial incentive for those who are successful and the costs and hurdles can be discouraging. Furthermore, the complex chartering process is relatively easy and straightforward when compared to what a de novo credit union will face once it is chartered and operating. All of these factors contribute to a significant decline in the pace of de novo credit unions post financial crisis.

The table below outlines the number of de novo federally-insured credit unions chartered since the year 2000:

New FICU Charters since 2000

	Federal Charters	State Charters	Total
2000	8	4	12
2001	7	3	10
2002	4	2	6
2003	11	4	15
2004	2	3	5
2005	5	4	9
2006	7	1	8
2007	3	0	3
2008	4	3	7
2009	2	0	2
2010	1	0	1
2011	1	0	1
2012	4	1	5
2013	1	0	1
2014	3	0	3
2015	4	0	4
2016	0	1	1
2017	3	0	3
2018	1	0	1
Total (2000-2018)	71	26	97
Pre-crisis (2000-2009) Annual Average	5.3	2.4	7.7
Post-crisis (2010-2018) Annual Average	2.0	0.2	2.2

The NCUA takes an active role to help new credit unions form and provides support as an agency. The NCUA does provide a number of important resources for de novo credit unions. NAFCU appreciates the NCUA Board's recent initiatives to modernize and increase the efficiency of the chartering process. This includes the launch of a new automated system, the Chartering Proof of Concept tool, aimed at helping credit union organizers better understand how to prepare charter applications. NAFCU is supportive of the tool, as the chartering process can be difficult and costly. Still, the NCUA's abilities are limited by what is allowed under statute. We would urge Congress to adopt more flexibility in the FCUA regarding prompt corrective action capital requirements for de novo credit unions. Although the FCUA gives the NCUA some prompt corrective action flexibility for new credit unions, allowing more flexibility, such as the power to approve forms of subordinated debt for all credit unions, including de novo institutions, would help.

Subordinated Debt

Congress may provide more flexibility to credit unions' ability to serve low- and moderate-income individuals in their communities by supporting the NCUA in its efforts to permit credit unions to issue subordinated debt. Currently, low-income credit unions are able to offer a form of subordinated debt called secondary capital. Low-income credit unions may issue secondary capital accounts to non-natural persons and these accounts are generally treated as regulatory capital. The approval process to offer secondary capital can, however, be complex. NAFCU appreciates the NCUA's recent supervisory guidance pertaining to the evaluation of secondary capital plans, as it provides valuable insight into why a secondary capital plan may be denied. Nonetheless, NAFCU continues to urge the agency to provide further support and guidance to low-income credit unions so they can better utilize this important resource.

NAFCU advocates for a more streamlined process for the approval of secondary capital applications. Although every secondary capital plan is necessarily different depending on the credit union in question, the process should be more standardized to help credit unions anticipate and better prepare their secondary capital plans for approval. Additional flexibility, guidance, and other resources, particularly on how credit unions can more comprehensively project future performance over a reasonable time horizon would be helpful as many low-income credit unions continue to face obstacles in the approval process. Additionally, NAFCU supports improved flexibility in credit unions’ capital framework to enhance consistency across regions of the treatment of secondary capital as it applies to a credit union’s net worth calculation.

Furthermore, NAFCU supports a proposed subordinated debt framework, commonly referred to as supplemental capital, for all well-run, well-capitalized credit unions. NCUA has been working on this project under the leadership of both former Chairman Mark J. McWatters and current Chairman Rodney Hood, and look forward to this important project coming to fruition.

Loan Maturity Limits

NAFCU supports giving the ability for the NCUA Board to extend the 15-year limit on federal credit union loans to longer terms for specific loans as the Board deems necessary. The FCUA currently places a 15-year maximum maturity on credit union loans, with a few exceptions, such as for a mortgage on a primary residence. This loan limit is outdated and does not conform with maturity rates currently available in the for-profit market. It forces credit unions striving to offer financial products to underbanked and underserved communities to turn away their members for some loan services, including member business loans and student loans. Credit unions, by their nature, know their members best. Loan maturity flexibility was supported by Chairman Hood in his testimony before the House Financial Services Committee on May 16, 2019, and H.R. 1661, introduced by Representatives Vicente Gonzalez (D-TX) and Lee Zeldin (R-NY), would provide this flexibility for the industry.

Other Areas to Help Credit Unions

Data Security

NAFCU supports holding negligent entities financially liable for any losses that occurred due to data breaches on their end so that consumers are not left holding the bag. Under the *Gramm-Leach-Bliley Act,* depository institutions have stringent requirements for the collection and storage of their consumer data. These same consumer protections do not exist for other entities that may collect and store consumers' personal and financial data. Credit unions suffer steep losses when re-establishing member safety and confidence after a breach occurs. In many cases, we are forced to absorb these fraud-related losses. As previously noted, credit union MDIs tend to be smaller institutions, heightening the financial impact these third party breaches have on our community. Credit unions are not-for-profit cooperatives, which leaves members as the ones that ultimately are impacted by these costs.

Current Expected Credit Losses (CECL)

CECL is a new accounting standard update from the Financial Accounting Standards Board (FASB) that was first finalized in 2016. The standard would generally require lenders to estimate and book expected credit losses over the life of a loan at origination, possibly the most significant accounting change to the financial services industry in decades. Although the FASB Board recently unanimously approved delaying implementation of CECL until 2023, we are still very worried about what the effects will be on the credit union industry, especially smaller institutions. This is why we support H.R.3182, the *CECL Consumer Impact and Study Bill of 2019*, introduced by Reps. Vicente Gonzalez (D-TX) and Ted Budd (R-NC), along with other bipartisan Members of Congress. This bill would halt regulators from enforcing the CECL accounting standard until a comprehensive study is conducted on the impact it will have on the financial services industry. Credit unions' unique capital framework limits the NCUA's ability to mitigate CECL's effect on net worth without action from FASB, and this study would be necessary to properly guide the best course of action for the industry.

Legislation Before the Subcommittee Today

H.R.___: Ensuring Diversity in Community Banking Act

NAFCU is generally supportive of language in the *Ensuring Diversity in Community Banking Act*. In particular, we are pleased to see the idea of creating an MDI Advisory Committee within each banking regulatory agency, with the goal of preserving current MDIs, preserving the minority character of MDIs during mergers, encouraging the creation of new institutions, as well as providing technical assistance to MDIs. This would be a great way to promote engagement between the NCUA and MDI credit unions. It would provide greater access to available resources, and guarantee a seat at the table to ensure that the concerns of MDIs are heard in a way that promotes their creation and retention. We would welcome the opportunity to continue to work with the Subcommittee as you consider this and other legislative approaches to address this critical issue.

Conclusion

NAFCU believes the legislation under consideration is a positive first step. MDIs and CDFIs play a vital role in the daily lives for millions of Americans. Preserving MDI and CDFI credit unions and fostering the development of new ones would continue to grow the financial industry as an inclusive part of the American economy.

Credit unions throughout the country are proud of the work they have done to serve minority and underserved populations. We would urge this Subcommittee to support regulatory relief for credit unions and support modernizing and updating the *Federal Credit Union Act*. Allowing established credit unions to service the communities that need help the most and providing pragmatic regulatory relief for chartering new credit unions would bring thousands of Americans into financial institutions that put their financial wellbeing over profits

Thank you again, Chairman Meeks, Ranking Member Luetkemeyer, and Members of the Subcommittee for the invitation to testify before you today. I welcome any questions you might have.