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103-166

# COMMUNITY INVESTMENT PRACTICES OF CREDIT UNIONS

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## HEARING

BEFORE THE

SUBCOMMITTEE ON

CONSUMER CREDIT AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE AND

URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

SEPTEMBER 22, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

**Serial No. 103-166**



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# COMMUNITY INVESTMENT PRACTICES OF CREDIT UNIONS

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THURSDAY, SEPTEMBER 22, 1994

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to call, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Joseph P. Kennedy [chairman of the subcommittee] presiding.

Present: Chairman Kennedy, Representatives Gutierrez, Roybal-Allard, Barrett, Velazquez, Fields, Kanjorski, Flake, McCandless, Castle, King, and Knollenberg.

Chairman KENNEDY. The subcommittee will please come to order.

This morning, the subcommittee meets to examine the community investment practices of credit unions. This topic may strike some as a redundancy, if not heresy. For decades, it has been the gospel truth here in the Congress that credit unions are by their very nature devoted to community investment. When many of us think of credit unions, we think of volunteers working out of a church basement or a trailer just beyond the factory gate making car loans and personal loans to working people.

In many individual credit unions, this proud tradition continues. However, the credit union industry, like the rest of the financial services industry, has changed dramatically over the last quarter of a century. In 1970, Congress provided credit unions with Federal deposit insurance. At that time, there were about 24,000 credit unions with \$178 million in assets, serving about 23 million members.

When Congress adopted the Community Reinvestment Act in 1977, it exempted credit unions. The reason was very simple: Credit unions were small institutions with a small amount of assets serving only a small number of consumers.

That reason no longer exists in many cases. Today, there is nothing small about the credit union industry. It is increasingly dominated by large institutions possessing large amounts of assets and serving a huge number of customers. Although the number of credit unions has shrunk by almost half to 12,000, the assets of these institutions has grown by over 1,600 percent, to nearly \$300 billion. In addition, the number of consumers who are members of these institutions has nearly tripled to over 65 million.

With each passing day, the common bond requirement is being stretched to the breaking point. Credit unions are no longer limited

to serving the employees of one company, or the members of one church or synagogue. Today, one credit union may serve employees of many companies living in several States. It may even be allowed to serve people united by nothing more than the fact that they live in a particular geographic area.

That kind of permissive charter looks a lot like the charters of banks and thrifts. But there is one big difference: Federally chartered credit unions, unlike banks and thrifts, have absolutely no obligation to serve the credit needs of all of the people that they are chartered to serve.

The credit unions claim that they don't need such an obligation because they are by definition in the business of community investment. That may be true of many, if not most, credit unions. But on the whole, it is rapidly becoming a myth.

Recent Home Mortgage Disclosure Act data suggests that credit unions are doing an even poorer job than banks and thrifts of serving working class and minority consumers. In 1992, the credit unions rejected minorities 2.7 times more than whites of the same income when they applied for a home loan. But banks' rejection rates were 2.1 percent.

Furthermore, in Massachusetts, State-chartered credit unions must comply with the current State CRA law. As we will learn shortly from my State's banking commissioner, 26.5 percent of those credit unions received an unsatisfactory CRA grade. Yet, only 10.7 percent of the State banks received such a mark.

We should remember that many, if not most, credit unions have stuck to their knitting. They continue to operate as modestly sized institutions under a narrowly defined field of membership. They deserve to be commended, not criticized, for their attention to lending in the local community.

I am sure the irony escapes none of us that many of the most vocal proponents of extending CRA to credit unions have been amongst the loudest opponents of complying with the law themselves. If they spent less time criticizing and more time emulating the credit unions' history of service to working people, perhaps they wouldn't feel so threatened by the market gains credit unions have made over the course of the last few years.

Nevertheless, the fact remains that it is appropriate to scrutinize credit unions' community lending practices. In my view, it is entirely reasonable to apply CRA or its functional equivalent to credit unions, particularly larger, multiemployer, community-based credit unions.

As has been shown in Massachusetts, CRA can be tailored to judge credit unions by their own definition of their community, not by some unworkable cookie-cutter model. Those credit unions that are going to have all the privileges of banks and thrifts, like deposit insurance and a liberal charter, ought to have some of their responsibilities as well, like serving the credit needs of working and minority consumers. It is a matter of fundamental fairness, not only between credit unions and their competitors, but also between credit unions and the taxpayers who back them up.

Today, we have a distinguished panel of witnesses to help us begin this examination. I want to thank all of them for coming to share their insights with us, and I want to particularly thank Tom

Curry, who is the banking commissioner in my own home State of Massachusetts. He will discuss how CRA is applied to all of the State-chartered credit unions in Massachusetts, including the employer-based credit unions, in a manner that has succeeded for both consumers and lenders. I think his insights will be very enlightening for all of our members.

I now would like to turn to my good friend, Mr. McCandless, for an opening statement.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I do not have an opening statement; I will forgo that privilege and simply say that I am very appreciative that we have the panel that we do. It is a very balanced panel. I am glad to see Mr. Gomes, if I am pronouncing it correctly.

Mr. GOMES. That is correct.

Mr. MCCANDLESS. Arriving, because Lusitania has something synonymous with people sinking, and I am glad to see that he was able to make it here today. The Lusitania Federal Credit Union of Newark, New Jersey, is what I have referenced. Thank you, Mr. Chairman.

Chairman KENNEDY. You are welcome. I am not sure if Mr. Gomes feels the same way. Ms. Nydia Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. The community investment practices of our Nation's financial institutions have been one of my primary concerns in Congress. It is an issue which goes to the heart of the underdevelopment and poverty which characterizes my congressional district.

The areas of Brooklyn that I represent are repeatedly cited as examples of the abandonment of low-income, minority communities by banks and other financial institutions. In the most recent study, the New York public advocate documented the wholesale flight of banks from my district and the resultant lack of credit and basic banking services.

Credit unions constitute a smaller source of funds for community investment and development. Nevertheless, the tremendous expansion of some of the larger credit unions and the size of their combined assets suggest that we take a fresh look at the industry's record of community investment. I firmly believe that credit unions, like all other financial institutions, have a strong responsibility to invest dollars back into the communities from which they draw deposits.

They must take affirmative steps to promote economic development in low- and moderate-income and minority communities. Credit unions must never approach the credit need of low-income and minority individuals any differently than those of more affluent credit union members. Nevertheless, I approach this hearing without a firm position as to whether the industry as a whole has upheld or abrogated this responsibility.

I am aware of the criticism that has been leveled against some credit unions, and of the arguments for expansion of the Community Reinvestment Act to cover the industry. However, I also realize that many community credit unions are already providing valuable credit services to neighborhoods abandoned by the banking industry. Therefore, I intend to listen closely to the testimony today and keep an open mind on the issue before us.



I hope that my colleagues and I will come away from this hearing with a much better understanding of the community investment practices of credit unions and much closer to answering the tough question of whether or not we need to extend the CRA to the industry. Thank you, Mr. Chairman.

Chairman KENNEDY. Thank you, Ms. Velaquez. Yes, Mr. Castle.

Mr. CASTLE. Thank you, Mr. Chairman. Just very briefly, I am also interested in the testimony. I won't be able to stay throughout the whole proceeding, so I will be doing a lot of reading with my staff. But I think some interesting questions are raised here.

As Mr. McCandless has said, I think it is a balanced panel that will hopefully give some insight as to whatever the ultimate answer is as to the community reinvestment with respect to our credit unions. So I look forward to the hearing, and thank you for the opportunity, Mr. Chairman.

Chairman KENNEDY. Thanks, Mr. Castle.

Mr. King.

Mr. KING. Thank you, Mr. Chairman. First off, I want to thank you for holding the hearings and I want to thank the witnesses for taking the time to be here today.

I share the belief that all financial services providers do have a duty to help promote the economic well-being of local communities. As we start today's hearing into credit unions, I want to note that a number of credit unions in my district have established outstanding records of local involvement. One, the Bethpage Federal Credit Union, which serves thousands of current and former employees of Grumman Corp., and its suppliers, and it has a particularly impressive investment in the local community.

I just think that should be on the record. I look forward to the testimony of the other witnesses here today. I, too, have an open mind on this issue, and I look forward to seeing how the testimony comes out, and I look forward to hearing from all of the witnesses, and I thank you, Mr. Chairman, for holding the hearing.

Chairman KENNEDY. Thank you, Mr. King. There being no further opening statements, we will proceed with our witnesses.

I would like to thank our first panel for appearing. Your entire written statements will be submitted for the record and I would ask you to please limit your oral statements to 5 minutes in the interest of time. I would very much like us to adhere to the 5-minute rule. We have a lot of witnesses this morning, and sometimes we learn the most during the question and answers period.

If we take too long on opening statements, we never get there. So if you would try to bear with us on the 5 minutes. We have somebody working the clock over there. When it turns red, you are done, if you get the message.

Our first witness is Thomas Curry, who is the commissioner of banks for the Commonwealth of Massachusetts. Commissioner Curry oversees Massachusetts' 366 State-chartered trust companies, savings banks, cooperative banks, credit unions, and approximately 1,600 credit licensees. Mr. Curry has formerly served as the general counsel for the Division of Banks and as an attorney with the Massachusetts secretary of state's office.

Mr. Curry, thank you very much for traveling to be with us this morning. Please proceed.

**STATEMENT OF THOMAS CURRY, ACTING COMMISSIONER OF  
THE DIVISION OF BANKS, COMMONWEALTH OF MASSACHU-  
SETTS**

Mr. CURRY. Good morning, Mr. Chairman and members of the subcommittee. I welcome the opportunity today to appear before you to discuss the Massachusetts experience in applying the Community Reinvestment Act to State-chartered credit unions.

The Commonwealth of Massachusetts passed its CRA statute which generally parallels the Federal regulation in 1982. As a matter of regulatory policy, the division has examined all State-chartered financial institutions, including credit unions for CRA since 1980.

In applying CRA to credit unions in Massachusetts, I believe the fit is generally an easy one. Credit unions can satisfy their obligations to help meet the needs of their local communities, including low- and moderate-income areas. Given that credit unions are chartered to serve specific communities and groups, there is no reason why credit unions cannot comply with the requirements of CRA.

The membership of credit unions is, of course, restricted to the common bond in their charter and in their bylaws. In Massachusetts, we have both occupational, associational, and geographically based credit unions. The value of CRA for industrial credit unions is just as great as for community credit unions. We try to look upon CRA as a good business and strategic planning tool for both banks and credit unions.

A credit union cannot meet the credit needs of its membership unless it ascertains the credit needs of all of its members, markets its credit services to its members, and develops credit services to meet the credit needs of its members. These are sound business strategies and concepts underlying the Community Reinvestment Act.

By making some minor adjustments for the limitations imposed by statute on credit unions, it has been very easy for the division to apply CRA to these institutions. For example, Massachusetts State law restricts most credit unions from engaging in direct lending for small business loans or community development purposes.

In addition, there are many credit unions which, because of their asset size, cannot and do not offer mortgage loans. Therefore, several assessment factors in the CRA are not as heavily weighted in our analysis of a credit union's performance, particularly if they are an industrial organization.

Examiners also assess how well the credit products offered actually meet the needs of its membership. It has been very simple for the division to examine community credit unions since, similar to banks, they can delineate specific geographic areas for their local communities. For industrial credit unions, the division reviews how well they meet the credit needs of their members and eligible members across all income and demographic lines, rather than simply an analysis of the geographic distribution of their lending.

In terms of the regulatory burden, there have been some who have suggested that CRA requirements for credit unions are overly burdensome and inappropriate due to the general purpose of credit unions. At the Division of Banks, we are always working to reduce

the regulatory burden on financial institutions and will continue to do so.

While I cannot speculate how CRA would look on a national level, I can state that Massachusetts experience has not been overly burdensome. It is also true that those credit unions which are familiar with the CRA and its requirements have much less of a burden because of the fact that our examinations are likely to proceed more quickly and without the need for regulatory followup. Rather than look upon CRA as an unnecessary burden, however, I believe many Massachusetts credit unions consider CRA as a positive means of helping to meet the credit needs of their membership.

The current listing of CRA ratings for Massachusetts financial institutions indicates that on average, the credit unions have received slightly lower ratings than the banks. However, I want to point out that I do not believe that this is a result of less than average performance in meeting the credit needs of their membership. Certainly, there appears to be a higher degree of noncompliance with the technical rather than substantive requirements of the CRA.

This is, in part, due to the fact that most credit unions are relatively small in size with few staff or little resources available to ensure compliance with all of the technical provisions of the CRA. In addition, most of the credit unions in Massachusetts have only received one or at most two examinations for compliance with CRA as opposed to banks, which have had multiple examinations.

I would simply like to point out one example of improvement that occurs over time and that is the Millbury Credit Union, a \$73 million community credit union. Millbury recently received an outstanding CRA performance rating from our examiners and is the first credit union to be accorded such a rating. Previously, Millbury had received the needs-to-improve rating in its last examination and we believe that as the basis of the earlier examination, they used it as a roadmap for an improvement.

In conclusion, we believe that Massachusetts, like many States, has been a source of innovation and change. Being a local issue by nature, the Community Reinvestment Act has worked well with the credit union industry in Massachusetts in helping to meet the credit needs of their entire membership and their communities. And credit unions can not only help to improve the quality of life for their communities in Massachusetts and their entire membership, but they can also enhance their bottom lines by developing a new and loyal customer base. Thank you.

[The prepared statement of Mr. Curry can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Curry. I appreciate your testimony. Just for the record, I was informed that the red light was a minute early, which everybody from Massachusetts will understand.

Our next witness is Cornelius Mahoney, who is the president and CEO of the Woronoco Co., Savings Bank. He is here today representing the Savings and Community Bankers of America. Mr. Mahoney has held various positions with Woronoco Co., since be-



ginning his banking career in 1970, and has been president and CEO since 1986.

We look forward to your testimony, Mr. Mahoney. Please proceed.

**STATEMENT OF CORNELIUS MAHONEY, PRESIDENT AND CEO,  
WORONOCO SAVINGS BANK, WESTFIELD, MA**

Mr. MAHONEY. Thank you. Mr. Chairman, members of the subcommittee, my name is Cornelius Mahoney and I am the president and chief executive officer of Woronoco Co. Savings Bank, a mutual institution in Westfield, Massachusetts. Today, I am representing the Savings and Community Bankers of America, which I serve as a member of the board of directors. I am also chairman of the Massachusetts Bankers Association.

SCBA commends you in the strongest terms for holding this hearing on extending the Community Reinvestment Act to credit unions. Your hearing represents the first time in recent memory that any Member of Congress has agreed to seriously look at the special status that credit unions enjoy.

SCBA takes great pride in the fact that it was at our government affairs conference earlier this year that you publicly proposed to review whether to extend CRA to credit unions. It is the right public policy step.

I want to state at the outset that I have nothing against the credit union industry, particularly those small credit unions which have not strayed beyond their traditional common bond. The problem arises when the line between credit unions and banks becomes virtually indistinguishable.

CRA should be applied to geography-based or community-chartered credit unions and to credit unions serving multiple-employer groups from one metropolitan area. There is no other way for these broad-based credit unions to demonstrate that their lending programs benefit all segments of their local communities.

Credit unions with little left in the way of a common bond should be required to reach out and serve all members of the communities in which they are located, including low- and moderate-income consumers. The credit union industry has moved and continues to move away from its traditional role into the mainstream of banking business. Credit unions should be welcomed to full citizenship in the community of depository institutions, including the rights, privileges, and obligations that entails.

There is an old axiom: If it walks like a duck, talks like a duck, acts like a duck, chances are it is a duck. Credit unions, by their own words and deeds, have moved more and more into the mainstream of banking business. Many credit unions are full participants in the financial marketplace, often blanketing whole communities with advertising.

Much of this advertising of loans and products does not indicate whether membership is required. The same marketing efforts of credit unions regularly promote their higher, nominal rates of interest on savings and lower charges on loans. Many credit unions are looking like banks, acting like banks, competing with banks, and hence, should comply with CRA just like banks. If credit unions are so interested in identifying themselves as full service

banking institutions, they should be equally interested in complying with CRA and paying taxes as we do.

Whether such expansion of the common bond is in fact allowable under some interpretations of the statute, as several courts are currently debating, is really not the central issue here today. The key concern today is that as the General Accounting Office appropriately pointed out 3 years ago, Congress should clarify the future role of credit unions as depository institutions.

Credit unions were granted special benefits, such as being exempt from Federal and State taxes because they served individuals joined together by a common bond. With the attenuation of the common bond concept, the special benefits these credit unions enjoy should disappear as well. Most credit unions in Massachusetts are actively working to meet the challenge of Massachusetts' area law which has an essentially identical rating system as the Federal law.

For example, Greylock Credit Union is the largest mortgage underwriter in Berkshire County. When it applied to establish a branch in the town of Adams, Greylock touted its satisfactory CRA rating as evidence that it is striving to serve all segments of its community.

Credit unions still say they should not have to adhere to CRA because they already serve the common man. This statement may have been true at one point, but no longer. As the GAO pointed out in 1991, the available data clearly indicates that credit unions do not exclusively serve people of small means today. Regulatory aid for credit unions such as the Federal tax and CRA exemption, actually may perversely benefit those with higher incomes at the expense of those with lower incomes.

Credit unions are worthy competitors who should have the confidence to operate without special benefits in the effort to service the public most efficiently. The sad fact is that special treatment creates dissension and bitterness among institutions that otherwise have a great deal in common and that could learn a great deal from each other. After all, we are the stewards of the American dream. Broad-based credit unions should use CRA as a challenge to be met, a public demonstration of their efforts to help break the cycle of disadvantage in the community they serve.

Savings and Community Bankers of America stands ready to assist in any way possible to address this issue. Passage of legislation in the next Congress to extend CRA to community-chartered credit unions and to credit unions with multi-employer groups in one area should be made a top priority.

This concludes my prepared remarks, Mr. Chairman. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Mahoney can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Mahoney. I wish all of the bankers that came before this panel felt the same way as you do about being stewards of the American dream.

I would now like to introduce Armando Cavazos, who is the president and CEO of Credit Union One in Ferndale, Michigan. Credit Union One has 120,000 members and \$350 million in assets,

and operates in 20 counties. Mr. Cavazos is here today representing the Credit Union National Association.

He previously served as an accounting department supervisor, comptroller, and assistant treasury for Credit Union One.

Mr. Cavazos, it is a pleasure to have you before our panel today. Please proceed with your testimony.

**STATEMENT OF ARMANDO CAVAZOS, PRESIDENT AND CEO,  
CREDIT UNION ONE, FERNDALE, MI**

Mr. CAVAZOS. Thank you, Mr. Chairman, and members of the subcommittee. As the chairman mentioned, I am Armando Cavazos, and I am the president and chief executive officer of Credit Union One, which is located in Ferndale, Michigan. Ferndale is a 75-year-old community which is contiguous to the southern border of Detroit.

I would like to thank you for the opportunity to appear before you on behalf of CUNA to oppose extending the requirements of the Community Reinvestment Act [CRA] to the Nation's credit unions. CUNA is a major trade association serving our Nation's 12,733 credit unions. They represent \$300 billion in assets and 67 million members.

I would also like to express and explain the term "field of membership," which is going to be used repeatedly during this hearing. The concept is one that means that a credit union serves an identified group or groups or identified communities, not the general public.

I was asked to represent CUNA today because I serve on CUNA's Field of Membership Task Force Committee. Our task force is looking for ways for more consumers to become credit union members. Our discussion has focused on the need to provide credit union services to more low-income people.

CUNA was very pleased that the National Credit Union Administration revised its policy 2 months ago to provide Federal credit unions with much greater opportunities to reach out to low-income individuals and communities. My credit union, Credit Union One, has a long history of serving groups from all economic levels of society.

We have, as the chairman mentioned, 120,000 members, \$350 million in assets, 17 offices, and 14 facilities that we share with other credit unions in order to serve our members. Credit Union One was chartered during the Depression. In 1938, it was an outgrowth of the Ferndale Cooperative Food Association. Our field of membership encompassed the members of the Ferndale Cooperative, and like all other credit unions, Credit Union One is prohibited by law from serving the general public.

Through our long history, a philosophy of service has evolved whereby we are committed to serving groups from all economic levels of society. At present, 20 percent of our membership is from low-income areas in the metropolitan Detroit area. We serve these members through our branches in southwest Detroit, Detroit Medical Center, as well as the shared service center in Detroit.

We are convinced that credit union resources, generated from serving our more affluent members, can and should be allocated toward initiating and continuing services to lower groups and areas



within our membership. Our southwest Detroit branch, for example, was started primarily to serve a parish and has gradually expanded to serve a 5-mile radius from this church. This area has 70 percent minority population and the median household income is \$16,900. The credit union is one of the only financial institutions willing to serve many of the residents as well as seasonal migrant workers. A great percentage of our loans are unsecured and are often for auto repairs, schooling for children, debt consolidation, and financial emergencies.

In addition, we also cash a significant amount of checks and a large number of money orders at these locations. I would like to share with the subcommittee some information about some of our products served and provided for at those facilities.

We make small, unsecured loans for periods of up to 30 months at a rate of 8.75 percent. There is no charge for check cashing if the member is under 21 or over 65 years of age, or if the member has one account relationship with the credit union; in other words, \$5 in a regular savings account and \$5 in a Christmas club account; if the member has a savings balance of \$300 or more, otherwise, the charge is \$2.50.

We offer money orders for \$1 and waive that fee if the member is on direct deposit or payroll deduction. In addition to the above services, we also reach out and are actively involved in our community in many ways, but one I would like to share with you, which is very significant, is our program at Winguard School in Detroit, a vocational school serving low-income, mentally impaired adults.

Credit Union One operates a student credit union. The Winguard School Credit Union allows these individuals to gain experience in basic money handling. Credit Union One provides this service because of our commitment to enhancing the self-sufficiency of these community residents, and there is not an ulterior profit motive.

Clearly, Mr. Chairman, I am proud of the record of our credit union and feel that we are doing an excellent job of serving our existing members and of reaching out to all income levels of the communities we serve. In my opinion, there is no justification whatsoever for including Credit Union One or any other credit union under CRA. But most importantly, CRA would not cause this credit union to change the way it is serving its members. The only thing that would be added would be extensive and costly documentation of the work we are already doing.

The National Credit Union Administration has received no evidence of complaints of a CRA nature, either from credit unions within the community charters, or those with traditional fields of membership. My State regulator, Mr. Patrick McQueen, feels that Credit Union One and other credit unions in our State are serving the credit needs of their members very effectively.

I urge you not to amend a law simply because some would like to make us less competitive by increasing our costs. In fact, the result would be the opposite of what CRA envisions: Fewer loans in low-income areas, as well as a reduction of services.

I have examined closely the 12 factors with which I would have to comply under the CRA. These factors are vague, general, and appear to me to demand very subjective appraisals. More importantly, because of statutory and regulatory restrictions on certain

kinds of lending, the requirement to serve only those within our fields of membership, it would be impossible to meet many of these requirements.

In your letter of invitation, you asked for comments on four specific questions concerning credit unions. I provided answers in the written statement and will take questions later.

The new chairman of NCUA appears to be committed to a more expansive effort for credit unions to serve low-income areas. Many of us in the movement see this as a signal for a return to the basic current philosophy of people helping people. We hope this commitment will be conveyed to and executed by the field examiners. We are now seeing efforts not only to expand the number and scope of low-income credit unions themselves, but also a very recent change in the field of membership policies to permit any credit union to include low-income groups or areas.

I would like to close with a final thought about the credit union philosophy. In 1882, Frederick Prosesin, the founder of the credit union movement, stated the only way to improve social and particularly economic conditions is to put humanitarian principles into action through independent cooperatives. The credit union movement continues to exemplify this spirit today.

Mr. Chairman, I believe that credit unions are simply not guilty of refusing to serve all of their members or all of their communities. If there are isolated programs, NCUA has the authority to address them. Extending the CRA to credit unions is neither warranted nor necessary and we strongly oppose any efforts to do so. Thank you. I would be happy to answer any questions from you or the members of the subcommittee.

[The prepared statement of Mr. Cavazos can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Cavazos. We will have a few questions for you.

Our next panelist is Augusto Gomes, who is the president and CEO of the Lusitania Federal Credit Union located in Newark, New Jersey. Mr. Gomes has previously served as president of the Abington Urban Renewal and the treasurer of the Portuguese Continental Federal Credit Union. It is a pleasure to have you with us here this morning, Mr. Gomes. Please proceed for 5 minutes.

#### STATEMENT OF AUGUSTO GOMES, PRESIDENT AND CEO, LUSITANIA FEDERAL CREDIT UNION, NEWARK, NJ

Mr. GOMES. Thank you very much. Mr. Chairman and members of the subcommittee, as the chairman said, my name is Augusto Gomes and I am executive officer of Lusitania Federal Credit Union. This is a federally chartered credit union located in Newark, New Jersey, and I hope that we have a better fate than the ship. The reason I am saying that is because we are also the first Federal credit union to apply for a Federal mutual fund bank.

Lusitania was chartered in 1980 to serve the savings and credit needs of our community, which consists primarily of the Portuguese community located in the so called ironbound section of Newark. The officers and directors and employees of Lusitania generally speak Portuguese and Spanish, and are familiar with dif-

difficulties encountered by our local community and by the recent immigrants.

Lusitania has been the primary source of loans for many local retail businesses and for much of the area's individual purchasing of multifamily dwellings. This is an area that has been somewhat abandoned by the banks. This is an area that is over 90 percent minorities.

Historically, these loans have consisted of mortgages secured by real estate, commercial, and mixed used. As of June 30, 1994, Lusitania had assets of \$51 million and net worth of \$6.8 million in assets. Most of these loans were in real estate and home equity loans. As a matter of fact, 92 percent of these loans were comprised of these.

On August 3, 1994, Lusitania filed its application with the Office of Thrift Supervision to organize a Federal mutual savings bank, and while NCUA and most of the credit unions are opposed to the requirement to comply with the Community Reinvestment Act, it is our desire to meet the CRA needs of our community.

The subcommittee has asked us to address several issues which are the following: Do we believe it is appropriate for the credit unions to meet the Community Reinvestment Act requirements? There are certain types of credit unions, for example, credit unions that solely serve the credit union needs of the employees of a company or a similar, limited specific group of persons should not be imposed with the requirement of CRA. We see no sense and purpose as such.

However, the credit unions that have a street front office, that were chartered for a specific geographical community, or serve many groups of employee people, we believe that those credit unions should comply with CRA requirements.

Would compliance with CRA impose an undue burden? We believe that imposing CRA requirements on community credit unions, we do not believe that this would be unduly burdensome on the credit unions. As evidenced by the fact that we have applied—this applies to all Federal savings banks already.

To the extent that CRA standards apply to credit unions, do we believe that such a standard should recognize the different sizes and types of credit unions? This was the question. I previously indicated, that although we believe that it is appropriate for CRA standards to be met by the community credit unions, such standards should not apply to company or similar types of credit unions serving a limited population of members.

We are confident that we can meet the requirements of the CRA if we are permitted to complete our charter conversion to a Federal savings bank. We have applied with the OTS and FDIC to become a Federal savings bank, and doing so, we will immediately have to comply.

In regard to our application to flip the charter, NCUA has taken the position that the agency has the authority to prove or reject the commission of charters. We believe that it is the responsibility of the board of directors and the members to decide what best fits the needs of the members and their community.

This is all I have, Mr. Chairman. Thank you for the opportunity.



[The prepared statement of Mr. Gomes can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Gomes. We appreciate your testimony.

Our final witness in this panel is Tom Callahan, who is the executive director of the Massachusetts Affordable Housing Alliance. The alliance is a statewide coalition of 140 organizations that works to increase public and private sector investment in affordable housing. He has done fine work in the implementation of CRA on a number of different fronts and it is a pleasure to have him with us this morning.

Please proceed for 5 minutes, Tom.

**STATEMENT OF TOM CALLAHAN, DIRECTOR, MASSACHUSETTS AFFORDABLE HOUSING ALLIANCE BOSTON, MA**

Mr. CALLAHAN. Thank you, Mr. Chairman, members of the subcommittee, for the opportunity to testify today. I will start out with a quote. "Credit unions, by definition, must serve their community," end quote. Undoubtedly, each member of this subcommittee has either heard this or will hear this from credit unions and their lobbyists. In Massachusetts, however, I would like to say that that is not the case.

As you have heard previously, Massachusetts gives CRA ratings to all State-chartered credit unions. Based on available public ratings, fully 37 percent of the 78 ratings that have been given to credit unions to date have been failing grades of either "needs to improve" or "substantial noncompliance."

Compared to banks, the Massachusetts Division of Banks awards only 6 percent of banks in the State a failing grade. The FDIC, only 5 percent of Massachusetts banks receive a failing grade. The OCC, none of their banks receive a failing grade, but 37 percent of our credit unions fail the CRA test. That does not sound like an industry that by definition is serving community credit needs.

In Massachusetts, 5 credit unions of the 78 have been examined for CRA twice now in the past 4 years. In four of those five cases, those credit unions improved their rating, showing that the CRA law does have an impact on their performance.

Credit unions have responded, albeit slowly, to a State examiner asking questions about things like geographic distribution of mortgages, services for low-income consumers, branch patterns and hours, marketing and outreach to community groups. Credit unions, indeed, compete with banks.

In Brockton, Massachusetts, the Brockton Credit Union is a \$400 million institution; Crescent Credit Union, \$164 million; and Brockton Brotherhood Credit Union, a \$55 million institution. Those credit unions compete with some Boston-based banks in the county that you may have heard of. Baybank has only \$188 million in assets in the county. Citizens Bank \$236 million, and fleet, \$258 million. So in one case, the credit union is larger than some large Boston-based institutions in that geographic area.

In Pittsfield, Massachusetts, Greylock Credit Union has \$260 million in assets. Only one bank has more assets in Berkshire County. And the Greylock Credit Union dwarfs most other banks in that county.

For credit union customers, and my family is one, there is little difference between a bank and many credit unions. Credit unions look, feel, and act like banks. In fact, to prove I am a credit union customer, this is my card that I have used to get money here in DC and all over the country, actually, as well as in my home city of Brockton at the five branches and ATMs that the credit union has. To paraphrase a popular commercial, this is not your grandfather's credit union.

In the 1992 annual report to the commissioner of banks, though, only seven credit unions in the State reported that they offer flexible mortgage products. Over half of the credit unions in the State did not even offer a low-cost checking account to their customers.

Clearly, a CRA law and strong enforcement of that law are needed if credit unions are to truly meet low- and moderate-income credit needs. I will talk about a couple of examples. As I said, my hometown of Brockton is home to at least three significant credit unions. The Brockton Credit Union has stepped forward over the past 2 years and has now taken a leadership role in affordable housing in the city.

It is an active member and a founding member of the Brockton Housing Partnership, a consortium of banks, government, and community groups that is seeking to revitalize housing stock in the city. The credit union offers a special first-time home buyer mortgage program with no points or closing costs and low downpayments, and it has also worked closely with the Brockton Community Corp., a nonprofit housing development organization, which I served on its board.

The Greylock Credit Union is a leading financial institution in Berkshire County in western Massachusetts. It has been an important player in the county's top nonprofit development organization, Berkshire Housing. Greylock offers also a first-time home buyer program called the Good Samaritan Program at 1 percent below the market rate with low downpayments and reduced closing costs.

Greylock is also an active partner with many of the area's community organizations. CRA has indeed been an incentive for Greylock, which as you heard earlier, has been looking to expand its charter and has needed State regulatory approval, which includes a thorough CRA review and opens the credit union to a public challenge of its application.

If you read through the narrative evaluations of credit unions as we have, it is clear that the credit unions are not being penalized in Massachusetts for failure to produce the sometimes voluminous documents and glossy CRA statements that some of the larger retail banks have been known to produce.

Instead, regulators look at whether the board has discussed CRA, at where the bank markets its services, at how its loans are distributed throughout the credit union's geographic area. If you are meeting low- and moderate-income community credit needs, CRA, it is clearly not a burden to prove that under CRA in Massachusetts. Thank you.

[The prepared statement of Mr. Callahan can be found in the appendix.]



Chairman KENNEDY. Thank you, Mr. Callahan. That concludes the formal statements of our panel of witnesses, and we will now turn to questions.

My first question would, I think, go to Mr. Cavazos. You indicated, as I understand in your testimony, that most of your objection about complying with CRA seem very familiar with—what I hear when I listen to banks talk about CRA. You may be familiar with the fact that Mr. Ludwig at the OCC has announced, I think today or yesterday, or sometime in the next few days that there will be a major change in the Community Reinvestment Act, and so we can presume that he will be taking comments on some new guidelines that will be issued and this subcommittee will also be delving into those issues, as well. Nobody is interested in seeing paperwork.

If we can assume for the sake of discussion that we can maybe deal with the paperwork burden issue, don't you think that there is at least some rationale for extending CRA to at least a segment of the credit unions? You know, maybe there is some way to deal with this issue so that very small, specific organizations that I think Mr. Curry referred to in his testimony that are dealing with just a particular organization and have a very small amount of depositors and the like might have some kind of exemption, but these larger credit unions that have hundreds of millions of dollars, who are the dominant players in these counties, who are able to spread across large geographic areas or have, as one credit union in my own district has, you know, says that they are going to serve the people of the city of Boston. It is even bigger than that. It doesn't appear to have any guidelines that are much different than a bank's.

They have an advantage in terms of the tax base, and yet their CRA compliance, at least in reference to the HMDA data, would suggest that they are not doing a very good job of serving their low-income or minority constituents or depositors. So it would appear that there is an instinctive self-interest in saying, of course, we should not be covered, but when you peel back the covers a little bit, it seems that there really is a pretty good case that can be made that the larger ones, in particular, ought to go through the CRA examination. And in a case like yours, I am sure you would pass. Do you have any thoughts about that?

Mr. CAVAZOS. Yes, Mr. Chairman. The opposition to coming underneath the umbrella of the CRA, documentation is one part of it, but the real essence of it is structurally, credit unions are not incorporated or organized as a cooperative to only serve their identified field of membership, and we don't serve in that sense, or are allowed to serve the general public, so that is one aspect of it.

The other aspect is that currently we have not received any evidence of any type of violation. And so as our structure, our specific structure is set up, that we can't make—

Chairman KENNEDY. How can you be cited for a violation?

Mr. CAVAZOS. We don't make—

Chairman KENNEDY. If you are not examined, I mean, of course, you are not cited for a violation if you are not examined, right, for CRA purposes?

Mr. CAVAZOS. Well, CRA-type. We are reviewed by the National Credit Union Administration, and they do have fair lending compliance regulations.

Chairman KENNEDY. Well, fair lending, OK. But do they have one for fair lending?

Mr. CAVAZOS. Well, the National Credit Union Administration, and I will submit for you, Mr. Chairman, on behalf of the Community Development Revolving Loan Program, credit practices, defines unfair credit practices, discrimination—

Chairman KENNEDY. Have you been examined for fair lending by—

Mr. CAVAZOS. We are a State-chartered credit union insured by the National Credit Union Share Insurance Fund.

Chairman KENNEDY. It is a fairly simple question. It is yes or no. Have you been examined—

Mr. CAVAZOS. We have been examined by NCUA.

Chairman KENNEDY. For fair lending?

Mr. CAVAZOS. This is part of their examination.

Chairman KENNEDY. Now, now, listen. Let's not play games with each other. I am asking you a very simple, straightforward question. Have you been examined by NCUA for fair lending?

Mr. CAVAZOS. They have, as part of their examination, put in the fair lending aspect of it, and we have never, at this point in time, been cited for any violation.

Chairman KENNEDY. Has there been an examination, sir?

Mr. CAVAZOS. Pardon?

Chairman KENNEDY. Has there been an examination?

Mr. CAVAZOS. By NCUA, yes, sir, as their normal examination, yes, Mr. Chairman.

Chairman KENNEDY. NCUA has informed our subcommittee that they don't do that, so we will talk to them and try to find out what the difference is here. They have told us specifically that they don't do that. So we will find out what is what.

But in any event, the point is that if you are being examined, and if there are these discrepancies under the HMDA data, I think there are many members of this subcommittee that have felt a long time, I know Ms. Velazquez has questions and I have, and other members of this subcommittee have argued long and hard that a trigger mechanism ought to be put in place for CRA so that when HMDA data indicates that a particular institution is denying minorities access to loans at a particular rate, that that ought to instantaneously kick out a CRA examination.

If your institutions are, in fact, turning down people of the same incomes, coming from the same neighborhoods, but happen to have a different color skin at a rate one-third more, almost one-third more than the average bank, don't you think that maybe there is a problem?

Mr. CAVAZOS. Mr. Chairman, that HMDA percentage, I think the one stated that it was like 2.5 or 2.7.

Chairman KENNEDY. It was like 2.7.

Mr. CAVAZOS. One of the things when you look at that universe is that credit unions really have not been involved in mortgages significantly across the Nation. I know in our credit union we have

only been involved with mortgages for approximately 4½ years, and—

Chairman KENNEDY. That doesn't really deal with the central issue. I don't care how long you have been involved with the issue.

If, in fact, there is a large racial discrepancy, don't you think that maybe requires us to look after what is really going on?

Mr. CAVAZOS. The NCUA did have a study in regard to this, any type of discrimination, and in their study they revealed that they did not agree with it.

Chairman KENNEDY. NCUA tells us that they don't, in fact, have these fair lending examinations for State-chartered institutions. We are going to try to find out what is what.

Mr. CAVAZOS. Absolutely.

Chairman KENNEDY. Anyway, my 5 minutes is up.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. My experience with credit unions has been kind of interesting and kind of culminated during the FIRREA hearings and the process of developing that piece of legislation. Credit unions were established, as it has been pointed out to me, as a resource for funds within the framework of its membership for various and sundry reasons, not the least of which would be emergency activities on the part of a family where they needed something in a hurry, and that these charges and activities were a result of the deposits upon which the members received more in the way of interest than they could expect to receive downtown at a regular institution. And, conversely, because of that, they were able, then, to borrow at far less than they were in the traditional consumer loan type of activity.

Now, that was fine and we had this particular institution on the second floor of a business or an industrial or some type of a complex serving the membership of that particular institution.

Then, we started expanding into the brokering of automobiles, where, come and see us and we will help you make your deal downtown with the dealer, and then pretty soon the dealers said, OK, I want to join your organization and be one of your suppliers. And that is fine. We would like to have you and we will refer everybody to you who comes in and wants an X, Y, Z coupe. But you understand that each one you sell is going to have a certain fee attached to it that you pay to the credit union.

And then we got involved with credit cards and now in California, some of the credit unions are financing 30-year mortgages on single-family homes, providing money for purposes of developing shopping centers, and in my opinion, the original purpose of the credit union to be a source and resource for savings and needed money has gone beyond the bounds of the original intent of what those who developed the credit union activities as legislation had intended.

Hence, we have now pressure upon the credit unions to join the rest of the financial institution family and do the things that they have to do, the laws of the United States, which are a cost of doing business as well as addressing the needs of the communities in which they serve.

Now, Mr. Cavazos and Mr. Gomes, you both represent credit unions. I have taken some time to lay a little framework here.



Shouldn't we distinguish between the credit union on the second floor who is a small loan company and a savings depository from the person who is developing shopping centers and competing directly with the institutions that are required by law to do these things?

Mr. CAVAZOS. Yes.

Mr. GOMES. My answer is certainly that there is a difference and they should be recognized. The ones that serve the large community that they should be, they should comply, we believe. Those that serve just the little, specific group I don't think they should be burdened with this paperwork.

Mr. CAVAZOS. Congressman, just a comment, again to your thoughts. We don't believe that there is a difference in the size of that particular credit union, whether they are a large one or a small one or medium-sized. And the reason is because structurally, we all have to serve the members that are identified as part of our field of membership, whether it is a community, whether it is an occupation or association.

The onslaught of adding different services provided to those particular members that we serve are significant because I have been in this credit union movement for 20 years, and in the financial institution arena, and I remember when it was the real essence of having checking accounts for credit unions. So we have had, over the years, an evolution of demands of the consumer and members to add products and services.

I don't know and I can't comment on the credit union that is involved in a particular large, I take it large commercial lending for a shopping center. But that is, I can only express to you that in the State of Michigan, that my experience with my colleagues is, that does not happen. We are limited by commercial loans to not exceed on the—if you are a federally chartered credit union, \$50,000, and on a State level, in our State of Michigan, it is \$25,000. The only thing that we can do is seek a waiver or an exception to that, and that has to be submitted to the regulatory agency in order to have that waiver.

Mr. MCCANDLESS. Thank you. Mr. Curry, do you distinguish, when you do what it is you are required to do by law in Massachusetts, between the size of the credit union and how it serves the community and to what degree it has expanded into the community?

Mr. CURRY. The law itself doesn't distinguish between the types of credit unions; it applies to all credit unions. However, since we are the regulator for the State-chartered credit union industry, we are aware of the legal and structural differences between industrial-type credit unions and community credit unions. Community credit unions are essentially treated the same as banks in terms of the CRA process.

The adjustment is made for the smaller credit unions and the industrial-type credit unions in terms of given their field of membership, how well are loans distributed among the membership in terms of income and demographic considerations. Primarily, that is our focus to see whether fair lending requirements are being met.

Mr. MCCANDLESS. Thank you. My time is up. Thank you, Mr. Chairman.

Mr. GUTIERREZ [presiding]. When I stepped over here, does that mean that I get to step over—

Mr. MCCANDLESS. You lose your turn.

Mr. GUTIERREZ. Congresswoman Velazquez from New York.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Mr. Cavazos, critics of the current regulatory scheme allege that large credit unions like Credit Union One operate more and more like banks. How do you respond?

Mr. CAVAZOS. We have similar products and services, but I don't believe that we certainly operate like a bank because of one, our unique structure. We have no—our stockholders, shareholders are our members and they own the credit union. We have a volunteer board of directors and we also look at those volunteers for the input for the mission or vision of our particular credit union and they operate and direct the policies of that credit union.

I would also like to say that in our case, our particular credit union, in the credit union world, is a large credit union. But it is a pittance in comparison to some of the banking and financial institutions in the Detroit metropolitan area in the State of Michigan. But we do have different missions.

Our average savings account is only about \$2,500 to \$2,700 per account. The Detroit area, metropolitan area that we serve, and that is about 39,800 members, their average savings balance is only \$1,000. So those particular communities, and we serve a significant amount of minorities in the community where we have our facility, and many of those facilities that we have are really the hub of that community, and we hire—we have bilingual staff. We hire people that live in those communities and support those communities and to develop their own community infrastructure for independence.

Ms. VELAZQUEZ. Where do you invest your assets?

Mr. CAVAZOS. Well, we invest almost 80 percent of them in our member loans, and of that 80 percent, of the 80 percent of those loans, approximately 60 percent of it are in consumer-type loans, and the rest of it is, as I mentioned earlier to the chairman, we have only been in real estate first mortgage lending for about 4½ to 5 years, and if you recall 5 years ago, part of the stringency placed on credit unions and mortgages was to make sure that you had the liquidity and that the liquidity meant that you had to be set up and apply for the secondary markets, which were much more stringent.

Now, I think credit unions have had a 5-year experience. They also dictated that we try not to have more than 20 to 25 percent of our loan portfolio in mortgages.

So we have experience now and I think we want to look at expanding that.

Ms. VELAZQUEZ. Can you tell me the salary levels of the credit union's top executives?

Mr. CAVAZOS. Salary levels? Salary levels. There is a publication put out by the Credit Union Executive Society, and they have—there was a study that was done and they do it annually, and they have the range from, all the way through geographic areas, asset size, number of members and employees. So that is a wide range, and I would be more than happy to submit that to you.

Ms. VELAZQUEZ. What is your salary?

Mr. CAVAZOS. My salary? My salary is \$198,000 plus an incentive program, if, in fact, we meet certain needs in the communities that we serve in loans, and so forth.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. GUTIERREZ. Thank you, Congresswoman Velazquez. Now we will go to Mr. Knollenberg from Michigan.

Mr. KNOLLENBERG. Thank you, Mr. Chairman. I want to thank Chairman Kennedy for arranging for the panel. I want to in particular acknowledge the panel and singularly Mr. Cavazos, who as CEO of Credit Union One, which is right over the border from my district, serves many of the constituents in my district.

I have a question for you, Mr. Cavazos, to start with. How would you respond, for example, to Mr. Curry, who is the acting commissioner of the Division of Banks for the Commonwealth of Massachusetts when he says that in his testimony, there is no reason that credit unions cannot comply with the requirements of CRA. Could you comment on how you would react to that statement?

Mr. CAVAZOS. Yes. In our State, the State of Michigan, my conversation with the commissioner, Mr. McQueen, he feels that to add another layer of some type of regulatory requirements and reporting documents would not be necessary, and because there has been no evidence of any particular violation of something similar to the CRA Act. And so in that sense, some of the areas like the marketing, the education, some of that becomes very subjective in how you meet it, and then the other aspect of it is that from a regulatory standpoint we cannot, and we are limited in the extent of not being involved in commercial loans for, say, the lower income communities.

And so from that aspect, he feels and we certainly support that, is that there is not anything necessary to add any kind of documentation or whether or not we have to start tracking all of the marketing, educational aspects, or parts of our programs and putting it into some type of a summary report. So his comment, again, we agree and support; that is, that we do not need at this time certainly an added layer of regulatory requirements.

Mr. KNOLLENBERG. Let's say that the worst of all possible things happen to you, and we did—or you did find one day that CRA was extended to your institution. Who, in your judgment, would bear the ultimate cost, compliance cost? And there would be a compliance cost. And you did say, I think, you have some 40,000 members with an average balance of how much?

Mr. CAVAZOS. Of those 40,000 members, they have an average savings balance of \$1,011.

Mr. KNOLLENBERG. They receive dividends as a result of being—

Mr. CAVAZOS. Absolutely.

Mr. KNOLLENBERG. Who would bear those costs.

Mr. CAVAZOS. And part of that is, if it increases our operational costs, we then have to either reduce the interest rates that we have on savings to our members, we have to increase possibly the loan rates or add fees to cover some of those operational costs. And ultimately the member, the consumer in that particular community where you are trying to build that infrastructure, loses.



Mr. KNOLLENBERG. These are the 40,000 depositors, 40,000 members.

Mr. CAVAZOS. That is correct, Congressman.

Mr. KNOLLENBERG. A question for Mr. Gomes. Am I pronouncing that name right?

Mr. GOMES. That is correct.

Mr. KNOLLENBERG. I noticed in your, I think you made this both in your testimony, written testimony and commented on it when you testified, you are shifting, I believe, making the move from your current credit union status to a savings bank?

Mr. GOMES. We have applied—

Mr. KNOLLENBERG. You are at least in the application process?

Mr. GOMES. Yes. We have applied to OTS and FDIC for a mutual Federal savings bank charter, yes.

Mr. KNOLLENBERG. So you have to, of course, comply with CRA then?

Mr. GOMES. Certainly. We are aware of that, and we have submitted our statement, and it has been received as acceptable.

Mr. KNOLLENBERG. So then it is just a matter of fact that you will be dealing with CRA as a must. I guess a question that I would want to raise, and I am not sure we need to target this for anyone in particular, but I noticed in the process of conversation and testimony being offered, mortgages came into play. It is my belief, and either Mr. Cavazos or Mr. Gomes can respond to this, but it is my belief that credit unions are pretty much brand new players, are they not, in the mortgage market?

Mr. CAVAZOS. Congressman, yes. In our case, we have only been involved in first mortgages for approximately 4½ years, and I would say probably 75 to 85 percent of the credit unions are in that same particular situation.

Mr. KNOLLENBERG. Is that true in Massachusetts, Mr. Gomes?

Mr. GOMES. New Jersey.

Mr. KNOLLENBERG. I am sorry, New Jersey.

Mr. GOMES. The real estate business has been our main business in Newark, New Jersey. As I stated before, this is an area that banks have somewhat abandoned and we are talking about an area that is 80 percent minority, and we have filled this void very well.

Mr. KNOLLENBERG. Let me ask you a question. When you make a mortgage loan, maybe you know the answer to this, does the loan officer or do you know whether it is going to be kept in a portfolio or sold on the secondary market?

Mr. GOMES. Most of the time, yes.

Mr. KNOLLENBERG. Would you, Mr. Cavazos, respond?

Mr. CAVAZOS. Congressman, most of our first mortgages, by policy set by the board and some guidelines set out by NCUA, we are required in our policy so that we have the liquidity to sell off our first mortgages. All of our 30-year mortgages are secondary requirements. And our 15-year mortgages are secondary market requirements applied to, and we do retain that service—we do do all the servicing for all of those mortgages, but we do have them hit the standard for the secondary markets, and that is because of liquidity purposes. And what we are doing now is reassessing, now being that we have the experience to try other processes involved.

You mentioned earlier, Congressman, about some of the areas, about some of the documentations, and so forth, and maybe another layer of cost involved in order to meet some of the requirements. There was an article—it is not only credit unions, but also some of our individual critics in some fashion, there was an article, and I would certainly be willing to submit it, in the *Banking Journal* in February 1994 and there was a statement stated that broadening CRA to include other financial intermediaries. Ferguson takes a slightly different tack than others.

I wouldn't wish CRA on anybody, including even his nemesis, the Red River Credit Union. I would rather spend the time working to release banks from CRA than trying to bring everybody else into it. This isn't a universal opinion, he acknowledges. But that is the essence of it, and that is what we are here for.

Mr. KNOLLENBERG. I appreciate that comment. My time has expired.

Mr. GUTIERREZ. Thank you, Mr. Knollenberg. We will go to Mr. Barrett from Wisconsin.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. Mahoney, obviously, the issue today is whether the CRA should be applied to credit unions. Do you think it should be applied to mortgage bankers?

Mr. MAHONEY. Of course, Congressman, the issue today is CRA for credit unions, and mortgage banks are not deposit-taking institutions. So I don't know if that—does that answer your question?

Mr. BARRETT. I infer from your answer that you would say no?

Mr. MAHONEY. Yes.

Mr. BARRETT. I just wanted to see what kind of level playing field we are interested in here today.

I come from Milwaukee, Wisconsin, and your illustrated examples of how credit unions compete with banks, you mentioned the Landmark Credit Union, which is close to my home, and you say that it offers quote, fair rates, convenient hours, timely closings, and interest on escrow. Are those bad things that put you at a competitive disadvantage, Mr. Mahoney?

Your testimony talked about advertising for fair rates, convenient hours, timely closings, and interest on escrow. I failed to see why those are bad things.

Mr. MAHONEY. Well, they are only bad things because they diminish the original intent of what we were talking about with the common bond. So the argument is—

Mr. BARRETT. Fair rates diminish the common bond or convenient hours.

Mr. MAHONEY. The mere fact of the advertising to a general population, and those are the things that we are talking about.

Mr. BARRETT. So any credit union, in your mind, that advertises should be brought under the CRA?

Mr. MAHONEY. Yes. But let me just specifically answer your question perhaps with an example.

Mr. BARRETT. Go ahead.

Mr. MAHONEY. We have in my county, there is a credit union, Polish National Credit Union, and they would advertise on a local radio station for many, many years. And most recently the tag line for this particular advertisement always was at the end: You don't



have to be Polish to belong, which stretched beyond the original—

Mr. BARRETT. OK. I understand. I appreciate your answer. OK.

I would like to go to Mr. Cavazos. You talked about your salary including incentives. Can you let us know how much those incentives were?

Mr. CAVAZOS. They could be up to 9 percent, and don't always get to 9 percent.

Mr. BARRETT. So \$20,000, \$18,000?

Mr. CAVAZOS. It could be. That could be. But based on certain programs implemented in the credit union.

Mr. BARRETT. Your field of membership for your institution, is it geographical? What is your field of membership?

Mr. CAVAZOS. It was chartered in 1938, Congressman. The field of membership is based on the Ferndale Cooperative. So if an individual joined the Ferndale Cooperative, they then could join—

Mr. BARRETT. Today, what is the field of membership. In your testimony you made reference to a parish and a geographic area, so obviously, that is not the same thing.

Mr. CAVAZOS. Right. Throughout the years we have assisted credit unions that have been in areas or smaller credit unions that may have been in trouble providing some of the services to their members. Some of them might be the People's Community Credit Union in Detroit, the African Methodist Credit Union in Detroit, where we have our southwest office. Thirty years ago it was Holy Redeemer Parish Credit Union. What we made a commitment to do was to go in there, keep the services to the members of that community.

Mr. BARRETT. So how many of yours have a geographic field of membership, or do they all?

Mr. CAVAZOS. It is not just that particular branch. We have approximately—I say approximately because we have two new centers going up, but they are across the State of Michigan, they can be. An example, Grand Rapids, Michigan, we have a facility.

Mr. BARRETT. So that—don't you think that a branch or an institution with a geographic membership is more similar to a bank or a savings bank? Because you don't really limit.

I am a member of a credit union. I like credit unions, but once you start moving away from your traditional cooperative motto to a geographic membership, I think you are branching out into new areas.

Mr. CAVAZOS. Well, I don't share that same opinion, Congressman, because I think the uniqueness of the credit union is that it is a membership-owned, and we do have a volunteer board, and we, in those particular communities that we serve, have liaison committees that we meet with, that are representatives from that community membership. And so as identified in our charter, that is who we serve.

It is not necessarily the geographic area. It is what is in that particular charter that has been assigned to us, and that charter, if it is identified as people who belong to the St. Matthew's parish and their other affiliations, then that is the uniqueness of what the credit union is doing.

Mr. BARRETT. I am certain there are ones that have a strict or solely a geographic field of membership. Do you think that those should be treated differently? If the field of membership is people who live in Detroit, Michigan, why should then you not require them to serve the people who live in Detroit, Michigan?

Mr. CAVAZOS. Those that have a geographic definition by their charter and that is their field of membership, that is all they can serve in that particular geographic area.

Mr. BARRETT. Don't you think that we should ensure that they then serve the whole community. That is the whole essence of the Community Reinvestment Act.

Mr. CAVAZOS. The way that the credit unions are structured, they have to serve, by their own nature, they have to serve those individuals that are members in that community. They have to.

Mr. BARRETT. So why is it objectionable for us just to make sure that that goal is reached?

Mr. CAVAZOS. Well, because in our case, again, Congressman, through the—there is a study that is a report by the examination of discrimination practices by credit unions, by NCUA, which is an attachment, there is no—has been no evidence that credit unions have violated any discriminatory practices in low-income areas.

Mr. BARRETT. So there would be no problem in complying with CRA?

Mr. CAVAZOS. Pardon?

Mr. BARRETT. So there would be no problem in complying with CRA?

Mr. CAVAZOS. No, if there is no evidence, why should we have an additional layer of regulation which then increases the costs, and so forth, which reduces services.

Mr. BARRETT. Thank you very much.

Mr. GUTIERREZ. We have 10 minutes before the vote. I think that is ample time as all of the members are real young and vigorous here and in good health. So why don't we go to Congresswoman Roybal-Allard, have her ask her questions and then we will recess for the vote.

Ms. ROYBAL-ALLARD. I just want to pursue the same line of questioning that Congressman Barrett was following, because, unfortunately, and I apologize, I missed most of the testimony, but based on what I have been hearing is the main contention for having credit unions fall under the CRA guidelines or requirements is because there is—it is unfair, is that what I am hearing the banks saying, that it is not fair, that there is no level playing field, and that is why credit unions should then be required to fall under these requirements?

Is that the main reason for this, Mr. Mahoney? Do I understand that correctly?

Mr. MAHONEY. I don't know that the issue of competitiveness, or let me come at it from this way. You know, it started out, and I apologize for you missing some of my testimony, but if it walks like a duck and talks like a duck, and so on, it is a duck. We are talking about certainly the larger credit unions here who have gone beyond what was originally their common bond.

More importantly, I guess, the answer is, my institution was formed 123 years ago back in 1871. We came forward to 1977. We

might have argued the same types of things that we have heard here today and certainly I have been one of the ones who have bent Congressman Kennedy's ear on changes, but it is within changing the process of compliance. It is not looking to override so much the law.

What has really come to the forefront here is the demonstration of whether it is a need or not, but by whose standards? And, certainly, Congress represents the people, and therefore, it is their standards, and certainly we as banks have always been willing to comply with this issue, and that is really what we are talking about now. For those larger institutions coming up and competing directly with us, they should also comply with the same standards.

Ms. ROYBAL-ALLARD. But even in terms of the larger institutions, my understanding is they are still nonprofit organizations, regardless of the size, credit unions are still nonprofit. Banks are for profit. So I mean regardless of size, there is still that basic difference. Regardless of size, the boards of credit unions are volunteers; banks, they are not.

You have shareholders in banks. My understanding is that the money—I believe when I came in, Mr. Cavazos, you were saying that 80 percent of the profits go back to the community itself. Is that correct?

Mr. CAVAZOS. Yes, Congresswoman. The 80-percent figure was we invest back into the members in the respect of loans. And of that, 60 percent or 65 percent in our case are loaned out in consumer-type loans and the balance of it is in mortgages.

Ms. ROYBAL-ALLARD. OK. Mr. Mahoney, what percentage of your profits go back actually to the community? Does it go to your shareholders? I mean in comparing the two, if 80 percent go back to the community for credit unions, what percentage—

Mr. MAHONEY. Congresswoman, first of all, let me clarify, I am a mutual institution, so I don't have shareholders. My bank is owned by the depositors. So any money that we earn certainly is held in reserve to comply—I have to be careful on this answer, because I have my chief regulator next to me—to maintain the safety and soundness, the future safety and soundness of the institution. There is a certain thing that we recognize in terms of what we do in our community and what we put out of the institution into the community.

For any community to advance, there has to be a weaving of the institution, any financial institution into that character of the community. And we certainly have done many things in order to do that.

In terms of actual dollars, I don't have that exact figure, but I can tell you some of the things, and you could probably get a certain conclusion on it. We have put a branch of the bank in the high school that is run by the high school students themselves. We take, I believe it is 2 percent of our pretax earning and set that aside for community development projects.

We are not considered, or as a mutual, we are not a cash cow. We don't continue to build up profits and so on for the sake of building them up. We keep whatever is necessary to continue and move on the safety and soundness of the institution. I cannot speak for what stock institutions do, or stock banks.



Ms. ROYBAL-ALLARD. OK. What I was trying to understand is, there obviously is some benefit to being a bank over a credit union. Otherwise, banks would be changing their charters to become credit unions, and I am trying to understand what those advantages are, so that I can better judge whether there is an unfair playing field here or not. Can you elaborate a little bit on that?

Mr. MAHONEY. Well, I think the key thing going, again, we are talking about, at least from my perspective, larger institutions. We are not talking about the smaller, \$2.5 million credit unions. We are talking about the larger ones.

Ms. ROYBAL-ALLARD. I understand. Let me just say that regardless of size, though, the structure is the same; there are still volunteer boards. They are still not for profit, so I understand to some degree what we are talking about about size, but, nevertheless, the structure remains the same. So I am having a little bit of trouble understanding why size is as important as you are claiming that it is.

Mr. GUTIERREZ. Do you want to answer that question quickly? We have 3½ minutes to vote, so take 10 seconds.

Mr. MAHONEY. Well, I am not sure I understand the question about size, or even the issue about the volunteer workers. Certainly, for example, we heard some of the testimony here of those trying to change to become a thrift institution and so on, or a mutual institution. As a matter of fact, I was thinking I might apply for a job, now that I have heard what the salaries are, at Mr. Cavazos' credit union. Certainly, it makes it worthwhile to do that.

Mr. CAVAZOS. We don't have that stock option, though.

Mr. GUTIERREZ. We will come right back, but we will lose our jobs if we don't go and vote. Thank you very much. We will be right back to finish questioning of this panel.

[Recess.]

Chairman KENNEDY. The subcommittee will please come to order.

There being no further questions for this panel, I want to thank all of the members of the panel for their patience in answering questions and their understanding about the floor schedule this morning and the interruptions that inevitably take place. I thought all of you gave good testimony and we are looking forward to working with you as we close in on what the appropriate action is that the Congress will take on this issue. But thank you all very much for coming and sharing your testimony with us.

I would now like to ask our second panel, and since at one point we were going to have both panels together, let me read off the names briefly of who we are expecting. Ken Fergeson; retired Vice Adm. Tom Hughes; Richard Mount; and Carol Aranjó. Please come forward.

Evidently, Richard Mount has a flight to catch so we will try to be accommodating. Mr. Mount is president of Saratoga National Bank, president-elect of the Independent Bankers Association of America and he serves as the IBAA State director in California and he is chairman of the IBAA's Public Relations and Advertising Committee.

Thank you very much for appearing before us, Mr. Mount. Please proceed for 5 minutes.

**STATEMENT OF RICHARD MOUNT, PRESIDENT, SARATOGA  
NATIONAL BANK, SARATOGA, CA**

Mr. MOUNT. Thank you very much, Mr. Chairman. Distinguished members of the subcommittee, my name is Richard Mount, as has been mentioned, and I am president and CEO of Saratoga National Bank located in Saratoga, California. Today I am pleased to appear before you as president-elect of the Independent Bankers Association of America, the only national trade association that exclusively represents the interests of our Nation's community banks.

With your permission, I will summarize my remarks and submit my entire statement for inclusion in the record.

Chairman KENNEDY. Without objection, so ordered.

Mr. MOUNT. I commend you on convening this hearing today on two subjects that are near and dear to the hearts of commercial bankers, credit unions, and CRA. And I honestly believe that if you had thrown in nonbank banks, the foreign credit system, and other financial service providers, we would have the majority of our 6,000 members here today. But while these subjects can be controversial, they are important subjects that deserve serious and thorough attention and soon.

The Community Reinvestment Act is the law of the land and community bankers are committed to the effective implementation of this statute. Community banking and community lending, including lending to low- and moderate-income areas, is the lifeblood of our industry.

Last year, President Clinton called for reform of the CRA process, and the regulators issued a proposal for public comment. We support parts of that proposal, particularly the proposed streamlined examination for small institutions.

At the same time, we do not believe CRA will be fully effective until it is applied to all sectors of the financial services industry.

Should the credit unions be involved in CRA? I think the answer to that is an unequivocal yes. And the remainder of my testimony today will be devoted to explaining exactly why.

It wasn't long ago, Mr. Chairman, that banks and thrifts held roughly 70 percent of the assets in our Nation's financial services industry. Today, we hold less than 30 percent. While banks and thrifts have been losing market share, the growth of the credit union industry has been nothing short of phenomenal.

Since 1980, share growth in credit unions has gone up 450 percent, and loans have increased roughly 360 percent. At the end of last year, total assets held by credit unions approached nearly \$300 billion, and they had more than 65 million members. There is no longer any valid argument for continuing to exclude this industry from the requirements of CRA.

Credit unions argue that they should not come under CRA because they are already fulfilling the spirit of CRA. Unfortunately, fulfilling the spirit of the law is simply not enough. More importantly, we believe that there is a strong case to be made that credit unions are not even fulfilling the spirit of the law itself.

They also argue that since CRA is a geographically based law, it should not apply to credit unions since, and I quote from the September 12 NAFCU newsletter, "most credit unions do not serve their members based on where they live." Well, I would certainly

agree with that statement. In fact, most credit unions serve their members based on whether they live, rather than where they live, but I will get into that a little bit later in my testimony.

Since credit unions accept deposits from all segments of the community, there is absolutely no justification for exempting credit unions from the reasonable requirement that they meet the credit needs of all segments of their community, including the low- and moderate-income segments.

In adopting CRA, Congress stated that regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local community in which they are chartered. The law does not define community in geographical terms. In fact, military banks define their community to include its entire deposit customer base without regard to geographic proximity.

Mr. Chairman, since the common bond issue is so central to the question of credit union membership and therefore the applicability of CRA, I would like to spend a few minutes explaining this issue in more detail.

The Federal Credit Union Act of 1934 said credit union membership should be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district.

Since 1989, the National Credit Union Administration, the industry's regulator, has been unraveling this fundamental statutory principle of membership. Recent NCUA actions have expanded the common bond rule to permit virtual unlimited membership. I draw your attention to this ad from a Wisconsin credit union which I will submit for the record. Basically, what the ad says, point-blank, anyone can join.

Yet, there is no requirement that credit unions serve all segments of their communities, including the low- and moderate-income areas. More importantly, since credit unions are exempt from CRA, there is no evaluation of a credit union's performance. Even credit union members do not have access to the type of public evaluation on the credit union's community performance that can be obtained from any bank or thrift in the Nation.

What public policy purpose is served by not performing a CRA analysis? Do we just allow credit unions to continue to expand without considering what services are being provided, and where they are being offered?

In July 1991, the U.S. General Accounting Office issued a report on the NCUA's relaxation of the common bond requirement. Changes to the common bond principle should be decided by Congress and not by the NCUA. We hope that this hearing will be the first step in that process. Credit unions today bear little resemblance to the credit unions originally chartered by Congress.

As you, Mr. Chairman, noted in the *American Banker* last week, when credit unions were small organizations, the argument that they were fulfilling the requirements of CRA did make some sense. Today, however, many credit unions operate just like a bank or a thrift. Many of them operate across State lines. Yet, unlike banks and thrifts, credit unions are under no obligation to serve the low- and moderate-income segments of their community.



CRA is premised on the finding that banks and thrifts have a continuing and affirmative need to help meet the needs of the local communities in which they are chartered. This finding stemmed from the view that government has granted these institutions special privileges including charters to do business, deposit insurance, and access to the Federal Reserve discount window as well as the Federal Home Loan Bank System.

Mr. Chairman, I note that credit unions have all of these special privileges, just like banks and thrifts. And they also have a very special privilege of a tax exemption.

Chairman KENNEDY. We have got to wrap it up, Mr. Mount. Your 5 minutes ended a couple of minutes ago, and we have to be fair to all of the other panelists. Why don't you take another 20 seconds.

Mr. MOUNT. Just to wrap it up, it is our opinion that community banks challenge the credit unions to step up to the CRA plate. If, as they contend, they are complying with the spirit of CRA, then extending this law should pose no problems for them. If credit unions are not complying with the spirit of CRA, then the public and our communities are entitled to know about it.

Thank you, Mr. Chairman, for the opportunity to present the views of our Nation's community banks. I would be happy to answer any questions that you may have.

[The prepared statement of Mr. Mount can be found in the appendix.]

Chairman KENNEDY. Thank you very much.

Our next witness is Admiral Hughes. Admiral Hughes is a retired vice admiral, president, and CEO of the Navy Federal Credit Union, which is the largest credit union in the United States, with over \$8.2 billion in assets. He appears today to represent the National Association of Federal Credit Unions.

Vice Admiral Hughes is a member of the board of directors of the Baltimore branch of the Federal Reserve Bank of Richmond and is a former member of the Thrift Institution's Advisory Council and is, most importantly, an old roommate of my father's. So it is a pleasure to have Vice Admiral Hughes with us this morning and we look forward to your testimony. Please proceed.

**STATEMENT OF VICE ADM. THOMAS HUGHES, PRESIDENT AND CEO, NAVY FEDERAL CREDIT UNION, VIENNA, VA**

Admiral HUGHES. Chairman Kennedy and members of the Subcommittee on Consumer Credit and Insurance, I am Tom Hughes, vice chairman, National Association of Federal Credit Unions [NAFCU], that is, and president and CEO of the Navy Federal Credit Union. I thank you for the opportunity to express NAFCU's views with respect to the relationship of credit unions to the Community Reinvestment Act.

The National Association of Federal Credit Unions is the only national organization dedicated to exclusively representing the interests of our Nation's federally chartered credit unions. As federally chartered credit unions, NAFCU membership is made up of non-profit, member-owned financial cooperatives from throughout the Nation that collectively have 18.6 million members and almost \$91 billion in assets. Navy Federal Credit Union is the Nation's largest

credit union, with over 1.4 million members and assets of \$8.4 billion.

I have a short opening oral statement and a longer written one, which I request be submitted for the record.

Mr. Chairman, every credit union takes very seriously its statutory mandate found in the Federal Credit Union Act to make more credit for provident purposes available to people of small means.

The motto, "not for profit, not for charity, but for service," captures the essence of credit unionism. Credit unions' primary focus is on service, a characteristic distinguishing them from other financial institutions. There is no group of stockholders or outside third parties for whom profits must be generated. Thus, credit unions offer a sharp contrast to the profit-oriented institutions of the financial services industry.

Our experience at Navy Federal Credit Union epitomizes the dedication of all credit unions in meeting the credit needs of all of their members. We are a large credit union—1.4 million members, as I said—serving many, many, many low- and moderate-income people throughout the world. I would like to think of us as the largest small credit union in the world.

Let me share with you a few of our statistics: 680,000 members, or 52 percent of our entire membership, have less than \$100 in their share savings account; 350,000 of these members have less than \$10 in their share savings account. One-third of our consumer loans are for less than \$2,500, which is the smallest loan some large banks will make, given processing costs. We have no low limit to how much you can borrow.

It may be tempting to dismiss anecdotal evidence about one credit union, however, in order to assist the subcommittee, NAFCU has conducted a survey of its members. That survey, which is detailed in my written statement, clearly shows that credit unions have not lost their commitment to members of limited means.

Mr. Chairman, there is absolutely no compelling reason to bring credit unions under CRA. We don't know the benefit that would be gained. Credit unions' cooperative form of ownership doesn't warrant it and credit unions' record of member service doesn't justify it.

Credit unions are not a part of the problem. Credit unions are a part of the solution when it comes to CRA. Credit unions offer a number of specific services that are tailored toward meeting the special needs of low- and moderate-income members. These include offering their members financial counseling, special programs geared for first-time borrowers and special programs to ensure that minority borrowers receive equitable treatment.

At Navy Federal Credit Union, we provide every avenue feasible to meet our low- and medium-income members' credit needs. These programs include totally free checking accounts, ATMs throughout the world, and free budgetary counseling. We operate our offices, many of them, at a loss, particularly overseas to take care of the service people assigned there. By the way, we are over there because the Congress asked us to go over there.

Our Utility Deposit Guarantee Program helps young enlisted personnel to get their utilities turned on upon arrival to a new duty station without having to put up large deposits up front. Es-



entially, we pay these deposits. Of 27,500 mortgage loans made in 1993, 40 percent were to members who had less than the median metropolitan statistical area income, and 24 percent of these with less than 80 percent of the median metropolitan statistical area income.

Finally, we offer three mortgage programs specifically geared to low-income borrowers. Mr. Chairman, again, the NAFCU survey shows that our experience in providing for credit needs of our members is typical of credit unions in general.

In summary, Mr. Chairman, credit unions were formed primarily to serve the needs of their members wherever they may be located, not to meet the needs of a geographic area. Credit unions were established to serve the underserved, and credit unions are still fulfilling that mission.

Mr. Chairman, this concludes my prepared statement. Again, NAFCU appreciates the opportunity to share our views with you on these issues, and I look forward to answering questions of the members of the subcommittee.

[The prepared statement of Admiral Hughes can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Admiral Hughes.

Our next witness is Carol Aranjo, who is the manager of D. Edward Wells Federal Credit Union in Springfield, Massachusetts. She appears today on behalf of the National Federation of Community Development Credit Unions. Her organization represents 120 credit unions in 30 States.

Thank you very much for being—is it Mrs. Aranjo—thank you for being here and please proceed for 5 minutes.

**STATEMENT OF CAROL ARANJO, TREASURER/MANAGER, D. EDWARD WELLS FEDERAL CREDIT UNION, SPRINGFIELD, MA**

Ms. ARANJO. Thank you for inviting me to speak. Seeing how I am a member of the ethnic group that this subcommittee is seeking to give more access to financially, I would like to say that the federation does not think that CRA should apply to credit unions today, and one of the reasons that we feel this way is that there is a difference between credit unions and banks, and I know you have heard this all day. I am going to talk about it from a different angle.

I am an African-American. I believe that without economic empowerment, we cannot lift ourselves up the American way. I am against CRA in its form today for anyone. I don't think it works. Banks to me use CRA—every single book that I have gotten on CRA, a lot of it is charity work. It does not do much to empower the people of the community in which you are looking to serve.

Credit unions do empower people to help themselves. I am not sure how CRA, if it were applied to credit unions today, would help to empower people. It may not. If it is just paperwork, it may hinder.

On the regulatory front, we believe under the leadership of Chairman Norman D'Amours, the National Credit Union Administration has made considerable progress in addressing the issues related to mortgage lending discrimination and related matters.

It is important to note that all credit unions do not originate mortgages. This in itself could account for some of the statistical differences in loan approval rates between credit unions and banks. We hope and expect that mortgage lending by credit unions will increase, predominantly in the minority areas.

We are confident that under the leadership of Chairman D'Amours, NCUA will develop proper guidelines to ensure that credit union lending is carried out in a strictly nondiscriminatory manner. We are also pleased that NCUA recently issued new field of membership guidelines which will make it possible to expand into low-income areas more readily.

NCUA did speak with the federation when drafting these new regulations and we are pleased that the agency adopted our suggestions to build safeguards into the credit union expansion process, with the express purpose of assuring that lending discrimination, intentional or unintentional, does not result. The national federation intends to monitor developments in this area, and we have every expectation that NCUA, under Chairman D'Amours' leadership, will aggressively and effectively monitor expansion situations to ensure that no problems result.

With regard to the matter of the burden of CRA regulations, we do not believe that the Massachusetts CRA regulation is comparable to the Federal CRA law. As a resident of Massachusetts, and in all due respect to Banking Commissioner Curry, if he were to come into my community, the banks could not get the great CRA rating from our community that they have been receiving from the regulators.

Finally, with regard to the matter of placing funds in risky foreign-controlled investments, we do not hold ourselves out as experts of the level of risk that may or may not be involved. We know that NCUA is looking into the matter of corporate credit unions and we would like to see them pursue their study to its conclusion and engage in full dialog with the credit union industry or any proposed regulatory changes before any legislative action is pursued.

Needless to say, we are intensely interested in increasing investment in low-income communities. We do not believe that there is much that the Federal Government can do in this area. First of all, what we would like the Federal Government to do whenever it can is to expand the scope of existing secondary markets. Simply put, existing secondary markets have not done nearly enough to facilitate lending to low-income people. They could do a great deal more, especially by working through institutions like community development credit unions.

I will be open for any questions.

[The prepared statement of Ms. Arango can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mrs. Arango, for your testimony.

And our final witness is Mr. Fergeson. Ken Fergeson is the chairman of the National Bank of Commerce in Altus, Oklahoma. He is also the director of the Federal Reserve Bank in Kansas City, a director of the Oklahoma Industrial Finance Authorities, a trustee of the Oklahoma Development Finance Authority, and a director of the State Chamber of Commerce.

You are a busy fellow, Mr. Ferguson. Anyway, thank you very much for appearing before us today and please proceed for 5 minutes.

**STATEMENT OF C. KENDRIC FERGESON, CHAIRMAN,  
NATIONAL BANK OF COMMERCE, ALTUS, OK**

Mr. FERGESON. Thank you, Chairman Kennedy. I would like to thank you for the opportunity to discuss the application of CRA to credit unions today.

Since 1977, when CRA was passed, there has been a massive change in the credit union industry as well as the overall financial markets. In view of those changes, I think it is appropriate for Congress to reevaluate which institutions are covered under the statute.

Today, I would like to make three points, if I could. First, I believe that credit unions should be included under CRA. They look like banks, they act like banks. In fact, they compete with me directly for deposits, they compete directly with me for loans in my local market, and there is no reason that they should not be held to the same community standards.

Second, because banks represent less than 25 percent of the financial markets as opposed to 33 percent in 1977, I think it is appropriate for Congress to review the role of financial service providers that are meeting the community needs today.

Third, we must reduce the red tape and the complexity of CRA compliance to make the system more flexible for all institutions.

Mr. Chairman, the credit unions will tell you that they are already doing a good job of meeting the credit needs of their members, and that there is no need to include them in CRA, but who are their members? According to their own survey, they have an average household income 27 percent higher than nonmembers. They have more years of education, they are more likely to be fully employed, and they are more likely to be homeowners. In other words, they have a blue-collar image but the credit union industry really serves an affluent and well-educated group of people.

How did they get this way? Part of the answer is that they can cherry pick those areas and groups that they want to serve. The virtual collapse of any reasonable, common bond requirement means that they can simply redefine and extend their membership as they see fit. And unlike banks, credit union mergers are not subject to a CRA review, so a credit union can expand to a market without any regard to serving low- to moderate-income areas, and they can cherry pick the market that they want to serve. Even credit unions with geographic common bonds have no obligations to serve the low- to moderate-income communities in their areas. These credit unions are virtually identical to banks, but they have no CRA responsibility.

Mr. Chairman, let me tell you what my bank is doing. In addition to our regular CRA compliance, we have \$100,000 in a CDC, a community development corporation. Half of this corporation is used to help people with low to moderate income into homes and the other half is used to revitalize the downtown. We are in a small town, and like a lot of small Midwest towns, the downtown area



is deteriorating and we are trying to help that community. These projects are important to my community's economic health.

I compete with Tinker Credit Union, which has \$830 million in assets. It is 10 times larger than I am. Their membership is virtually unlimited. Here is 4½ pages of fine print of membership that can get into Tinker, and even I can belong to Tinker because I have a relative that is getting a Social Security check.

In addition to that, I compete with the Red River Credit Union. Red River Credit Union in my hometown is a credit union that is a geographic credit union; they have 10,500 members. There are only 30,000 people in my whole county.

Chairman KENNEDY. I would like to see that piece of paper.

Mr. FERGESON. I would be happy to submit that.

Chairman KENNEDY. Would you like to submit it for the record? Without objection, so ordered.

[The information referred to can be found in the appendix.]

Mr. FERGESON. In addition to Tinker's membership, they don't even want to respond to the local community. Last week in the *Journal Record* in Oklahoma City, it was reported that Tinker Credit Union wants to receive a Federal charter so that they can avoid any State and local taxes. They claim by changing to a Federal charter that they can ignore \$200,000 in investment back into the State of Oklahoma.

Is it feasible to apply CRA to credit unions? Certainly, it is. In credit unions with a geographic bond it would be applied simply as the way we do commercial banking. Other credit unions can pick from the menu of services, investment options for compliance, just like wholesale banks or credit card banks do. They could invest in community development credit unions or other nonprofit entities; they could invest in securities issued under the low- and moderate-income housing programs by Fannie Mae and Freddie Mac.

Mr. Chairman, the bottom line is that applying CRA to credit unions is feasible and it will increase the resources available to help low-, moderate-income communities, and I strongly urge you and members of the subcommittee to continue to pursue the matter.

Thank you very much.

[The prepared statement of Mr. Ferguson can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Ferguson.

I want to thank all of the witnesses for your testimony this morning. I have a couple of comments that I want to make and maybe a couple of quick questions.

But, first of all, I want to say to Mr. Mount that I was really just delighted to hear your testimony this morning. Are you going to be the head of the IBAA for the next year?

Mr. MOUNT. That is correct.

Chairman KENNEDY. Terrific. Because sometime you are going to come back before this subcommittee and I am going to remind you of this little quote that you just gave me, which is credit unions accept deposits for their—from their community that they define by a common bond.

There is no justification for exempting credit unions from the reasonable requirement that they meet the credit needs of all seg-



ments of the community, including low-income, moderate-income segments, regardless of how that common bond is defined. So I will look forward to working with you, Mr. Mount, on these areas of mutual agreement.

Admiral Hughes, I understand the resistance on behalf of credit unions obviously to take on the additional burden of CRA. We, a few years ago, had a very difficult fight on the public disclosure of HMDA data and CRA evaluations. Now, as I understand, the Navy Federal Credit Union had one of the worst statistical records in terms of black to white denial records for home mortgages of any of the institutions around the country, and that you have done really an excellent job over the course of the last 2 or 3 years of trying to improve that record; is that true?

Admiral HUGHES. Yes, sir. We really did not want to attack—although I think there are reasons to attack it—the HMDA data itself. We have such a high mortgage approval rate, we approve nearly 99 percent of the loans that we get. So by looking only at the denial side of it, a few loans really twists the comparisons around. Instead of going after the numbers and fighting the data, I decided that our philosophy would be to go after discrimination.

What we really want to do is stop the discrimination and to hell with the numbers and the data. We have put a lot of effort into that. As a matter of fact, I am very happy to say that, whether it is a direct result of our training efforts or not, we were at 1.0 (black versus white denials). In other words; the percent of denials of whites and black was equal last year. We weren't going after the numbers, but we are going after training our people and making sure that everybody treated the members properly without discrimination.

Chairman KENNEDY. I appreciate that. If I could just make the point, though.

We have heard Mr. Fergeson testify, and he hands out this piece of paper which was pretty incredible in terms of the total number of organizations that can come out—come under any of these—I suppose any of the employees under all of those—

Mr. FERGESON. Or live in areas, too.

Chairman KENNEDY. Or live in those areas can join this credit union, which might be an extreme case, but nevertheless reflects the concern that I think the subcommittee is trying to deal with, which is that as long as you have a very well-defined group of individuals that work for a particular company, if you have a small business in my own district that happens to have a small credit union, I don't have any reason to believe that there is a difficulty with regard to meeting the community needs. Where you have very, very large credit unions that are, for instance, the largest lenders, as we heard testimony earlier in the day, in entire areas of a State like Massachusetts, it makes sense to hold them to the same community reinvestment standards as banks and thrifts, especially if—as HMDA shows—they are doing a poorer job of serving all residents of a given community.

You have taken on the job, I think to your credit, of fixing up an issue that might have been a problem in the Navy Credit Union, and you have made an effort to deal with it. All we are try-

ing to do is create a framework where that same kind of effort will be made by other credit unions.

I am not suggesting that that should take place for all credit unions. But maybe where there are these attempts by credit unions to get very, very big, to be, you know, paying banker-type salaries, to be getting far away from what was the original purpose of providing the tax breaks as well as the regulatory breaks that many credit unions enjoy, don't you think that it is kind of reasonable for us to expect that if the institutions themselves are going to stretch the envelope that far, that we ought to be saying, well, maybe you ought to at least make certain that there isn't racial discrimination taking place?

Don't you think we ought to say, you know, maybe we ought to make sure that you really are meeting the credit needs of all of the people in the community, not just a certain select group? Don't you think that is just sort of a reasonable thing for us to be asking?

Admiral HUGHES. If I may take the question in parts. First of all, I am very surprised at Mr. Ferguson's testimony. In the *ABA Banking Journal* last February, he is quoted as saying, "I wouldn't wish CRA on anybody," he says, including even his nemesis, the Red River Credit Union. "I would rather spend the time working to release banks from CRA than trying to bring everybody else into it."

Chairman KENNEDY. Well, I am sure that is true.

Admiral HUGHES. I am surprised that that is not quite consistent.

Chairman KENNEDY. But I am glad to see that Mr. Mount disagrees with him.

Admiral HUGHES. But the other point that I wanted to make is that the NCUA, as our agency regulator checked out, as a followup on the—in specific cases on the HMDA data, and I think the HMDA data may have been a flag that people should go out and look at—but the statistics are very weak for the reason I gave you, that 99 percent of our mortgages are approved. We are playing with 1 percent out-of-the universe and any skewing of that really changes the figures quite significantly.

We did a lot of things as a result of that, including increasing our programs. We have a Low-income Program; we put \$5 million toward that, and we cannot sell those on the secondary market, we must sit with them for low-income people. So there are things that we have done to try and facilitate better the low-income requirements.

But the NCUA, in looking at the whole system, said that they did not find any aberration or discrimination, open discrimination, in its look at the credit unions.

So open discrimination doesn't exist. The statistic was there. The statistic put up a red flag. It was looked at in detail and the bottom line is that it really was not discrimination in his opinion.

One of the things that you mentioned is that large credit unions or fat credit unions or community credit unions or anything like this ought to be included and somebody else ought not. First of all, the community credit unions only make up 7 percent of the credit union world, 7 percent you are talking about. That is—the credit unions are not a matter of large and small or other make up, it is a matter—that credit unionism is different and it is a unique ap-

proach to personal finances. It is people, whereas you are talking about community infrastructure.

Credit unions use the money of people loaning to each other. It is a cooperative organization. To take their money and put it any place, we are very hesitant and reluctant. I think that you have to keep in mind this alternative process that is available to the American people that should not be destroyed. It is democratic, it is one vote per person, it is run by volunteers, and all the other characteristics of it that I could go down and read off are things that are attractive to the American public.

Chairman KENNEDY. I am sorry, Admiral, but I have got to let the other members of the panel ask their questions. I appreciate your testimony. I would just point out that when you say it is run by volunteers, I think the last panel had a volunteer who is earning \$198,000 a year, so not exactly volunteers. But in any event, I appreciate the witness' testimony.

And I think Nydia Velazquez has been waiting the longest. Nydia.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

I would like to hear the reaction to this question from Admiral Hughes and Ms. Arango. Is it valid to continue to lump all credit unions together and treat them alike? Should we distinguish between credit unions, depending upon their size, composition, or structure?

Admiral HUGHES. The structure of credit unions is uniform, and it is overseen by an agency of the government assigned to oversee it. I think that he looks at the problem of discrimination, or HMDA and all of these other issues, and his examiners look into that, and they report to him on it.

I think that the integrity of that particular alternative process for personal finances of the American public is something that should not be destroyed. By taking bits and pieces of it apart and putting it under different aegises, I think in the end, if you want to destroy the credit union philosophy, the credit union approach and its organization, structure and what have you, this is the way to do it. It is a good program to follow. Just take pieces and put each of it under somebody else, it will destroy it.

Ms. ARANJO. No, I do not think credit unions should be treated differently, because your size does not determine whether or not you discriminate, it is your attitude. I cannot sit here in good conscious and say there is no discrimination in credit unions or any other financial institutions. This is America. There is discrimination, OK? But it is not by size, it is by attitude.

I would also like to say that I have been with the credit union industry for 10 years. When I first came to the industry, they did a compliance exam of all of the Equal Credit Opportunity Act and different things. Under Chairman Roger Jenson, they stopped doing that. They haven't done it in my credit union for about 5 years. I don't know if they are doing it elsewhere. I would recommend that they go back to it.

As I said before, I do not personally—and my credit union board I asked before coming and some of the credit unions in the federation, we do not believe that CRA as it is today actually works. So to take something sort of defective before you fix it and use it to



bring in more people won't help us. We need—banks have the ability to raise capital and get investments that credit unions don't have. And also, I also hear about the tax advantage.

Once again, take a good look at CRA in the banking industry. A lot of what the banking industry does under CRA is charitable and they write it off on their taxes. So as a credit union person and as a member of the minority community, I would like to see this subcommittee look at CRA and see how they can actually strengthen it, and if there are things—and also ask NCUA to go back to the compliance exams.

Chairman KENNEDY. Will the gentlelady yield to me for 1 minute?

Ms. VELAZQUEZ. Sure.

Chairman KENNEDY. You mentioned this a couple of times. I was going to ignore it the first time. But the fact of the matter; I think you are dead wrong about CRA. I would say that there is a fellow sitting behind you, Tom Callahan, who does not run a charitable organization, but has in fact gotten hundreds and hundreds of people home mortgage loans in the city of Boston and in the surrounding neighborhoods, only because of CRA.

Now, I am not saying it is perfect and I am not saying that it works well and I am one of its biggest critics for not being strong enough. But I think you make a grave error by suggesting that CRA ought to in any way be condemned for the hard work that we try to ensure that it accomplishes. It doesn't do enough, it doesn't do enough. But my goodness, ma'am, we are up here doing our best to try to strengthen that law so that it does more.

It does us no good—you identified yourself as an African-American. It does us no good to have you coming in here undercutting our ability to strengthen that law, and I want to make that very clear to you. There are hundreds and hundreds, and if not tens of thousands of African-Americans who have home mortgage loans today only because of that law.

Ms. ARANJO. I would agree with you, sir, but there are also hundreds of thousands of African-Americans today that still are unable to provide for themselves, have to go somewhere else to get it, and CRA does not today empower black communities.

And when you say—I know Tom Callahan and I worked with him a long time, but in the State of Massachusetts, under CRA, many banks will not give that same empowerment or that same opportunity that they give to Mr. Callahan to serve people like me and give us mortgages, to allow us to do it for ourselves.

And we are at a time in our life, the African-American community, where we would like to do it for ourselves, sir. And that is the only thing that when I criticize CRA, I criticize it from an African-American point of view that says, thank you, Congress. You are doing a wonderful job. I am not knocking that. I am asking that you allow something in your laws that empowers the African-American community to do it for themselves.

Chairman KENNEDY. Yes, ma'am. Thank you. I would agree with you.

Ms. VELAZQUEZ. I would like to correct you also when you only talk about the black community.



Ms. ARANJO. And the Hispanic community. Yes, I am sorry, ma'am. You are correct.

Ms. VELAZQUEZ. OK. Mr. Ferguson, I found quite interesting that in today's testimony you recognize the obligation of financial institutions to help promote the economic well-being of communities and encourage expanding the Community Reinvestment Act to cover credit unions.

Is the ABA now recognizing the important role that the CRA plays in spurring community investment? Is that why you endorse CRA coverage of credit unions, or is your position a reaction to unwelcome competition from credit unions?

Mr. FERGESON. The idea of CRA is, of course, a noble idea and we have always embraced that. And I think what Mr. Hughes referred to a while ago is that while I wouldn't wish CRA on anybody, I was referring at that time to the compliance burden of CRA. The ideas of CRA are good, and I think that banks need to continue looking at CRA and ways to improve it, and that credit unions that are truly just like banks ought to do the same thing.

Ms. VELAZQUEZ. I welcome your transformation from the position you expressed in that newsletter.

Thank you, Mr. Chairman.

Chairman KENNEDY. Thank you. I am sorry, I don't know who was next.

Ms. Roybal-Allard.

Ms. ROYBAL-ALLARD. First of all, let me say that I was also very interested and fascinated by Mr. Mount's testimony. Particularly, I like the part of it where he says, community lending, including lending to low- and moderate-income area is good for banking. I have been trying to convince banks of that for the 1½ years that I have been in Congress.

I represent an area where I have six cities with a population of 600,000 and only 55 banks as opposed to the more affluent area, for example, of Pasadena which has 160,000 population and 50 banks. So I am hoping that you are going to make sure that the banks understand that and that you will help us in our efforts to promote that kind of activity, of banks moving into those kinds of communities.

As I am listening to the testimony, I have picked up sort of the same thing that Congresswoman Velaquez' questions did, and that is that it seems to me a lot of the reasons that are being given as to why credit unions should fall under CRA requirements is a long list showing how successful credit unions have in fact been, and that they are in fact offering a great deal of competition to banks.

And one of the reasons I would contend that is because they have been able to fill a tremendous void that is in many, many communities such as the ones that I represent. But I am still trying to be open and to understand the arguments that are being given by the banks as to why this creates an unlevel playing field.

One of the things that I hear as one of the reasons is the size that the large credit unions perhaps should fall under the CRA requirements. Yet, my understanding is that they are still, regardless of the size of the credit unions, there are some basic fundamental differences between banks and between the credit unions. And I

would like to go through that to see—to help me to understand where these—if there are differences and where they are the same.

My understanding is that credit unions are nonprofit and banks are for profit. Credit unions have volunteer boards and banks do not; and based on a statement that was made by one of the earlier panelists, he made the statement that was not disputed that 80 percent of the profits of credit unions go back to the membership. And we had a vote and I did not get to ask the question of what is the breakdown in terms of the profits from the banking industry?

How do your profits break down as opposed to the 80 percent that goes back to the members?

Mr. MOUNT. I would like to address that, if I can. A couple of different things. With regard to the banking industry, in fact the comment that was made to you, I think what the gentleman was trying to tell you was that 80 percent of the deposits went back in the forms of loans into the community that they served, not 80 percent of their profits, OK?

Ms. ROYBAL-ALLARD. OK.

Mr. MOUNT. I think what we are saying as a banking industry is the fact that our market share is shrinking from year to year. It is now down to less than 30 percent. We firmly believe in CRA. But as our market share continues to decline, we cannot be the only engines to drive the CRA process. We need help. And I think that help must come from other financial service providers, and that includes credit unions.

It also includes brokerage houses, it also includes many, many other types of financial service industries. We have less than 30 percent of the financial assets in the country today. But what you would like to see done is impossible for an industry of our size to do. I think all we are saying is that there are other financial service entities out there that can help with this problem.

Ms. ROYBAL-ALLARD. But there must be some advantages to being a bank versus the credit union. Because if there were not, then all the banks would be changing and being chartered as Federal credit unions, and that is what I am trying to understand the differences between the two in order to make a decision as to whether I agree or disagree.

Mr. MOUNT. Well, let me answer that. The basic differences that I can see at this point in time, of course, is that the credit unions: Number one, are not under any CRA restrictions; number two, they do not have any tax consequences at this point in time.

Ms. ROYBAL-ALLARD. Well, then why don't banks—

Mr. MOUNT. I think you are going to see more and more banks as time goes on look at credit union charters. In fact, that process has already started.

Ms. ROYBAL-ALLARD. That will be real interesting—

Admiral HUGHES. If I may, you know, banks—

Ms. ROYBAL-ALLARD. Based on the experiences we have had in my district with credit unions.

Admiral HUGHES. Well, banks really exist for profit for the shareholders. It is in business to provide for the shareholders. In the case of credit unions, it is people who put the money in, it is people

who borrow the money to put in there, it is a cooperative arrangement.

Last night at my board, because we had a very good quarter, we put a one-quarter percent increase bonus out to the share savings account, one-quarter of a percent for the next 3 months. If extra money is there and is generated in the business that we have, it goes back to the people. And that is—you know, that is the nature of the whole thing. This is an alternative to the American public on how to conduct their personal finances.

Chairman KENNEDY. Excuse me. I want to find out if Mr. Kanjorski and Mr. Flake want to split the remaining time in order to be able to—or would you rather take more time and come back?

Mr. KANJORSKI. Come back.

Chairman KENNEDY. You want to come back? That is fine. So we will break for about 10 or 15 minutes. Paul and Floyd, if we could come right back, I would appreciate it, OK?

We are in recess for about 15 minutes.

[Recess.]

Mr. FLAKE [presiding]. We would like to continue the hearing. And questioning was—questions were being raised by Ms. Roybal-Allard, and she will continue her line of questioning at this time. As much time as you need, Ms. Roybal-Allard.

Ms. ROYBAL-ALLARD. I don't see Mr. Mount there, because I was going to let him know that I represent all of the metropolitan downtown area—

Mr. FLAKE. He had to leave.

Ms. ROYBAL-ALLARD. I was just wondering if all of the banks that are headquartered there in Los Angeles are aware of the fact that at some point they may be credit unions.

Ms. ARANJO. Could I answer the Congresswoman's question?

When you asked what was the difference between credit unions and banks, there are many differences beyond just a membership. Credit unions can only raise capital through their lending and their investments, and their investments are very regulated.

Banks can raise capital by just going out and selling stocks. Banks can do investments. Banks can do securities. Banks can sell insurance. Banks can sell uninsured instruments. Credit unions cannot. I don't see a bank who would change in his charter and be limited to how much money they can raise, and credit unions do have those restrictions.

Ms. ROYBAL-ALLARD. Mr. Fergeson, if credit unions were to fall under the CRA regulations and be treated in the same way as banks, would then banks be willing to fall under the same requirements as credit unions then? In other words, so we are not talking apples and oranges here, would your organization be willing to accept rules that would apply to Federal credit unions such as those that prohibit the payment of director fees to more than one director? You know, those kinds of things.

If you want level playing fields, then we need to have them for both credit unions and for banks. So if you are saying that credit unions should fall under the same guidelines as banks, then shouldn't banks then fall under similar guidelines as credit unions? And if no, why not?



Mr. FERGESON. No. As long as we are only talking about CRA regulation as applying to credit unions and banks, then I think that we are willing to fall under the same regulations. I think that credit unions should have the same opportunities and the same responsibilities back to their communities as banks do.

The other things that you mentioned are structure changes, or changes in whole laws. You were talking about nonprofit—or not taxable entities, and you are talking about lots of different things that really do not concern the community and what CRA means back to the community.

Ms. ROYBAL-ALLARD. But that is really the basis of the argument of the credit unions as to why they should not fall under the CRA regulations is that structurally they are entirely different than banks, and that they do give back to their membership rather than paying profits to a board or shareholders. I mean, my understanding is that is one of the bases for the argument against it.

So it seems to me that if you are arguing that credit unions should fall under the same guidelines as banks, then banks should fall under the same guidelines as credit unions. I fail to see why there is a difference in one case and not in another.

Mr. FERGESON. I believe that credit unions, a lot of credit unions pick and choose what regulations they want to come under. As I pointed out, the Tinker Credit Union, their field of membership is that almost anybody can qualify to be a member, but at the same time they don't want to fulfill the obligations back to those communities. So they are picking and choosing what they want to do, they are cherry picking those communities that they want, but at the same time they have no obligation back to the community.

Ms. ROYBAL-ALLARD. But the majority of their profits, regardless of the size of the community, still goes back to their membership; it doesn't go to shareholders and others. I mean the structure, regardless of the size, remains the same. It goes back to the membership; it is still a volunteer board. Is that correct? Regardless of size?

Mr. FERGESON. I don't know.

Ms. ROYBAL-ALLARD. Well, let me ask the credit union people to respond to what is being said by Mr. Ferguson.

Ms. ARANJO. Yes, you are. I don't believe that credit unions just pick the regulations they want to be under. We could say that about everybody, banks pick the regulations, he is just not ready to say have an unpaid board. That is a regulation for credit unions.

Would banks be willing to give up the right to go out and get capital anywhere they want? That is a regulation. I don't think they would give that one up. So, no. And credit unions, regardless of size, have an unpaid board.

Ms. ROYBAL-ALLARD. OK.

Admiral HUGHES. If I may just quickly. You know, to me, banks are great. Banks are very important for the national payment system and they have a role in life. Credit unions are an alternative way for personal financing, for people. What we have goes back to the people.

What we are talking about here is the things that go back to communities vis-a-vis the people directly. It is a different objective. I don't have any problem with that. But in the credit union, it is



going back to the people and, to me, it is doing the same thing as the objective of the CRA which is, put money back into the community.

And we have a different mechanism that we are dealing with people, and we give it back to them. So I think that is that there is a place for both, credit unions are an alternative for the American public on how to do their personal financing, and I think there is room for both.

Mr. FLAKE. Thank you very much.

Thank you, Ms. Roybal-Allard.

Let me just make several points and I think that my introduction will make clear pretty much my position on this matter. I have the distinction of not only being in Congress, but pastoring a church with a credit union of which I chaired until I came to the Congress.

And as I listen to the testimony today, I find myself a bit dismayed, because, first of all, I realize that there are some exceptionally large credit unions that may be doing a lot of things that make them competitive with banks. However, I find in communities like the one that I serve that the majority of those credit unions are small church-based credit unions, nonprofit, operating with individuals who come to the credit union after a day's work, give some time, as much as they can. Generally, the majority of those credit unions have a great deal of financial problems because they don't have the wherewithal to even hire accountants and other people to help them to be—make sure that they do the work appropriately and properly, even though NCUA provides for some degree of oversight.

Now, having said that, I find it interesting that here we sit, we pretend that the credit unions represent such a major competitor, taking such a major share of the market from the banking community. I said it to the ABA convention and I say it again today. The banks have lost their market share not because of credit unions; they have lost their market share because they are not competitive.

At 3 o'clock, when they close the door, persons from GMAC, Ford, GEC, and other entities are out in the marketplace. I can sit at my dinner table as I did and sign a loan application for a home mortgage at 9 p.m., in fact, evening, long after the bank is closed. Much of what the banks lose, they lose because they have not changed their practices, they have not understood a responsibility to diversify; they have lost market share because they made investments abroad without understanding that there is a Third World community in America that has been created by redlining, and that if they made the same kind of investments in those communities, that in most instances, there would not be a need for a credit union in the first place.

Last, I would suggest to you that those persons who we service in our credit union are persons who on average are getting loans, personal loans for \$750—up to \$750 to \$1,000. They have come there because they have been turned down by everybody else. It is the loan source of last resort. And by the time they come to that point and they are required to pay their \$5 share to become a member of the credit union in order to make the loan, these are loans that banks would not ordinarily be making.

To Mr. Mount who left, that market share that he talks about and even the list that you present, I suspect if we took your list now of those middle-class persons who have accounts at that credit union, they also have bank accounts, because there are so many things that credit unions cannot do that the majority of us who hold credit union accounts like I do, it is only because of my commitment to support the existence of the credit union.

It has very little to do with my need for the credit union, but more because if I did not keep a certain amount of money there and some other people that we get committed to doing that, that credit union wouldn't even be able to survive. So I don't know that they represent a serious threat to the banks, because most persons who I know, other than those persons who come, who live on the edge, at the last minute have to make a loan, also have bank accounts at commercial banks, because credit unions cannot service their full needs.

So Mr. Fergeson, one of the things that I would suggest is even in a marketplace where you are, where perhaps you do have a competitor who is a major, large institution as a credit union, that is just not the case in most urban communities. In most urban communities, these credit unions are small, they operate out of churches, they are run by volunteers; the only investments they are making are in those persons, in those communities, because those are the people who in many instances don't even know the credit union exists until they have a need for that loan.

And in many instances, pastors like myself even have to stand up in the pulpit to remind them that God is not going to pay the loan back for them. So we find ourselves crippled by the responsibility for meeting a need that banks don't meet and then having to go through the burden of trying to collect for loans that you don't make in the first place.

So I would tend to think that CRA is good—obviously everybody here in this room knows that I am a major proponent for community reinvestment—but I don't want us to get to the point where we are not looking at what ought to be targeted in order to one, rebuild market share, and deal with the reality that the competition as it relates to community reinvestment from credit unions is not the problem.

The problem is other people ate your market up while you sat on the platform and, at 3 o'clock in the evening, closed the banks. When the banks closed, other people came to people's houses, knocked on doors, put out flyers, put out advertisements, and they are working right now while the bankers are still sitting on the platforms and doing the same thing.

And so I don't really have any questions, but you may respond if you choose to before I recognize Mr. Kanjorski.

Mr. FERGESON. One response is I would love to have you as a collector for me, if I could get you in the pulpit.

Mr. FLAKE. I will preach to you.

Mr. FERGESON. OK. Thank you. A couple of just real quick points if I may. Again, I can only speak for my bank. In that last month we made 43 installment loans, 23 of those were less than \$2,000. So we do make and we are responsive to loans. I think that CRA does need to be flexible. The same regulation maybe doesn't need

to apply to a church credit union as it does to Tinker Credit Union or Red River Credit Union that encompasses that whole world.

Mr. FLAKE. And I can appreciate that, because I think the small credit unions would be put out of business. I mean, they are responding to the best of their ability to the requirements now. But if they really had a—and had to build in a component to try to respond from a CRA perspective to the needs that they are already meeting, most of them could not afford that, because they cannot even afford—I have been at this church for 18 years; I was chairman of the credit union board for 10 years.

We hired a full-time person for the first time 6 years ago, and we only were able to hire that person because the church subsidizes that salary, otherwise the credit union would not even be able to exist. And trust me, that is—I could take you to about—there are about nine credit unions left. That is what is left from the credit unions that haven't closed in my entire congressional district, and in every case, that would be pretty much the same situation.

Mr. Kanjorski.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Mr. Chairman, I would like to be associated with your comments. I think they are very cogent.

I would have to say that I am dismayed that the panel has approached this question today as it has. It seems to me that CRAs in their worst cover would constitute a poison pill, and your argument, Mr. Fergeson, is that you would like to use that poison pill on the credit unions and probably to a large extent to their demise. And I think that is unfortunate.

And on the other hand, I want to say to you that I am not unfamiliar with the problems of small banks and medium-sized banks in America, insofar that it is not the concept of CRA that disturbs them, it is the paperwork and the cost of compliance. And it seems to me that your testimony here representing the ABA is saying well, you want to get that same cost and difficulty to credit unions so that they fail. That is a very negative attitude.

I would have hoped that the banking community, with the credit unions today, would have come with maybe some better questions and solutions. You know, why do we have CRA? Well, we have CRA as best as I understand it because the banking industry wasn't doing a fair job at some point and it required the Congress of the United States to pass an act to try and require them to do that job. And the implementation of that act has been unduly and unfairly expensive for small- and medium-sized banks, particularly since many of them already were operating within their community, because that is the only way they do business.

I happen to be the Member of Congress who several years ago sponsored legislation to reduce the burden of where CRAs would apply. My bill proposed that CRA would only really have to apply to the very large banks and the regional banks, and small community banks that clearly already practice good community lending would be exempt. Unfortunately, we haven't heard that type of proposal today. Your testimony, although you represent a relatively small bank in your professional life, your argument is to allow the large money center banks to be given a free opportunity to take bil-



lions and billions of dollars and ignore the people they live among and care nothing about it, and plow nothing into some of these areas or these communities.

I think that is, at best, wishful thinking; it is not going to happen. The practical question I would like to address myself to is why hasn't the banking community, that is now down to 30 percent share of the market, why haven't they done a little introspection, as Mr. Flake has suggested, of why they are where they are today.

You know, why did we just pass the Community Development Financial Institutions bill? Because a vacuum exists in the banking community. It is not serving the needs of small businesses and small entities that need to get started. I don't hear the bankers running in and saying, gee, let us try and use our ingenuity to find out how to solve that problem.

Those of us that are in Congress are not carrying the water for any particular group in our society, whether they be minorities, whether they be working people, whether they be wealthy people. What we are trying to do is give equal opportunity.

And the last thing that I have heard, and I have been on this subcommittee for 9½ years, I have yet to hear the banking community come forward and say, look, let the private sector structure organizations and methodologies solve this problem so that the government doesn't have to act; we will provide the venture capital to small businesses, that we will find ways to bring communities alive and cover their infrastructure needs, we will provide methodologies for risk—people who don't necessarily have large assets to make home loans, business loans, and other personal property loans.

You know, it astounds me that we are sitting here, how many decades after the credit union movement was founded, and now we are moving into the creation of community development financial institutions, to fill vacuums with new institutions as a result of the failure of the banking system to fill those vacuums. And we are not taking anything away from it, we just know—we passed the CDFI because there is nobody out there making those loans. We know that.

We passed the Community Reinvestment Act because communities that people are putting the deposits in their banks, that money is not necessarily going back to those communities to help them, or being loaned in those communities in a fair and indiscriminatory fashion. And I would just wish that the intellectual talent of the business community would stop for a moment and, instead of trying to put a poison pill in what is operating now in sort of a democratic capital mode, a small group of nonprofit institutions that really isn't taking that much away from the banking industry.

But part of what the banking industry must start asking is, what do we have to do to make banks more competitive in the financial services industry generally to enlarge share, but also, when is the banking community and the financial services community going to address these very cogent needs?

You know, let me give you a suggestion. I would have thought that if the small community banks in this country had come together with venture capital funds suggesting how they could help the minority community and the disadvantaged, small businessmen



regardless of what reason, to help ensure that they could get access to get business opportunity to get into the real economic cycle of America, that you would have gotten some relief from some of the regulatory costs of CRA. But nobody has come forward.

Constantly, before this subcommittee, all the banking community comes in is sort of not—I don't want to use the word "whine," but cries, that this is too much of a burden, that is too much of a burden, the regulators are doing too much, it is not fair, we are paying taxes, they are not—instead of looking at it as an opportunity to suggest, if you construct a mechanism of venture capital and we can create 100,000 new businesses in the United States, your share of the financial market is going to increase, and I think that is why we have helped open up the Federal Reserve and open up a way in which you can get money at a cheaper rate.

What I am disturbed about is that everybody is concentrating on the pie, either being the same size or shrinking, instead of using their intellectual talents to enlarge the pie for everyone. And if you do that, we don't need further legislation, we don't need further regulation. But we certainly don't need to poison an existing institution that exists like credit unions. May be I can get your response to that.

Mr. FERGESON. To which part?

Mr. KANJORSKI. Well, why aren't you here telling us what would be a good idea to solve some of the problems that CRAs were intended to solve? Particularly, some of the problems that the witness next to you talks about. Opportunity. You know, disadvantaged communities, for whatever reason, whether it is because of ethnic makeup, whatever their status, you know, they are disenfranchised from the American economic system today, and that is why we have set-asides, that is why we have favored contracts. It is not because they are not necessary. If we don't do it, there is no opportunity.

What we are trying to strive for is why can't the private sector create the instrumentalities to create the opportunity. You know, why don't you have in the banks, and perhaps in the large credit unions, you could come in here recommending a large venture capital fund that everybody could buy into as a qualification for meeting their CRA requirements, and then go one step further and make sure that that venture capital fund gets into the areas and the neighborhoods of America that need those businesses.

Why not do something simple like that?

Mr. FERGESON. I would applaud that, and I think we would love to participate in discussions of doing that. I think those are tough questions and they are things that really ought to be looked at. I hope I didn't give the impression that I am out for the demise of credit unions, that I want credit unions to go away.

Mr. KANJORSKI. We have had testimony before the subcommittee that the average bank expends \$55,000 a year in legal fees, accounting costs, and so forth, to meet the regulatory requirements of CRA. I don't know about the admiral's credit union—well, I do, it is very large. That is a minimal cost. But 90 percent of the credit unions in the Commonwealth of Pennsylvania would be gone at that cost. So what this is is a poison pill.

If we were to adopt the idea that across the board, without differentiation, without qualification, credit unions are going to be subjected to the same conditions as banks, we would put 90 percent of the credit unions in this country out of business, at least in my Commonwealth.

Mr. FERGESON. Of course, it is hard to compare myself with a little \$80 million bank with an \$8 billion credit union. We are not even in the same game. I applaud things that you have done in the past to try to relieve the burden of compliance of CRA for smaller banks. We are suggesting that different methods of compliance should be looked at for different sizes and different types of credit unions.

The same compliance again, and I wouldn't wish on anybody, the compliance that I have to go through. That is why we are working with regulators and working with Congress in trying to even out that compliance to allow special banks, credit card banks, or a special credit union to have vehicles where they could invest in maybe venture capital funds to comply with that, at the same time making sure that everyone is helping to participate in getting money and getting initiatives back to the community.

Mr. KANJORSKI. I am just disappointed that this seems to me an atmosphere of we and they, and I don't know why we don't understand we have met the enemy and they are us, all of us together. We are not fulfilling the needs for opportunity in America. And we are trying to nitpick around it and find little ways with the CDFI and all of this legislation that is not going to solve this problem.

If we are going to have opportunity for all people in America, since we are not starting with an even deck, an even deal here, some people have 10 cards and others don't have 1, we have got to find a tool and a mechanism to make it available, that people can get started in the small- and medium-sized businesses, they can take a good idea, they can take an innovation and create wealth for themselves and for society. It seems that we have forgotten that that is what this system is all about.

You know, I was a major stockholder in a bank about your size before I came to Congress. I understand full well the problems of small banks in America. But, unfortunately, they tend to identify with the organizations that represent the largest banks of America instead of what the organizations that represent the people that are more similar to the credit union people.

The fact of the matter is, the people you serve and the size of your bank, you are much closer to what is being done for credit union people, and they are not your competition. The competition is that the financial services industry of America hasn't come to meet the needs of a changing economy, a changing markup of American structure and opportunity for everyone.

Maybe I should ask the—isn't that frustrating to the—

Ms. ARANJO. It is.

Mr. KANJORSKI. I mean, I think your answer to Mr. Kennedy is exactly the answer I would have given.

Ms. ARANJO. It is extremely frustrating. I do not want to eliminate the CRA if that was what Congressman Kennedy thought that was what I am saying. That is not what I am saying. I am saying

that I have watched the CRA, I have watched banks use the CRA to not help the community, the minority community.

In the State of Massachusetts, several banks have announced CRA initiatives, these great, wonderful programs, and then they went out and found organizations that were not of minorities, Hispanic or African-American, and gave them the money and said go take care of this community. And they got CRA credit for it. That is what I object to.

I hope that as the CRA is revised, that it does really what it says it was going to do, is help the community, the minority communities in America get access to the opportunities of America, and no one can do it for us, for me or for the Hispanic community. There are enough educated, intelligent members of those communities that they are able to do it for themselves, and I truly hope that Congress will give those communities the opportunity that you are striving for, but would look at the fact that you have to allow them to do it for themselves.

Mr. KANJORSKI. Mr. Chairman, could I ask the Chair's indulgence for 2 more minutes.

Mr. FLAKE. You may do so with unanimous consent.

Mr. KANJORSKI. I come from an area of the Commonwealth of Pennsylvania that used to have all small banks about your size, Mr. Ferguson, and recently what I thought was good legislation, both on the State and national level, we have encouraged large intrastate and interstate banking and as a result, regional, large banks have come in and purchased all of the small banks in my area, to the tune that a new bank had to spring up to serve a need, which did.

And it is interesting that now we have been studying the deposits in, and the money left by these very institutions closely, and I want to tell you that the massive deposits coming in are not being invested in the area, they are going out into other areas, whether it is in the marketplace or around the country for investments overseas, thus indicating that we are going to have a negative impact because of that changeover of our own economy in the area. What we do about it, I don't know, but I suspect that if in 5 years that continues, we are going to have to do some corrective legislation and get more involved in private business because the job isn't being done.

I wanted to make a point, though. It is not only the banks that have this problem, it is business in America generally. I met with a utility president not too long ago, one of the large utilities in my area, multibillions in size, and he told me they were restructuring so that they could have a holding company that would allow them to have a foreign investment company.

That is, a utility company which was getting money from the ratepayers in a portion of my district had such a profit that they wanted to take it and invest it overseas, either in Europe or in Asia, as opposed to doing economic development in my district that is in dire need of it.

I want to tell you something. My area in minority representation, my congressional district, has only six-tenths of 1 percent minority. So I am not here because I have a constituency that is black or disadvantaged from a standpoint of minority. I am here representing



an anemic economic community that the banking system of America isn't working for, that the business community of America doesn't understand that they have to reinvest with the people and in the areas that need that reinvestment if the people of those areas are going to have opportunity.

And all I can tell you is that when I cast my votes, it is not because I have a constituency of minorities that I have to appeal to, I just don't see the economics of allowing America to take funds out of disadvantaged areas, send them to wealthy areas, or take funds out of needed areas and send them overseas as investment, and that if we have nothing that can correct that problem in the free market system, then it is incumbent on us to press even more on the CRA system, even though personally I think that is not necessarily the ideal approach.

I like the theory of it, I like the idea of it, but I think it is extremely expensive and cumbersome to accomplish it that way, and I would have preferred that the private sector would accomplish it.

Mr. FLAKE. Thank you very much. There being no further questions, we would like to express appreciation to the witnesses who have come today and to share—who have shared your views with us.

At this time, we would ask unanimous consent that the record be open for 4 additional days so that if there are additional views, they may be submitted. Hearing no objection, that is ordered, and the panel is excused.

The subcommittee is adjourned subject to the call of the Chair.

[Whereupon, at 1:30 p.m., the hearing was adjourned, subject to the call of the Chair.]

APPENDIX

September 22, 1994

JOSEPH P. KENNEDY R. MASSACHUSETTS, CHAIRMAN  
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U.S. HOUSE OF REPRESENTATIVES  
 SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE  
 OF THE  
 COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
 ONE HUNDRED THIRD CONGRESS

ROOM 804 O'NEILL HOUSE OFFICE BUILDING  
 WASHINGTON, DC 20515

Opening Statement by  
 Congressman Joseph P. Kennedy II (D.--MA)  
 at hearing on  
 COMMUNITY INVESTMENT PRACTICES OF CREDIT UNIONS  
 September 22, 1994

THIS MORNING, THE SUBCOMMITTEE MEETS TO EXAMINE THE COMMUNITY INVESTMENT PRACTICES OF CREDIT UNIONS. THIS TOPIC MAY STRIKE SOME AS A REDUNDANCY, IF NOT A HERESY. FOR DECADES, IT'S BEEN GOSPEL TRUTH HERE IN THE CONGRESS THAT CREDIT UNIONS ARE BY THEIR VERY NATURE DEVOTED TO COMMUNITY INVESTMENT. WHEN MANY OF US THINK OF CREDIT UNIONS, WE THINK OF VOLUNTEERS WORKING OUT OF A CHURCH BASEMENT, OR IN A TRAILER JUST BEYOND THE FACTORY GATE, MAKING CAR LOANS OR PERSONAL LOANS TO WORKING PEOPLE.

IN MANY INDIVIDUAL CREDIT UNIONS, THIS PROUD TRADITION CONTINUES. HOWEVER, THE CREDIT UNION INDUSTRY -- LIKE THE REST OF THE FINANCIAL SERVICES INDUSTRY -- HAS CHANGED DRAMATICALLY OVER THE LAST QUARTER OF A CENTURY. IN 1970, CONGRESS PROVIDED CREDIT UNIONS WITH FEDERAL DEPOSIT INSURANCE. AT THAT TIME, THERE WERE 24,000 CREDIT UNIONS WITH \$18 BILLION IN ASSETS, SERVING ABOUT 23 MILLION MEMBERS.

WHEN CONGRESS ADOPTED THE COMMUNITY REINVESTMENT ACT IN 1977, IT EXEMPTED CREDIT UNIONS. THE REASON WAS VERY SIMPLE: CREDIT UNIONS WERE SMALL INSTITUTIONS WITH A SMALL AMOUNT OF ASSETS SERVING A SMALL NUMBER OF CONSUMERS.

THAT REASON NO LONGER EXISTS. TODAY, THERE IS NOTHING SMALL ABOUT THE CREDIT UNION INDUSTRY. IT IS INCREASINGLY DOMINATED BY LARGE INSTITUTIONS POSSESSING LARGE AMOUNTS OF ASSETS AND SERVING A HUGE NUMBER OF CONSUMERS. ALTHOUGH THE NUMBER OF CREDIT UNIONS HAS SHRUNK BY ALMOST HALF TO 12,000, THE ASSETS OF THESE INSTITUTIONS HAS GROWN BY 1600%, TO NEARLY \$300 BILLION. IN ADDITION, THE NUMBER OF CONSUMERS WHO ARE MEMBERS OF THESE INSTITUTIONS HAS NEARLY TRIPLED TO OVER 65 MILLION.

WITH EACH PASSING DAY, THE "COMMON BOND" REQUIREMENT IS BEING STRETCHED TO THE BREAKING POINT. CREDIT UNIONS ARE NO LONGER LIMITED TO SERVING THE EMPLOYEES OF ONE COMPANY, OR THE MEMBERS OF ONE CHURCH OR SYNAGOGUE. TODAY, ONE CREDIT UNION MAY SERVE THE EMPLOYEES OF MANY COMPANIES LIVING IN SEVERAL STATES. IT MAY EVEN BE ALLOWED TO SERVE PEOPLE UNITED BY NOTHING MORE THAN THE FACT THAT THEY LIVE IN A PARTICULARLY GEOGRAPHIC AREA.

THAT KIND OF PERMISSIVE CHARTER LOOKS A LOT LIKE THE CHARTERS OF BANKS AND THRIFTS. BUT THERE IS ONE BIG DIFFERENCE: FEDERALLY



CHARTERED CREDIT UNIONS, UNLIKE BANKS AND THRIFTS, HAVE ABSOLUTELY NO OBLIGATION TO SERVE THE CREDIT NEEDS OF ALL THE PEOPLE THEY ARE CHARTERED TO SERVE.

THE CREDIT UNIONS CLAIM THAT THEY DON'T NEED SUCH AN OBLIGATION BECAUSE THEY ARE BY DEFINITION IN THE BUSINESS OF COMMUNITY INVESTMENT. THAT MAY BE TRUE OF MANY, IF NOT MOST, CREDIT UNIONS. BUT ON THE WHOLE, IT IS RAPIDLY BECOMING A MYTH. RECENT HOME MORTGAGE DISCLOSURE ACT DATA SUGGESTS THAT CREDIT UNIONS ARE DOING AN EVEN POORER JOB THAN BANKS AND THRIFTS OF SERVING WORKING CLASS AND MINORITY CONSUMERS. IN 1992, CREDIT UNIONS REJECTED MINORITIES 2.7 TIMES MORE THAN WHITES WHEN THEY APPLIED FOR A HOME LOAN. BUT BANKS' REJECTION RATE WAS 2.1%. FURTHERMORE, IN MASSACHUSETTS, STATE-CHARTERED CREDIT UNIONS MUST COMPLY WITH A STATE CRA LAW. AS WE WILL LEARN SHORTLY FROM MY STATE'S BANKING COMMISSIONER, 26.5% OF THOSE CREDIT UNIONS RECEIVED AN UNSATISFACTORY CRA GRADE. YET, ONLY 10.7% OF STATE BANKS RECEIVED SUCH A MARK.

WE SHOULD REMEMBER THAT MANY, IF NOT MOST, CREDIT UNIONS HAVE STUCK TO THEIR KNITTING. THEY CONTINUE TO OPERATE AS MODESTLY SIZED INSTITUTIONS UNDER A NARROWLY DEFINED FIELD OF MEMBERSHIP. THEY DESERVE TO BE COMMENDED, NOT CRITICIZED, FOR THEIR ATTENTION TO COMMUNITY LENDING. I'M SURE THE IRONY ESCAPES NONE OF US THAT MANY OF THE MOST VOCAL PROponents OF EXTENDING CRA TO CREDIT UNIONS HAVE BEEN AMONG THE LOUDEST OPPONENTS OF COMPLYING WITH THE LAW THEMSELVES. IF THEY SPENT LESS TIME CRITICIZING AND MORE TIME EMULATING CREDIT UNIONS' HISTORY OF SERVICE TO WORKING PEOPLE, PERHAPS THEY WOULDN'T FEEL SO THREATENED BY THE MARKET GAINS CREDIT UNIONS HAVE MADE OVER THE LAST FEW YEARS.

NEVERTHELESS, THE FACT REMAINS THAT IT IS APPROPRIATE TO SCRUTINIZE CREDIT UNIONS' COMMUNITY LENDING PRACTICES. IN MY VIEW, IT IS ENTIRELY REASONABLE TO APPLY CRA OR ITS FUNCTIONAL EQUIVALENT TO CREDIT UNIONS, PARTICULARLY LARGER MULTI-EMPLOYER AND COMMUNITY-BASED CREDIT UNIONS. AS HAS BEEN SHOWN IN MASSACHUSETTS, CRA CAN BE TAILORED TO JUDGE CREDIT UNIONS BY THEIR OWN DEFINITION OF THEIR COMMUNITY, NOT SOME UNWORKABLE COOKIE-CUTTER MODEL. THOSE CREDIT UNIONS THAT ARE GOING TO HAVE ALL THE PRIVILEGES OF BANKS AND THRIFTS -- LIKE DEPOSIT INSURANCE AND A LIBERAL CHARTER -- OUGHT TO HAVE SOME OF THEIR RESPONSIBILITIES, AS WELL -- LIKE SERVING THE CREDIT NEEDS OF WORKING AND MINORITY CONSUMERS. IT'S A MATTER OF FUNDAMENTAL FAIRNESS -- NOT ONLY BETWEEN CREDIT UNIONS AND THEIR COMPETITORS, BUT ALSO BETWEEN CREDIT UNIONS AND THE TAXPAYERS WHO BACK THEM UP.

TODAY WE HAVE A DISTINGUISHED PANEL OF WITNESSES TO HELP US BEGIN THIS EXAMINATION. I WANT TO THANK THEM ALL FOR COMING TO SHARE THEIR INSIGHTS WITH US. I WANT TO PARTICULARLY THANK TOM CURRY, WHO IS THE BANKING COMMISSIONER IN MY HOME STATE. HE WILL DISCUSS HOW CRA IS APPLIED TO ALL OF THE STATE-CHARTERED CREDIT UNIONS IN MASSACHUSETTS, INCLUDING EMPLOYER-BASED CREDIT UNIONS, IN A MANNER THAT HAS SUCCEEDED FOR BOTH CONSUMERS AND LENDERS. I THINK HIS INSIGHTS WILL BE VERY ENLIGHTENING FOR THE MEMBERS.

Statement of the Honorable  
Spencer T. Bachus, III  
before the Subcommittee on Consumer Credit and Insurance  
submitted for the official record  
September 22, 1994

Thank you, Mr. Chairman, for conducting this hearing today. I applaud your efforts to examine the role of credit unions as they relate to the Community Reinvestment Act (CRA).

I would state that it is my firm belief that CRA has been more of a regulatory quagmire for our nation's financial institutions than a mechanism to encourage community reinvestment. The shortcomings of CRA have gone unchecked for too long and the Act is in desperate need of an overhaul. Reforming CRA will enable lending institutions to better serve local communities without constant fear of federal interference.

Having said that, I tend to draw several noteworthy distinctions between credit unions and banks. Because of these differences of purpose, function and structure, I am reluctant to support efforts to place credit unions under the jurisdiction of CRA for a number of reasons. In my opinion, credit unions are, by design, operated with the primary objective of serving their members, each of whom is a shareholder in the institution. As non-profit entities, credit unions do not have the same latitude as for-profit commercial banks. Credit unions, similar to the Navy Federal Credit Union which is represented by Admiral Hughes today, are held together through the common interests of their members, usually tied to employment. On the contrary, commercial banks are generally structured to serve a varied customer base across diverse geographic areas.

In closing, I believe it is important to note that credit unions do reinvest in the communities they serve--their members. This vehicle of community reinvestment which satisfactorily delivers services to its members should not be impeded. Alabama's credit unions have served their members well and I am hopeful they will be allowed to continue this level of service, free from additional federal government intrusion.

Thank you for allowing me the opportunity to share my observations, Mr. Chairman.

STATEMENT OF REPRESENTATIVE FLOYD H. FLAKE  
BEFORE THE  
SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE

SEPTEMBER 22, 1994

Good morning Mr. Chairman and welcome to today's witnesses. I thank you for holding this important series of hearings on community investment practices and compliance with the requirements of the Community Reinvestment Act ("CRA"). I also commend the Chairman for his Subcommittee's tireless efforts in this area and his commitment to ensuring that credit reach all communities of this Nation.

Mr. Chairman, I attend this hearing today wearing two hats, a legislator and a practitioner. As you may know, the church which I pastor operates a credit union. Through this credit union we have been able to extend valuable credit to our members. My credit union's average loan is about \$750--\$1000, a standard personal loan and about the national average credit union loan. To this point, CRA has been targeted to mortgage and commercial lending and not to these smaller personal loans. In my experience, credit unions are serving basic community need of credit and are not competing with the large institutions for business.

Knowing that credit unions serve a unique role, we must move very carefully as to not hurt the very institutions which are providing credit to communities which are not being adequately served by our larger financial institutions. Toward that end, I will be listening very closely to the testimony of these witnesses today.

Thank you. I yield back the balance of my time.



TESTIMONY OF THOMAS J. CURRY  
ACTING COMMISSIONER OF BANKS  
COMMONWEALTH OF MASSACHUSETTS  
DIVISION OF BANKS AND LOAN AGENCIES

Before the  
SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE  
of the  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
of the  
U.S. HOUSE OF REPRESENTATIVES

September 22, 1994

REGARDING THE APPLICABILITY OF THE COMMUNITY REINVESTMENT ACT  
TO MASSACHUSETTS STATE-CHARTERED CREDIT UNIONS

**Introduction**

Mr. Chairman and members of the subcommittee, I welcome this opportunity to appear before you today to discuss the Massachusetts experience in applying the Community Reinvestment Act to state-chartered credit unions.

The Massachusetts credit union industry has a long and proud tradition dating back to 1909. Pierre Jay, the first modern Bank Commissioner of the Commonwealth of Massachusetts, was a leading force in the establishment of the credit union movement in the United States. In fact, the first credit union statute was enacted in Massachusetts. Today, there are over 130 state-chartered credit unions in Massachusetts, representing over \$5.9 billion in assets.

**The Massachusetts CRA Experience**

I wish to share with you how Massachusetts has been innovative in the administration of its own state CRA statute. The Commonwealth of Massachusetts passed its CRA statute, which parallels the federal regulation, in 1982. As a matter of regulatory policy, the Division has examined all state-chartered financial institutions, including credit unions, for CRA since 1980. The statute was

amended in 1990 to account for the changes to the federal regulation in 1989. In that amendment, however, an additional assessment factor was added to assess an institution's efforts to promote or preserve affordable housing, and another was expanded to assess an institution's use of flexible lending criteria, making the state statute more comprehensive. The amendment also tied the deposit of public funds to an institution's CRA rating and created regional mortgage and small business loan review boards.

The credit union industry originated in Massachusetts out of a self-help movement. Their purpose was and continues to be to provide easy access to credit and banking services for working people and members of civic, ethnic, and religious organizations. In applying CRA to credit unions in Massachusetts, I believe the fit is an easy one. Credit unions can satisfy their obligations to help meet the credit needs of their local communities, including low and moderate-income areas. Given that credit unions are chartered to serve specific communities and groups, there is no reason why credit unions cannot comply with the requirements of CRA.

The membership of credit unions is, of course, restricted to the common bond in their charter and by-laws. In Massachusetts, we have occupationally, associationally and geographically based credit unions. The value of CRA for industrial credit unions is just as great as for community credit unions. We try to look upon CRA as a good business and strategic planning tool for both banks and credit unions. A credit union can not meet the credit needs of its membership unless it ascertains the credit needs of its members, markets its credit services to its members, and develops credit services to meet the credit needs of its members. These are sound business strategies.

The Division has employed flexibility in how credit unions define their local communities because of their membership restrictions. In fact, differences among all types of institutions are expressly taken into account during an examination by the Division. As the 1989 Joint Federal Financial Supervisory Agency Statement on CRA stated, "Institutions have substantial leeway in developing policies and programs to meet their CRA responsibilities". This should be a matter of judgment on the part of the examiner during his or her assessment of an institution's performance.

In Massachusetts, CRA applies to a small industrial credit union as it would to one of our larger commercial banks. However, no one would expect the two to have the same types of product lines, ascertainment programs or marketing efforts. Assessment Factor K allows an examiner to assess an institution's ability to meet community credit needs based on various factors, including size and economic conditions. As the primary regulator of state-chartered institutions in Massachusetts, the Division has a thorough understanding of the unique circumstances of each individual institution. However, Assessment Factor K comes near the end of the report in the Community Development section. To address this deficiency, the Division introduced a new introductory section in its CRA report which gives specific information regarding the institution and the demographics of the community it serves. This makes the Public Evaluation clearer and gives the reader a better understanding of the community in which an institution operates.

By making some minor adjustments for the limitations imposed on credit unions, it has been very easy for the Division to apply CRA to Massachusetts credit unions. For example, Massachusetts state law restricts most credit unions from engaging in direct lending for small business loans or community development purposes. In addition, there are many credit union which do not offer mortgage loans. Therefore, several assessment factors in the CRA are not as heavily weighted in our analysis of a credit union's performance. For those assessment factors dealing with the origination

or the distribution of mortgage and small business loans, our examiners instead focus on the distribution of the credit union's personal loans, automobile loans, and other types of consumer loans such as home improvement loans, home equity lines of credit, and mortgage loans (when applicable). Examiners also assess how well the credit products offered actually meet the needs of the membership. It has been very simple for the Division to examine community credit unions since, similar to banks, they can delineate specific geographic areas for their local communities. Consequently, our examiners can use many of the same examination techniques as they do for banks. For industrial credit unions, the Division reviews how well they meet the credit needs of their members and eligible members, across all income and demographic lines, rather than simply an analysis of the geographic distribution of their lending.

#### Regulatory Burden

There have been some who have suggested that CRA requirements for credit unions are overly burdensome and inappropriate due to their purpose. At the Division of Banks, we are always working to reduce the regulatory burden on financial institutions and will continue to do so. While I can not speculate how CRA would look on a national level, I can state that the Massachusetts experience has not been overly burdensome. For those Massachusetts credit unions over \$100 million in assets, the average cost of a CRA examination is \$4,300. For credit unions between \$50 million and \$99 million, the average cost is \$3,000; between \$10 million and \$49 million, the average cost is \$2,000; between \$5 million and \$9 million, the average cost is \$950. Finally, for credit unions with assets less than \$5 million, the average cost for a CRA examination is \$650. Since the Division's goal is to examine each institution for compliance with CRA on a two year cycle, a credit union's annual costs for CRA compliance are relatively small. It is also true that those credit unions which are familiar with the CRA and its requirements have much less of a burden because of the fact that our examinations are likely to proceed more quickly and without the need for regulatory follow up. In addition, if it is inappropriate to impose CRA requirements on credit unions, then it would appear equally inappropriate to impose CRA on certain state-chartered banks in mutual form. Massachusetts co-operative banks were organized on the same self-help principle as credit unions and have similar ownership, or shareholder, structures.

Rather than look upon CRA as an unnecessary burden, I believe that many Massachusetts credit unions consider CRA as a positive means of helping to meet the credit needs of their membership. The value of CRA today goes beyond its original intention of prohibiting redlining. Banks and credit unions can look to CRA as a way of opening up opportunities for expanding their markets by affirmatively meeting the credit needs of communities and making sound loans to creditworthy individuals, regardless of where they live.

#### Ratings

The current listing of CRA ratings for Massachusetts financial institutions indicates that, on average, the credit unions have received slightly lower ratings than the banks. Since July 1, 1990, when CRA ratings first became public until now, one credit union has received an "Outstanding" rating, 60, or 72.3% have received "Satisfactory" ratings, and 22, or 26.5%, have received "Needs to Improve" ratings. During the same time, 29, or 14.8% of the banks have received "Outstanding" ratings, 146, or 74.5% have received "Satisfactory" ratings, and 21, or 10.7% have received "Needs to Improve" ratings. However, I want to point out that I do not believe that this is a result of less than average performance in meeting the credit needs of their membership. Certainly there appears to

be a higher degree of noncompliance with the technical aspects of CRA. This is, in part due to the fact that most credit unions are relatively small in size with few staff or little resources available to ensure compliance with all of the technical provisions of CRA. To alleviate this situation, the Division has participated in many seminars and educational programs through the credit union trade associations designed to inform the credit union industry of both the technical and substantive provisions of the Community Reinvestment Act.

In addition, most of the credit unions in Massachusetts have only received one or at most two examinations for compliance with CRA. Banks on the other hand have received multiple examinations for CRA from the Division and their federal regulator, resulting in a greater awareness of both the technical and substantive provisions of CRA. In terms of providing credit and financial services to their membership, credit unions have no trouble complying with CRA. One example of the improvement that occurs over time is Millbury Credit Union, a \$73 million community credit union. Millbury recently received an "Outstanding" CRA Performance Rating, the first credit union to be accorded such a rating. Millbury had received a "Needs to Improve" rating in its last examination. Other institutions, including credit unions have shown similar improvements in their succeeding examinations. Two years ago, we had several banks and credit unions which had "Substantial Noncompliance" ratings. However, because of our regulatory oversight and the proactive efforts of these institutions, subsequent examinations have shown substantial improvement in performance.

The Division has developed a new and we believe innovative "CRA and Fair Lending Policy" which was implemented on November 1, 1993. (A copy is attached.) In addition to giving clear and constructive suggestions to institutions on ways to increase fair lending opportunities, this policy clearly states that the Division will examine all state-chartered financial institutions, including credit unions, for compliance with the Community Reinvestment Act at least once every two years. In the past, the Division did not have the resources to attain this goal. In addition, the Division traditionally used its limited resources to focus its attention in the area of CRA on the larger urban banks. However, my office has recently further expanded the number of examiners devoted to examining for compliance with CRA. This should give us the resources we need to maintain a two-year examination cycle. Two years from now, when all state-chartered credit unions will have received at least two public CRA ratings, I believe that there will be substantial improvement in the performance of the credit union industry.

#### Fair Lending

As I mentioned, the Division examines all state-chartered institutions for compliance with fair lending. This is done as part of the CRA examination process. We examine for compliance not only with our new fair lending policy, but also with the state and federal versions of Regulation B and the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act. The use of lending data is critical to the examination process and can directly impact upon an institution's overall CRA rating if any suspected discriminatory practices are found. In fact, we have had instances where our examiners have detected suspected discriminatory policies or practices at credit unions. Only through the examination process can we ensure that the consumer is properly protected.

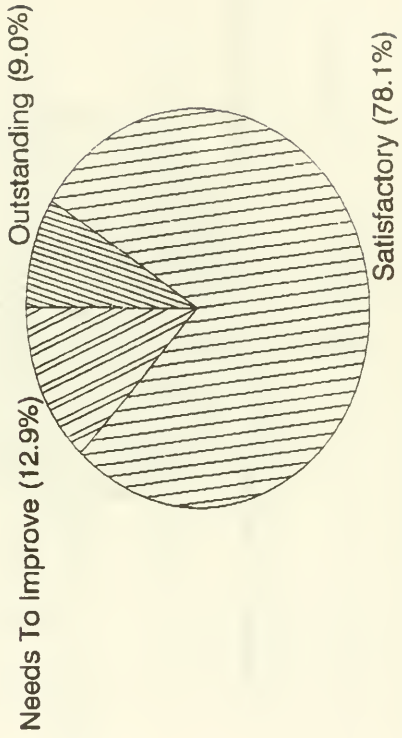
#### Conclusion

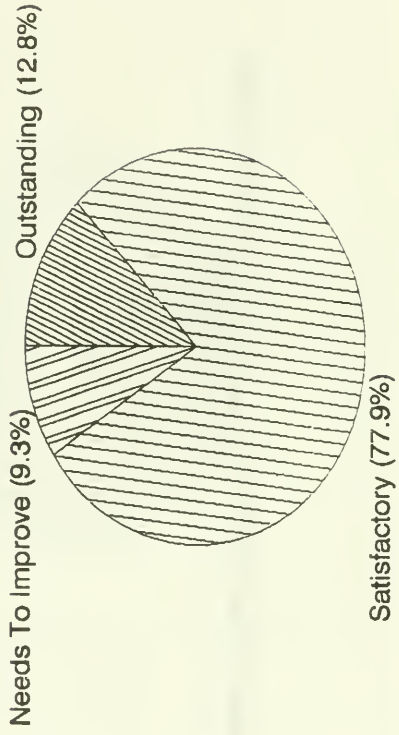
Massachusetts, like many states, has been a source of innovation and change. Being a local

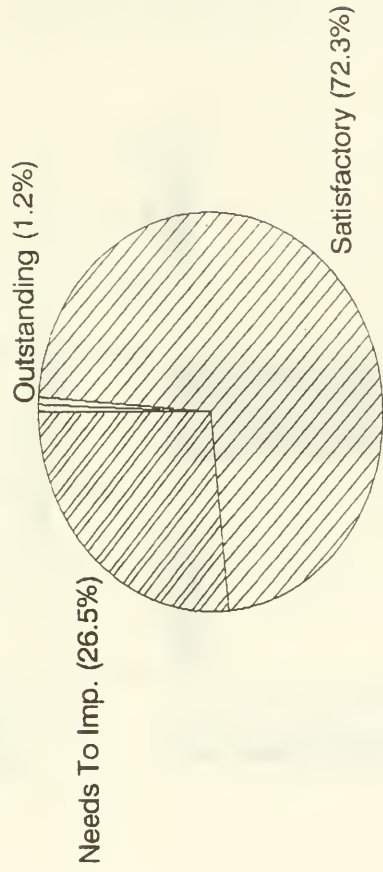


issue by nature, the Community Reinvestment Act has worked well with the credit union industry in Massachusetts. The CRA is not a law that credit unions in Massachusetts can not live with. In fact, CRA has been to their benefit through helping credit unions, like banks, recognize the obligation to help meet the needs of their entire membership and their communities. In doing so, credit unions can not only help improve the quality of life for their communities and membership, they can also enhance their bottom lines by developing new and loyal customers.

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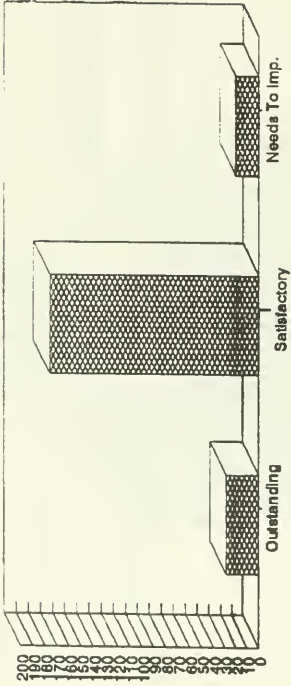




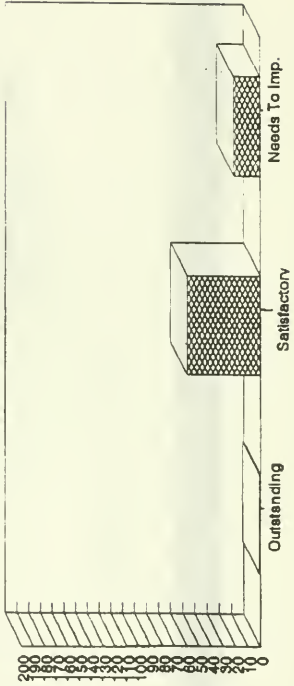




CRA Ratings  
State-Chartered Banks



CRA Ratings  
State-Chartered Credit Unions



STATEMENT

of

CORNELIUS D. MAHONEY  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
WORONOCO SAVINGS BANK

on behalf of

SAVINGS & COMMUNITY BANKERS OF AMERICA

before the

SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

September 22, 1994

Mr. Chairman and members of the Subcommittee, my name is Cornelius Mahoney. I am President and Chief Executive Officer of Woronoco Savings Bank, a mutual institution in Westfield, Massachusetts. Woronoco Savings Bank was established over 100 years ago and now has \$258 million in assets. The bank specializes in helping the individual realize the American dream. As author James Humes said, "The American dream ends with the purchase of a home, but it begins with a community bank."

Today I am representing Savings & Community Bankers of America (SCBA), which I serve as a member of the Board of Directors. I am also Chairman of the Massachusetts Bankers Association. SCBA represents an industry of more than 2,200 savings and community financial institutions throughout the United States with more than 16,000 offices, 285,000 employees and nearly \$1 trillion in assets.

SCBA commends you in the strongest terms for holding this hearing on extending the Community Reinvestment Act to credit unions. Your hearing represents the first time in recent memory that any member of Congress has agreed to look seriously at the special status that credit unions enjoy.

SCBA takes great pride in the fact that it was at our Government Affairs Conference earlier this year that you publicly proposed to review whether to extend CRA to credit unions. At the time, you said it was the right thing to do. It is the right public policy step.

I want to state at the outset that I have nothing against the credit union industry, particularly those small credit unions which have not strayed beyond their traditional common bond. Most of them do a fine job of providing service to their members. The problem arises when the line between credit unions and banks becomes virtually indistinguishable. CRA should be applied to geography-based or community-chartered credit unions and to credit unions serving multiple employer groups from one metropolitan area. It is these "come-one, come-all" credit unions, where the common bond has been severely if not totally diluted, that application of CRA is needed to ensure that all segments of the community are being served. There is no other way for these geographically-based credit unions to demonstrate that their lending programs benefit all segments of their local communities. Credit unions with little left in the way of a common bond should be required to reach out and serve all members of the communities in which they are located, including low- and moderate-income consumers. Continued growth and prosperity of our local communities depends on the commitment of all depositories in a community to CRA, not just FDIC-insured institutions.

A policy debate over the expansion of the common bond, and exemption from taxes, is warranted. The financial marketplace has become more competitive, blurring many of the traditional dividing lines that formerly separated service providers. Within it, the credit union industry has moved and continues to move away from its traditional role into the mainstream of the banking business. Credit unions should be welcomed to full citizenship in the community of depository institutions including the rights, privileges and obligations that entails.

IF IT LOOKS LIKE A BANK AND OPERATES LIKE A BANK, IT SHOULD BE SUBJECT TO CRA

There is an old axiom: if it walks like a duck, talks like a duck, acts like a duck, chances are it is a duck. Credit unions by their own words and deeds have moved more and more into the main stream of banking business. Many credit unions are full participants in the financial marketplace, often blanketing whole communities with advertising. Much of this advertising of loans and products does not indicate whether membership is required. The same marketing efforts of credit unions regularly promote higher nominal rates of interest on savings and lower charges on loans. Credit unions looking like banks, acting like banks, and competing with banks, should also comply with CRA, just like banks. Here are but a few illustrative examples:

- Citizens Equity Federal Credit Union (Peoria, IL; assets: \$1 billion) advertises same day loan approval; mortgage loans serviced locally; no-annual-fee Visa cards; no-fee and no-minimum-balance checking accounts; and free transactions at over 80 money center locations.
- Brotherhood Credit Union (Lynn, MA; assets: \$70 million) advertises a full range of banking services including: savings accounts, NOW accounts, term deposit accounts, retirement plans, mortgage loans, home improvement loans, automobile loans, personal money orders, travelers checks, direct deposits, and notary public services.
- Warrick Federal Credit Union (Newburgh, IN; assets: \$102 million) promotes itself as providing "better services than banks" with "lower loan rates and higher savings rates" and that "membership is open to almost anyone who lives or works in Warrick County or is related to someone that does."
- Banta Credit Union (Manasha, WI; assets: \$50 million) provides "total financial services" including low cost Visa/Mastercard, high interest savings accounts, IRAs, CDs, money market accounts, insurance benefits, "fast friendly loan service for any need," investment/brokerage services; TYME ATM cards, and safety deposit boxes.
- Indiana University Credit Union (Bloomington, IN; assets: \$70 million) describes itself as a "full service financial institution." The advertisement says that credit union membership is required but extends an invitation to all Red Cross volunteers to become members of the organization.
- Guardian Credit Union (West Allis, WI; assets: \$70 million) says it provides "full banking services" including free checking, no minimum balances, Mastercard and Visa cards, and lower loan rates.
- Landmark Credit Union (Waukesha, WI; assets: \$121 million) does not indicate in its advertisement whether credit union membership is required, but says that it does offer



fair rates, convenient hours, timely closings, and interest on escrow.

If credit unions are so interested in identifying themselves as full-service banking institutions, they should be equally interested in complying with CRA and paying taxes as we do. Credit unions, for the most part, are no longer unique depository institutions. The general public often finds little difference between dealing with a credit union and with other lending institutions. Congress should make no distinction in dealing with them either.

#### THE LACK OF A COMMON BOND UNDERSCORE THE NEED TO EXTEND CRA

The common bond relationship that credit unions once had with their members is evaporating. In the beginning, credit unions were formed by and for people of basically modest means who had a similar occupation or association to produce a cooperative lender. The Federal Credit Union Act states:

"Federal credit union membership shall be limited to groups having a common bond of occupation or association or to groups within a well-defined neighborhood, community, or rural district." (12 U.S.C. 1759)

For many years, the "common bond" was strictly construed. Each credit union served a rather small and well-defined group of members. However, recent years have seen the common bond limitation -- the principle on which credit unions were founded -- become so watered down as to become a legal fiction.

Whether such expansion of the common bond is in fact allowable under some interpretations of the statute, as several courts are currently debating, is not the central issue here today. The key concern today is that -- as the General Accounting Office appropriately pointed out three years ago -- Congress should clarify the future role of credit unions as depository institutions. Credit unions were granted special benefits, such as being exempt from federal taxes, because they served individuals joined together by a restrictive common bond. With the attenuation of the common bond concept, the special benefits these credit unions enjoy should disappear as well. The segments of the local community served by credit unions are now, in many parts of the country, indistinguishable from those served by banks and savings institutions.

The relentless and continued expansion of the credit union field of membership is directly attributable to policies of the National Credit Union Administration. NCUA policy now allows credit unions that have historically served well-defined groups, such as employees of a specific company, to adopt all-encompassing "community" charters, whereby the credit union can serve the general public over wide geographic areas. Credit unions may include, under one credit union "umbrella," several unrelated membership groups. Several credit unions may now share the same branch office, a practice questionable from an antitrust standpoint.

Some credit unions seemingly have developed an acute thirst for new members. From an economic perspective, the expansion of the common bond is fairly easy to understand even though it has undermined the traditional character of credit unions. The reduction in traditional manufacturing jobs has caused credit unions to seek markets to replace business lost to employer (member) attrition. Credit unions have sought a broadening of the common bond to add assets and keep their earnings growing. Communicators Federal Credit Union in Houston, Texas, recently received permission from the NCUA Regional Administrator to expand its field of membership to add all retirees and senior citizens living within a 25 mile radius of Houston. This means the addition of nearly 580,000 potential customers to Communicators' current membership of just over 28,000, an increase of nearly twenty-fold. In an even more recent case, the Lima Superior Community Federal Credit Union in Ohio was allowed to expand its charter to add more than 25,000 potential customers from eight rural townships to its current membership of just over 14,000. Direct Federal Credit Union in Needham Heights, Mass. began as the credit union for Polaroid employees and now serves 64 companies including Staples, Cellular One, Lotus, Lechmere, and Reebok.

The common bond has traditionally been the distinguishing factor in the definition of a credit union; but should the focus for a credit union terminate, then so long as there are other community resources that can meet the financial needs of the membership, the credit union should consider closing.

NCUA's policy of allowing credit unions to serve the general public without serious regard to commonality of members is changing the character of many credit unions from financial cooperatives that serve small groups to large commercial enterprises indistinguishable from many banks and savings institutions.

The expansion and diffusion of credit union membership further heightens the need for CRA-type requirements for credit unions. It made complete sense to have only a limited community support evaluation under the original limited field of membership restrictions. It makes absolutely no sense for credit unions to remain exempt from CRA based on an out-moded and out-dated notion of membership that is no longer reflective of economic reality.

Community reinvestment obligations of broad-based credit unions should be judged on the basis of the geographic community in which they serve. There is no reason to differentiate between a credit union that makes a loan to a member's child who does not live in the community from a savings institution or bank that makes a loan outside of the community it has delineated for CRA purposes. Without CRA, it is difficult, if not impossible for such credit unions to demonstrate they have devised lending programs that enhance their entire local community. There is no other way for Congress and the American public to know for sure.

### LARGE CREDIT UNIONS HAVE STRAYED FROM THEIR FOUNDING PRINCIPLES

There are really two distinct credit union industries today. The first adheres to a narrow common bond, uses volunteer staff, operates in church basements and factory backrooms, and offers a limited product line. The second group -- often the larger credit unions -- is professionally staffed and offers a full range of financial services. Some of these tax-free businesses operate from expensive buildings, have large advertising budgets and may even have overseas offices. Such credit unions are active participants in the financial marketplace, virtually indistinguishable from banks and savings institutions in the full range of services offered -- real estate loans, credit and debit cards, IRAs, student and consumer loans, home equity loans, and even agricultural and commercial loans. These same credit unions now offer far more services than they did when they were exempted from the original CRA requirements.

This credit union growth was facilitated by federal insurance, the loosening of the restriction on the "common bond" requirement and tax-preferred status. The fact that credit unions pay no federal taxes on their earnings enables credit unions to pay higher interest on deposits and charge less for their services on a competitive basis than banks and savings institutions.

Large credit unions have been adding rapidly in every dimension to their product array, membership numbers and asset size. From 1989 to 1994, the credit union industry grew from \$206 billion to \$277.2 billion. In 1989, six credit unions had over \$1 billion in assets; by 1993, there were twelve. The savings institution industry had \$107 billion in assets in 1963 when it became subject to federal income taxes and far few powers than credit unions enjoy today.

SCBA urges Congress and the Administration to give early consideration next year to reviewing and revising the tax treatment of credit unions. In 1992, the Administration raised the possibility of imposing federal income tax on credit unions whose assets exceed \$50 million. It would have made only 9 percent (or 1,139 institutions) of all federally insured credit unions taxable, although they hold approximately 64.7 percent of all federally-insured credit union assets. The proposal makes even more sense today.

### CREDIT UNIONS HAVE INCREASED THEIR INVOLVEMENT IN HOUSING WITHOUT ANY CRA ACCOUNTABILITY

Many credit unions have dramatically increased their involvement in housing finance and become important players in the mortgage market, competing aggressively against banks and savings associations in the development of mortgage products. According to the Callahan Report of March 1993, credit unions increased their mortgage lending by 70 percent in 1992. According to NCUA (Letter No. 152, March 1994), other important facts relating to the real estate activity of credit unions include:

- \$25.4 billion in real estate loans were granted in 1993.
- At year-end 1993, credit unions had \$51.7 billion in real estate loans outstanding.
- \$23.1 billion, or 42.8 percent of outstanding real estate loans, will either refinance, reprice or mature within 3 years.
- \$9.8 billion in first mortgage real estate loans were sold on the secondary market, an increase of 43.9 percent over the previous year.

Unlike banks and savings institutions, broad-based credit unions are under no obligation to reach out to all segments of the communities in which to meet the credit needs of moderate and low-income borrowers.

The question for Congress is whether or not this should be allowed to continue -- whether a significant component of the financial services sector should be allowed to operate without being required to demonstrate service to their communities. It also does not necessarily follow that because a credit union is made up of members who voluntarily join and are the prime target for lending programs that all in the community will be served. In Massachusetts, for example, based on the 1992 HMDA data provided by the 20 largest credit unions in Massachusetts, minorities were significantly less likely to apply for a loan at a credit union than at a bank, and minorities were substantially more likely to be denied at a credit union. (Source: Sheshunoff Information Systems, Produced from 1992 HMDA Disclosures)

In addition, Massachusetts credit unions in 1993 trailed banks in terms of re-investing local deposits in the community. These credit unions had a loan-to-deposit ratio of 56 percent versus 84 percent for Massachusetts banks. The application of CRA to credit unions will help ensure that all efforts are being made to provide broader access to credit and to weed out inappropriate practices.

#### CREDIT UNIONS SHOULD WELCOME CRA. NOT OPPOSE IT

I fail to see the logic in the credit unions' opposition to the extension of CRA. Credit unions may say they should not have to adhere to CRA for a number of reasons, but none of them make any sense. If they are doing such a good job in serving their communities, why shouldn't credit unions be more than happy to prove it to the world? Why shouldn't they, like banks and savings institutions, take pride and demonstrate on equal terms service to their community?

Perhaps credit unions oppose CRA because compliance requires the commitment of resources and time at all levels of an institution. Perhaps credit unions oppose CRA because they do not incur these costs in either time or resources right now and thus would be giving up a



certain competitive advantage. This disparity, however, furthers neither the goals of community reinvestment nor providing credit in a safe and sound manner.

The application of CRA to banks and savings institutions has had positive effects sometimes overlooked. CRA has helped institutions develop successful business opportunities within all segments of their communities. Banks and savings institutions have learned how to mitigate many of the risks associated with affordable housing lending, and have been making loans to low-income borrowers for years. Because these borrowers often have non-traditional credit histories, SCBA members make the extra effort to qualify the applicant for a loan, consistent with safety and soundness. There is no reason why credit unions cannot do the same.

Most credit unions in Massachusetts are actively working to meet the challenge of Massachusetts' CRA law, which has an essentially identical rating system as the federal law. For example, Greylock Credit Union is the largest mortgage underwriter in Berkshire County. With \$270 million in assets Greylock has become the largest and fastest growing financial institution in the area. In fact, in the past 10 years, the credit union has grown 400 percent -- more than five times the growth of local area banks. As a result of its extraordinary growth, Greylock saw its loan-to-deposit ratio plummet to a mere 50 percent, well below industry standards. However, when it applied to establish a branch in the town of Adams, Greylock touted its satisfactory CRA rating as evidence that it is striving to serve all segments of its community.

There are wide disparities in CRA ratings between Massachusetts banks and credit unions. As of July 1994, 32 percent of the credit unions examined under the state law were rated "Needs to Improve" and none were rated "Outstanding." In comparison, only 7 percent of the state's banks were rated "Needs to Improve" with 12 percent rated "Outstanding." The Massachusetts experience should underscore the reality that a major segment of the nation's massive credit union industry is not doing all it can in terms of lending to all segments of the local community. (Source: Division of Bank Annual Reports 12/93, Activity Reports Through July 1994)

Credit unions still may say federal CRA rules should not be applied to them because they only make loans to their members and that is tantamount to sending the funds back into their communities. But that is not true in every instance, and simply begs the question. Credit unions do not necessarily lend and take deposits in the same area. The Indianapolis-based Teachers Credit Union used a mobile unit to get deposits from a Crawfordsville, Ind., R.R. Donnelly office some five years ago. CRA tries to help ensure that all segments of the community -- rich and poor -- are being served from the funding raised in that community.

Credit unions say they should not have to adhere to CRA because they already serve the "common man." This statement may have been true at one point, but no longer. As the GAO pointed out in 1991, "the available data clearly indicate that credit unions do not exclusively serve people of 'small means' today." Regulatory aid for credit unions -- such as the federal tax and CRA exemption -- actually then may perversely benefit those with higher

incomes at the expense of those with lower incomes.

Credit unions say that CRA should not be applied to them because of their not-for-profit status. Certainly, banks and savings institutions have CRA responsibilities regardless of whether or not they make a profit. My mutual savings bank is just like a credit union. Everything we make goes back into the institution or to our customers. The way credit unions operate -- where income earned from borrowers is returned to savers after expenses and required allocations to reserves -- is not different in substance from that of a mutually organized savings and loan association, a mutual savings bank, or even a mutual life insurance company. Thus credit unions' not-for-profit status is no justification for CRA exemption.

Credit unions certainly do not want CRA applied to them, but CRA policies allow banks to balance their thinking about how things are and how they might be. Community banks like Woronoco Savings Bank try to seek a balance between what it takes from and what it gives back to the community. At Woronoco, senior managers and employees are involved in community charities, programs and events. Sharing the work of community progress through involvement continues to be a character trait necessary for success. Because our business is directly tied to the success of the areas where we operate, Woronoco has a great interest in ensuring the vitality of the communities we serve, at all income levels. Woronoco Savings Bank has a strong commitment to youth and the staff is very responsive to community needs.

Woronoco Savings Bank tries to help maintain and enhance our community's economic and social strength. As evidence of commitment even beyond CRA, in addition to First Time Home Buyer special programs, loan counseling, sponsorship of programs with the Small Business Development Center and local community development corporation, sponsorship of local Chambers of Commerce functions, officers, managers and employees at Woronoco Savings Bank are involved in a host of programs, including:

- serving on the boards of directors of most of the non-profit organizations in our area;
- working with the local college to provide week-long seminars for individuals in transition and in setting up the Leadership Westfield Program, which helps train individuals for leadership positions in non-profit organizations;
- helping with the upkeep and support of the local homeless shelter, and providing necessary contributions to keep the shelter open during the summer when it was threatened with closure for lack of funds;
- participating in "Downtown Clean Up Day" each year;

- holding a very successful food drive raising funds, which the Bank matched, when the local Food Pantry was dangerously low on supplies;
- opening the first Educational School Branch, which serves a training facility for local high school students providing hands-on experience in the banking world;
- conducting Personal Economic Programs, which help educate consumers about banking and the financial marketplace;
- providing scholarships to graduating seniors at all eight high schools in our delineated market, and humanitarian and achievement awards at area middle schools;
- sponsoring youth sports teams in most of the local programs;
- committing a \$12,000 grant to ensure that programs producing positive alternatives for teens was continued through-out the summer at local YMCAs and Boys & Girls Clubs; and,
- contributing over \$200,000 to community outreach in 1994.

SCBA member institutions are active in this same way in their communities all across the nation, investing and otherwise demonstrating their commitment to their local communities. CRA would give broad-based credit unions an incentive to do the same.

#### CREDIT UNIONS ARE UNDER NO OBLIGATION TO REINVEST IN AFFORDABLE HOUSING AND ECONOMIC DEVELOPMENT

Credit unions are deposit-taking entities, and most of the accounts of their members are insured by the federal government through the NCUA. But the federal government provides insurance of accounts protection to credit unions without ensuring whether the credit union industry is deploying its available funds to help fulfill the home ownership dreams of low-to-moderate income families or to meet other family credit demands.

In an attempt to prevent congressional action to do just that, the Board of the NCUA on May 12, 1994, adopted charter amendments designed to ease significantly the hurdles for the creation of low-income credit unions and the ability of other credit unions to offer services in low-income areas. The NCUA, for the first time, publicly recognized the obligation of credit unions to serve the credit needs of low-income areas. The NCUA may say, therefore, that CRA does not need to be extended to credit unions. However, the opposite argument can be made: by making these changes, NCUA is recognizing the appropriateness of CRA-like requirements for credit unions.

The NCUA rules have additional weaknesses. Most notably, the NCUA rules offer no method to consider whether deposits taken in low-income areas are reinvested in loans in those same areas. The NCUA is only now just beginning to experiment with programs aimed at increasing the availability of credit to low-income areas. Indeed, credit unions coming into low-income areas will be required to file business plans delineating how deposits will be solicited and funds reinvested in that community through the granting of loans.

These are welcome steps. However, they are merely small beginning steps just touching the outer fringes of full CRA commitment.

## CONCLUSION

Mr. Chairman, I once again applaud you for your decision to hold a hearing on this subject. Debates over the common bond, CRA, and taxes are warranted. The "most-favored lender" status of credit unions needs to be re-examined in light of sweeping changes that have occurred in the financial marketplace.

Credit unions are worthy competitors who should have the confidence to operate without special benefits in the effort to service the public most efficiently. The sad fact is that special treatment creates dissension and bitterness among institutions that otherwise have a great deal in common and that could learn a great deal from each other.

Many credit unions today are full-service lenders, competing in all aspects of the financial services market, no longer voluntary associations of closely-linked individuals with a common bond. Congress should encourage credit unions to graduate to CRA-complying and taxpaying status.

Broad-based credit unions should face reality and view CRA as a challenge to be met and an opportunity to be recognized. Just like banks and savings institutions, such credit unions should reinvest in affordable housing and economic development. And just like banks and savings institutions, credit unions have an irrefutable responsibility to demonstrate investments in their local communities. Credit unions can and should join banks and savings institutions in demonstrating service to their communities. Credit unions can and should join banks and savings institutions in becoming leaders in the availability and quality of mortgages for low- and moderate income homebuyers. This should be done for the good of the nation.

Extending CRA to credit unions can increase overnight the pool of funds available for community reinvestment. If this is not done, the number of those persons who would benefit from CRA will eventually be reduced. And if this is not done, the CRA's full potential will remain unrealized.



Savings & Community Bankers of America stands ready to assist in any way possible to address these issues. Passage of legislation in the next Congress to extend CRA to community-chartered credit unions and to credit unions with many employer groups in one area should be made a top priority. The potential harvest of additional CRA benefits should not be missed.

This concludes my prepared remarks. I will be happy to answer any questions you may have.

**TESTIMONY OF**  
**ARMANDO R. CAVAZOS**  
**ON BEHALF OF**  
**THE**  
**CREDIT UNION NATIONAL ASSOCIATION**  
**BEFORE THE**  
**SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE**  
**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**  
**U.S. HOUSE OF REPRESENTATIVES**

**SEPTEMBER 22, 1994**

Mr. Chairman, members of the Subcommittee, my name is Armando R. Cavazos and I am the President/Chief Executive Officer of Credit Union One located in Ferndale, Michigan (a suburb of Detroit). I thank you for the opportunity to appear before you on behalf of the Credit Union National Association and Affiliates (CUNA) to oppose extending the requirements of the Community Reinvestment Act to the nation's credit unions. CUNA is the major trade association serving our nation's 12,733 credit unions with \$300 billion in assets and 67 million members. Through its 50 leagues, CUNA continues its 60 year history of organizing, serving, and supporting credit unions. Today 91% of all credit unions are affiliated with CUNA and 87% of all credit union assets are in credit unions that are affiliated with CUNA.

"Field of membership" is a term that you will hear used repeatedly during this hearing. The concept is one that means that a credit union serves identified groups or an identified community, not the general public. I was asked to represent CUNA today because I serve on CUNA's Field of Membership Task Force. Our task force is looking for ways more consumers can become credit union members. Our discussion has focussed on the need to provide credit union services to more low-income people. CUNA was very pleased that the National Credit Union Administration revised its policy two months ago to provide federal credit unions with much greater opportunities to reach out to low-income individuals and communities, and our task force continues to discuss ways to make such service a reality in urban and rural areas of the nation.

My credit union, Credit Union One, has a long history of serving groups from all economic levels of society. Our credit union has 120,000 members and \$350 million in assets. Our members live throughout Michigan and we serve them through 17 offices and 14 facilities we share with other credit unions. Credit Union One was chartered in 1938 as an outgrowth of the Ferndale Food Cooperative. People saw the benefits of the cooperative structure for food distribution and realized there could be benefits of a cooperative structure for serving their financial needs.

Members of Credit Union One are convinced that credit union resources generated from serving our more affluent members can and should be allocated towards initiating and continuing service to lower income people within our field of membership. At present, about 20% of our membership are from low income areas in metropolitan Detroit. We serve these members through our branches in Southwest Detroit and at the Detroit Medical Center, as well as a shared service center in Detroit.

Mr. Chairman, our Southwest Detroit branch was started primarily to serve a parish and has gradually expanded to serve about a five mile radius from the church. This area has 70% minority population and the median household income is \$16,900. The credit union is the only financial institution available for many of the residents as well as for a number of migrant workers whom we also serve. A great percentage of the loans we make are unsecured and are often for auto repair, schooling for children, debt consolidation, and

financial emergencies. At our three inner city locations, we also cash checks and sell a large number of money orders.

I'd like to share with the Subcommittee the following information about Credit Union One:

- \* We make small unsecured loans for periods up to 30 months at a rate of 8.75%.
- \* There is no charge for check cashing if: 1) the member is under 21 or over 65 years of age; or 2) the member has more than one account at the credit union (savings and a loan, or checking account); or 3) the member has a savings balance of \$300. Otherwise the charge is \$2.50.
- \* We offer money orders for \$1.00, and we waive this if the member is on direct deposit or payroll deduction.

To ensure that we carry out our philosophy of serving all income levels within our field of membership:

- \* we guarantee that our Board of Directors, who are volunteers, contain a rich diversity of backgrounds.
- \* we establish liaison groups with each community we serve and initiate outreach programs in the community.
- \* we ensure bilingual staff wherever necessary.

Mr. Chairman, I am proud of the record of our credit union and I feel that we are doing an excellent job of serving our existing members and of reaching out to people of all income levels in our field of membership. My state regulator, Patrick McQueen, feels that there is no justification whatsoever for bringing Credit Union One, or any other credit union, under CRA. CRA would not cause my credit union to change the way it is serving its members, but it would mean additional cost to document the work we are already doing. CRA should only be expanded if there is definitive evidence of a wide-spread problem. This was the case when it was enacted for banks and savings and loan associations. It is not the case for my credit union nor, I believe, for others.

Neither the National Credit Union Administration nor state regulators have received complaints of a CRA nature about credit unions with community charters or those with traditional fields of membership. The annual survey on financial institution customer satisfaction by the American Banker newspaper consistently rates credit unions far ahead of banks and savings and loans. I urge you not to amend a law simply because some bankers would like to see a burden imposed on credit unions, thereby making them less competitive.

While I am on this subject, I can't fail to note a certain irony, if not hypocrisy, on the part of the three witnesses testifying here today on behalf of the banking and thrift industries. They are calling for the extension of CRA to other financial entities. These three trade groups represent the very people who were responsible for the enactment of CRA in the



first place. They are the same organizations which have spent millions of dollars since the date of enactment of CRA in trying to either repeal it or water it down until it is meaningless. They have funded untold sums of money on studies and lobbying campaigns to accomplish that goal. In fact, the Independent Bankers are continuing to wage a major campaign to exempt or water down CRA for up to 88 percent of the nation's commercial banks.

I am amazed that their testimony can be delivered with a straight face. It is apparent to me that the real motivation must be to damage their competition; and at a time when they have had several years of record profits. Unfortunately for credit unions, we are the smallest segment of the market, so we don't have billions of dollars to fight the thrifts and bankers as do the insurance and securities industries. A further irony is that the thrifts have elected not to testify against the mortgage bankers. Perhaps because many are members of their trade association.

It is truly ironic that those who caused the problems which gave birth to CRA are now calling for fair competition and free trade in a not-too-veiled attempt to squelch competition from the one financial entity-- the credit union--which offers the consumer truly competitive rates and services. And it is even more ironic that in their zeal to reduce credit union competition by including us in CRA, they overlook the fact that in order to fully comply with CRA, credit unions would need expanded powers. Namely, an expanded lending authority and the removal of any geographic limitations on membership. But we don't want expanded powers, Mr. Chairman. We simply want to be left alone to provide the kind of personalized service and lower rates on loans that our members expect.

The bankers have expended a great deal of time and energy not only trying to bring credit unions under what they consider a bad law, but also have expended a great deal of resources suing credit unions around the country because of field of membership expansions. We were pleased last week when the U.S. District Court for the District of Columbia "dismissed with prejudice" the American Bankers Association's lawsuit challenging the National Credit Union Administration's authority to allow a federal credit union to serve a variety of groups. We are also pleased that in the recently-passed interstate branching bill that Congress recognized that credit unions can play an important role in providing credit to distressed areas. A section of the bill specifically encourages parties to consider the establishment of community development credit unions in communities where a bank was closing a branch.

I also understand that the banks in particular do not like the very common practice for community groups to dictate, through opposition to bank expansion plans, what changes in bank operations must be made prior to removing the block to expansion. I certainly hope that today lawmakers are not considering a law which would enable a group outside the field of membership of a credit union to force a credit union to change the way it operates. To me this would mean that we have determined not only that credit union members need

to be protected from their credit unions, but that some outside entity is likely to make superior decisions to those of the elected volunteer board of directors.

I have examined closely the 12 factors with which I would have to comply were I under the CRA. These factors are vague and general and appear to me to demand very subjective appraisals. They require the assessment of many activities not normally permitted for my credit union and most others. For the benefit of all readers of this testimony, the 12 factors would be as follows if CRA were extended to credit unions:

- (a) activities conducted by the credit union to ascertain the credit needs of its community, including the extent of the credit union's efforts to communicate with members of its community regarding the credit services provided by the credit union;*
- (b) the extent of the credit union's marketing and special credit-related programs to make members of the community aware of the credit services offered by the credit union;*
- (c) the extent of participation by the credit union's board of directors or trustees in formulating the credit union's policies, and reviewing its performance with respect to the purposes of community reinvestment as set forth in this section;*
- (d) any practices intended to discourage applications for types of credit set forth in the credit union's community reinvestment statement;*
- (e) the geographic distribution of the credit union's credit extensions, credit applications and credit denials;*
- (f) evidence of prohibited discriminatory or other illegal credit practices;*
- (g) the credit union's record of opening and closing offices and providing services at offices;*
- (h) the credit union's participation, including investments, in local community development and redevelopment projects or programs;*
- (i) the credit union's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans and small business or small farm loans within its community, the purchase of such loans originated in its community, and the use of more flexible lending criteria, consistent with safe and sound credit union practices;*
- (j) the credit union's participation in governmentally-insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms;*
- (k) the credit union's ability to meet various community credit needs based on its financial condition and size, its legal impediments, local economic conditions and other factors;*
- (l) other factors that, in the regulator's judgement reasonable bear upon the extent to which a credit union is helping to meet the credit needs of its entire community.*

In addition, there is one state, Massachusetts, that has a state CRA law that applies to all financial institutions including credit unions. The Massachusetts statute has added an affordable housing provision to its CRA requirements.

A quick review of these 12 factors reveals that because of statutory and regulatory restrictions on certain kinds of lending, and the requirement to serve only those within our fields of membership it would be impossible to meet many of these requirements.

In your letter of invitation, you asked for comments on four specific questions concerning credit unions. My observations on the questions submitted by the Subcommittee are as follows:

Question #1. "Many people who speak on behalf of credit unions contend that imposing community investment requirements on credit unions is unnecessary because credit unions are by nature chartered to serve specific communities or groups. Recent data produced pursuant to the Home Mortgage Disclosure Act HMDA demonstrates disparities between credit unions and banks in serving minority areas. In 1992, credit unions received only 8.1% of their applications from African-Americans and Hispanics, while 9.5% of mortgage applicants at insured banks had these backgrounds. At the same time, credit unions have a greater ratio than banks of minority to white application denial rates. At credit unions, a Black or Hispanic applicant is 2.7 times more likely to be rejected than a white applicant. At banks, the denial rate ratio is just 2.1. This disparity between banks and credit unions is made even more significant by the fact that the average credit union customer has a higher income and education level than the average bank customer. In light of these facts, do you believe it is appropriate that credit unions should meet community investment requirements identical or similar to those under the Community Reinvestment Act CRA? Why or why not?"

Answer #1. It is important to note that the denial rate for blacks, Hispanics, and all minorities applying for home mortgages is lower across the board for credit unions than for banks. With respect to the HMDA statistics, I refer you to the April 11, 1994 report by the National Credit Union Administration on Special Examinations For Discriminatory Practices By Credit Unions. In this report, NCUA found no evidence of any overt lending discrimination in the credit unions reviewed. The report suggests that certain mitigating factors such as zip code errors and strict adherence to secondary market standards may account for some of the problems. Efforts are underway to correct and improve the situation.

Interestingly, the study went beyond just HMDA statistics to determine if there are discriminatory practices in field of membership expansions and conversions to community charters. The study found no examples of a community credit union excluding minority areas. With respect to expansions, it found no evidence of any discrimination by the credit unions reviewed. The NCUA study follows my testimony as Attachment #1.

Further, Mr. Chairman, it is important to understand the overall lending patterns of credit unions in order to see why CRA is inappropriate for credit unions, considering that the main purpose of CRA is to increase mortgage and business lending in low-income areas. Let me explain how these loans are defined for credit unions. A "member business loan" (MBL) as defined by section 701.21(h) of NCUA's Rules is any loan that a federally-insured credit union makes to a member for a commercial, business, investment, or agricultural purpose that is:

- for an amount greater than \$50,000;
- not secured by the member's primary residence, or shares in the credit union, or deposits in another financial institution; and
- not fully insured or guaranteed by the state or federal government.

In addition, NCUA's Rule limits MBLs made to one member or group of associated members to 15% of the credit union's reserves (less the Allowance for Loan Losses account) or \$75,000, whichever is higher, though the credit union can seek a waiver from the agency to this limitation. This same regulation limits the amount a federally-insured credit union can invest in "construction and development lending," that is a loan to purchase land or property with the intent to convert it into income-producing property. The aggregate of all such loans at a credit union may not exceed 15% of its reserves (less the Allowance for Loan Losses).

With these regulatory restrictions in mind, it is easier to see why credit union lending in these areas is of such low volume. First, the average credit union has less than 1% of its assets in business loans outstanding; second, the average credit union has less than 5% of its assets in first mortgages on its books; third, in the first half of 1994, the amount of new first mortgage loans granted by the average credit union was less than 1% of assets. For all of 1993, the figure was about 2%; and fourth, only 12% of credit unions offer non-agricultural business loans, and only 3% offer agricultural business loans.

**Question #2.** "Some have argued that imposing CRA-type requirements on credit unions would be excessively burdensome. In Massachusetts, state-chartered credit unions have, along with state-chartered banks and savings and loans, been required to comply with a state CRA law for 12 years. Yet, no state-chartered credit union has converted to a federal charter during that time in an effort to avoid coverage under the state CRA law. Do you believe a federal CRA-type standard would be excessively burdensome to credit unions? Why or why not?"

**Answer #2.** Yes, it would be tremendously burdensome and costly. Although the state of Massachusetts has had a state CRA law since 1982, the new Commissioner of Banks for the State recently issued a revised set of guidelines for compliance. In fact, the guidelines are the same 12 factors used at the federal level plus one additional one. The Commissioner sent a lengthy Administrative Bulletin to all financial institutions, including credit unions, on August 31, 1993. The Bulletin specifically stated that all institutions would be expected to be in compliance with all criteria on November 1, 1993. This means that there have only been 10 months for the real burden to be felt; hardly time for credit unions to even contemplate converting.

Compliance has been a problem for state-chartered credit unions in Massachusetts. The factors simply don't adapt themselves easily to credit union operations. Credit unions have indeed expended a good deal of resources on compliance. Some are still graded low for



inadequate documentation of their activities. No outside group, however, has issued a challenge to a credit union expansion because of CRA. If this does happen, I strongly suspect that dissatisfaction with CRA by state-chartered credit unions will skyrocket. The most distressing thing, however, is that the CRA law has caused compliance changes, not changes in operating practices.

On a national scale, the impact would be severe. Thousands of small credit unions operate with limited staff and would be unable to handle the burdensome documentation requirements that would follow. They would be forced to close or merge with larger credit unions.

As of year-end 1993, 776 credit unions were categorized as religious organizations for their common bond. Their average asset-size was \$3.7 million, while they average 1.75 full-time employees and 1.5 part-time employees. More broadly, there were 6,690 credit unions with less than \$5 million in assets -- that's over 50% of the nation's credit unions! For those credit unions with less than \$2 million in assets, few have any full-time employees at all, and average only 1 part-time employee. Credit unions with \$2-\$5 million in assets average only 1.9 full-time employees and 1 part-time employee.

Question #3. "To the extent that a federal community investment standard applied to credit unions would be appropriate, do you believe that such a standard should recognize the different sizes and types of credit unions that exist? For instance, many large geographic credit unions operate essentially like large banks or thrifts. One Illinois credit union has a nine-county field of membership and \$1.2 billion in assets. Do you believe such credit unions ought to be held to the same or similar standards of community investment as other federally insured depository institutions? Why or why not?"

Answer #3. No evidence has been presented that credit unions are improperly serving their communities. Because of this, CUNA does not think it appropriate to implement a complex and burdensome solution to a problem that doesn't exist. You asked a question in your letter of invitation about an Illinois credit union that is serving nine counties in the state. The crucial question is not whether or not that credit union should be serving nine counties, but whether or not that credit union is providing for the credit needs of its membership. In my case, Credit Union One encompasses twenty counties. Are you asking us to stop serving some of these areas?

CRA was motivated by the fact that banks were taking deposits from their communities and loaning them elsewhere. This is not possible for credit unions because by statute credit unions can only lend to their depositor/members. Whether it's the Illinois credit union or others, credit unions of all types continue to serve their members without any evidence of discrimination or redlining. We therefore object to any attempt to impose CRA on credit unions regardless of size, type or charter.

Consumer groups also oppose applying CRA to credit unions. In addition to support for our position by the Consumer Federation of America, the Center for Community Change, in its January 3, 1994 comments to the Federal Housing Finance Board stated that credit unions need not comply with CRA, but rather should submit their HMDA data, or the equivalent in the case of a credit union having less than \$10 million in assets.

For the record, Mr. Chairman, I have attached at the end of my testimony a chart (Attachment #2) which gives complete statistics on the number and size of all community charters presently in the credit union movement. For now, I would simply point out that community charters comprise only 6% of all credit unions with about 7% of all credit union assets.

Question #4. "Credit unions deposit excess funds in corporate credit unions, which generally redeposit these funds in the U.S. Central Credit Union, a \$27 billion asset institution. According to U.S. Central, between \$4 billion and \$8 billion of these member funds are invested in foreign banks. In a widely publicized case, U.S. Central deposited \$255 million in uninsured accounts in a Spanish bank, Banco Espanol de Credito, months before that bank collapsed. To the extent that credit unions are generally chartered to serve the needs of working people, and assuming that the credit needs of low-and moderate-income consumers continue to go unmet, do you believe it is appropriate for credit unions to place depositor funds in risky, foreign-controlled investments. Why, or why not? What role, if any, should the federal government play in directing these resources to U.S. consumers?"

Answer #4. The heart of the question, as I understand it, is should credit unions (or any financial institution for that matter) place funds into investments rather than loans when there are substantial credit needs of low-and moderate-income consumers going unmet? From a credit union perspective, the answer to this question has always been absolutely no! Credit unions have a primary mission of lending. That is why they are called credit unions.

Credit unions are trying to make loans. They try and succeed better than any other group of institutions. In fact they disproportionally serve members' borrowing needs versus members' savings needs. The U.S. household savings market (deposits in banks, savings and loans, credit unions, money market mutual funds and savings bonds) is \$3.3 trillion. Credit unions hold about 8.2% of this market or \$270 billion. While credit unions hold about 8% of the savings market, they hold 13% of consumer loans. Further, for the economy as a whole, only 26% of household savings are channeled back into consumer loans. At credit unions, fully 41% of savings at credit unions are directed back to member consumer loans.

With respect to mortgage lending, credit unions are relatively new to this market and have been under regulatory pressures to limit the holding of mortgage loans on their books. In the future, credit unions can be expected to increase their present volume of mortgage lending.

I would be remiss, Mr. Chairman, if I did not comment on the regulatory climate in the 80's and 90's as a contributing factor in limiting the ability of credit unions to meet members loan demand. In my judgement, the tougher standards imposed by regulators since the thrift and bank crisis had a definite impact on lending to low income members. A number of credit unions shut down or merged which primarily served marginal areas or which were struggling because their membership was less affluent, but marginal activities by credit unions in general were curtailed. I have personal experience along these lines in my own credit union. For instance, it's difficult for me to make loans to migrant workers and other members with virtually no credit history, if regulators are not willing to let me take reasonable risks.

The new Chairman of NCUA appears to be committed to a more expansive effort for credit unions to serve low income areas. Many of us in the movement see this as a signal for a return to basics and we are optimistic that his commitment will be conveyed and executed by the front-line field examiners. We are now seeing efforts not only to expand the number and scope of low income credit unions themselves, but also a very recent change in the Field of Membership policies which would permit any credit union to expand its activities to include a low income group or area. I have long believed that such a change was appropriate and would even have been a supporter of a legislative change to accomplish this. Earlier this month, NCUA reported that in the state of Texas there has been a dramatic increase in the number of low-income credit unions. In 1992, there were only 2 credit union in Texas with the low-income designation. At present, there are 30! This is a very good sign indeed and is welcomed by myself and other credit union representatives.

Included as Attachment #3 are examples of how credit unions are serving lower income areas and members.

Finally, turning to Banco Espanol (Banesto), I would like to make several points. First, credit unions have more excess funds invested outside the corporate system than within it. Second, U.S. Central was authorized to invest in Banco Espanol in June, 1992; at that time Banesto had all the highest ratings from Moody's and Thompson's financial rating services. Banesto did not "collapse"; it was reorganized by the government. No depository institution, including U.S. Central, lost money on investments in Banesto. The institution was not insolvent, nor was it liquidated. In fact, when Banesto was sold, its stockholders received a substantial return on their investment.

Further, Mr. Chairman, NCUA recently commissioned a study to look into corporate investments. An independent study, "Corporate Credit Union Network Investments: Risk and Risk Management," authored by Dr. Harold Black of the University of Tennessee, concluded that sound foreign investments were justified for credit unions.

In closing, Mr. Chairman, let me state that I believe that credit unions are simply not guilty of refusing to serve all their members or all of their communities. If there are isolated

problems, NCUA and state regulators should clamp down hard when they find them. NCUA has extensive authority over credit unions and should use it. I urge the Subcommittee to take no action at the present time and monitor the credit union movement as we push even harder into these marginal areas. I think we will achieve very significant results.

Thank you, I will be happy to answer any questions which you or members of the Subcommittee might have.





National Credit Union Administration

*REPORT ON  
SPECIAL EXAMINATIONS FOR  
DISCRIMINATORY PRACTICES BY CREDIT UNIONS*

*April 11, 1994*

This report summarizes the findings of Regional Office special examinations into field of membership expansions, community chartered credit union practices, and Fair Lending by selected credit unions in the respective regions. The special examinations were to look into field of membership expansions and community charter activity for possible discriminatory practices and to offer further insight into the significant racial and ethnic differences in loan denial rates at credit unions as evidenced by recent Home Mortgage Disclosure Act data.

FIELD OF MEMBERSHIP EXPANSIONS

In general, the Regional Offices worked through their Supervisory Examiners (SEs) to review all recent expansions by credit unions under their supervision. The SEs were also directed to look at new charters for credit unions in their areas. The SEs were asked to look at each credit union from the following perspective:

1. Has the credit union intentionally excluded from its field of membership geographic or business areas for low income or minority/ethnic groups in its field of membership requests?
2. Is there any indication that low income, minority, or ethnic considerations are part of the credit union's expansion policies or practices?
3. Are there indications of any other problems related to discrimination in lending or in other areas?

None of the regions found any evidence whatsoever of any overt discrimination by the credit unions reviewed. The bylaws were examined to ensure that minorities have the potential to be included in each credit union. Regions reported that many recent charters were by minority groups. The observation was made, however, that some credit unions do seek groups that are eligible for payroll deduction when they decide to expand. The observation was also made that discrimination in select group expansion would be very difficult to detect. A number of conversions to community charter were reviewed and, again, areas containing minorities were found to be included in the charter.

### COMMUNITY CHARTER ACTIVITIES

With respect to community charters, several areas were reviewed. First, the regional offices, mostly through their SEs, looked at existing community chartered credit unions in the region for any discriminatory practices against low-income, minority, or ethnic groups within the service area; second, community charter conversions and expansions were examined to see if there was a pattern of discrimination in excluding communities or areas from the expansion or conversion request; and third, one community chartered credit union from each region was selected for a close review of its dedication to its community from the perspective of both the Home Mortgage Disclosure Act and the Community Reinvestment Act.

No indication of discrimination was found in the general review of the practices of community chartered credit unions. Community boundaries were generally found to be comprised of specific political jurisdictions, such as villages, towns, townships, or counties which are all-inclusive of the population, regardless of income or minority/ethnic status, within the geographic area. No patterns of discrimination were found in lending practices nor in charter conversions or expansions in any of the regions. No examples were found whereby minority areas were excluded from the field of membership of the community charter. Bylaws of community charters did not preclude the inclusion of any area in the membership of the credit union.

The six community chartered credit unions (one from each region) selected for close review of their overall activities demonstrated admirable records. Their HMDA lending records were outstanding. In fact, two of the credit unions approved all applications from minority group applicants, and two others only denied 1 minority applicant. There was also no evidence of redlining. The credit unions were very active in making small loans in the community to their members for business purposes. They were making loans that other institutions would not make. They were involved in efforts to educate their members and to participate in the affairs of the local community. One opened a branch in a neighborhood that had been abandoned by other institutions as being not profitable. This branch is very successful today. The credit unions try very hard to serve their marginal members. For example, one credit union markets real estate loans to its lower income members who have been turned down elsewhere and they make variable rate loans which are not necessarily written to standards for sale on the secondary market.

### FAIR LENDING

In an attempt to obtain further insight into the disparate rate of denial to minority credit union members for mortgage related loans, each region conducted special in-depth Fair Lending reviews of the particular credit unions identified by the HMDA data as having disparate rates. A total of 44 credit unions in 20 states were reviewed. Within these credit unions, a total of 1,663 denied loans and 809 approved loans were reviewed for consistent application of credit-worthiness standards.

A study of the completed reviews reveals the following: that there was no evidence of any overt discrimination on the part of the credit unions reviewed; that some mitigating factors were found which contributed to the disparate rate such as incorrect codes on HMDA reports, secondary market standards, declining real estate values in certain parts of the country, and careless record-keeping. While the results of these reviews do not fully explain the disparate rate, NCUA is more confident of the performance of credit unions' fair lending record. In addition, the reviews have assisted in pointing out areas where NCUA and credit unions can seek improvement.

#### CONDUCT OF THE REVIEWS

In reviewing their credit unions, the regional examiners looked closely at the following areas: lending policies; lending procedures and approval practices; the results of staff interviews; and all supporting documentation in the applicants' files. The objective was to determine if all mortgage-related loan applicants at federal credit unions were provided fair and equal treatment.

The examiners reported that all mortgage loans reviewed appeared to be approved or denied based on nondiscriminatory credit criteria. The findings were very similar in each of the reports. Denials and approvals were supported by such documentation as credit reports, debt-to-income ratios, appraisals, loan-to-value ratios, monetary assistance provided to each applicant, follow-up for information requests, etc.

The reasons for denial in most cases were very similar. The most common reasons for denial were: adverse credit reports; high debt to income ratio; and insufficient equity in the collateral. A complete breakdown of the denials is as follows:

<u>Reason</u>	<u># Loans Denied</u>	<u>Reason</u>	<u>#Loans Denied</u>
Credit Report	515	Debt Ratio	368
Equity in Property	205	Withdrawn by Member	163
Incomplete/No Response	67	Collateral/Appraisal Value (LTV)	51
Income/Stability of Employment	36	Mortgage Product Not Offered	20
Cash for Closing or Down Payment	14	Other Reasons*	224

**TOTAL: 1,663**

\*Other Reasons included; insufficient income; unable to verify self-employment or income; unable to verify other income (rental); VA would not guarantee loan; denial requested by applicants; other lien holders would not subordinate; would not pay for

appraisal; unfavorable share or loan history at credit union; failure to provide additional information; counter-offers not accepted; delinquent taxes; etc.

### MITIGATING FACTORS

A major problem disclosed in the reviews was that some credit unions did not code information correctly on their HMDA report. Making errors on HMDA submissions has been an historic problem for credit unions and one that has required costly editing by the Federal Reserve HMDA processing unit. Errors noted in the reviews were mostly racial and gender code errors. However, there was no indication of any intent to falsify any applicant's information.

Many credit unions had mortgage lending policies that required adherence to secondary market standards. A majority of the denied loan applicants for purchases and refinances failed to meet the requirements of the "secondary market standards". These standards are quite specific regarding debt ratio maximums, credit report evaluations, employment stability, equity limits and condition, income consideration etc. Although many credit unions had no plans to sell part or all of their mortgage loans, they felt it prudent to adhere to secondary market standards in case they had to sell mortgage loans in the future.

Two credit unions had addressed the problems caused by the secondary market standards. One of them had started a special program for mortgage loans that did not meet secondary market standards. *As a result, this credit union later was able to approve 6 of the 20 applications that it had previously denied.* Another credit union holds all mortgage-related loans in its portfolio and does not adhere to the secondary market standards. All mortgage loans at these credit unions are performing adequately.

NCUA has traditionally encouraged credit unions to write mortgage loans to secondary market standards. This itself could have been a contributing factor in credit union practices. One result could be the exclusion of many low and moderate income individuals from qualifying for a mortgage loan. Presently, however, we are sending a letter to all credit unions encouraging them to examine the benefits of making a certain percentage of their loans on a non-conforming basis.

Finally, it was noted that in the northeast and the west a number of refinance and equity loan requests were denied due to high loan-to-value ratios resulting from declines in real estate values. Further, in some credit unions errors of omission and careless record-keeping distorted the denial rates significantly.

### SUMMARY

While the results of the reviews do not disclose any overt discrimination on the part of individual credit unions, NCUA will continue to improve our analysis of this area to ensure that there is no discrimination in credit unions. Obviously, the HMDA data alerts



us to the fact that credit unions can do better in serving all segments of their membership. The data also suggests that improvements are needed in NCUA's examination procedures and training in this area.

Some steps have already been taken to try and improve this area of lending. They include: selected Fair Lending reviews by the Compliance Officer from NCUA's Office of Examination and Insurance; adoption of interim Fair Lending Procedures which included a Fair Lending Checklist; inclusion of credit unions in the Federal Financial Institute Examination Council's (FFIEC) Fair Lending study. This study will produce uniform Fair Lending examination procedures that will be adopted by all financial regulators, including NCUA; initiation of a "Consumer Compliance" seminar with emphasis on Fair Lending and HMDA; distribution of the publication "Compliance, A Self-Assessment Guide" which gives credit unions guidelines on what a good Fair Lending program should encompass; and appointment by each region of a staff person for the compliance area.

In addition, plans are underway to:

- \* Conduct a conference with the regional compliance persons to map out a strategy for uniform compliance tracking and strategies;
- \* Provide expanded training in Fair Lending, HMDA, and other compliance areas to the regional compliance persons; and
- \* Use the further training of these individuals to expand the review of Fair Lending in credit unions where examiners deem it is warranted.

#### RECOMMENDATIONS

1. That NCUA encourage credit unions to make a proportion of their real estate loans non-conforming to the secondary market standards. Establish management policies for such loans.
2. That NCUA conduct additional training to improve its ability to detect discriminatory practices by credit unions.
3. That NCUA examiners ensure that credit unions use proper codes on HMDA reports.
4. That NCUA examiners look closely at credit unions for efforts to reach out to minorities in lending programs and to educate members on financial matters in general.

Credit Unions with a Community Charter - 4/22/84

Asset Size	# Of CUs	# Community Charter CUs	% CUs	J93 Members	# Members Community Charter	% Members	J93 Assets	\$ Assets Community Charter	% Assets
0.0 - .5	1,628	90	5.53	492,218	7,635	6.86	444,324,309	22,331,789	5.03
0.5 - 1.0	1,188	40	3.37	649,498	2,168	4.46	935,850,251	30,255,542	3.26
1.0 - 2.0	1,618	66	4.08	1,177,649	6,839	5.68	2,477,032,385	101,861,690	4.09
2.0 - 5.0	2,511	105	4.18	3,333,366	14,918	4.96	8,720,578,282	364,108,686	4.18
5.0 - 10.0	1,872	98	6.13	4,432,649	24,931	6.60	13,994,253,334	749,315,478	5.35
10.0 - 20.0	1,407	118	7.38	6,435,492	54,833	8.89	22,253,204,226	1,779,596,440	8.00
20.0 - 50.0	1,388	127	9.14	11,736,794	1,18,270	10.06	45,111,046,328	4,172,886,283	9.26
50.0 - 100.0	545	63	11.56	9,326,477	1,038,142	11.54	39,232,796,355	4,583,291,297	11.68
100.0 - 200.0	320	27	3.44	9,706,123	741,967	7.50	48,090,111,175	3,503,525,082	8.25
200.0 and Over	213	12	5.39	16,325,920	57,880	3.11	99,217,673,366	3,269,124,259	3.29
Total	12,781	744	5.92	64,237,186	4,68,553	7.30	278,512,880,423	18,875,705,527	6.78

### Total Financial Assets Market Share

	1960	1970	1980	1984	1988	1992
Commercial Banks	38.2%	38.6%	36.6%	33.7%	34.2%	32.2%
Savings and Loans	11.8%	12.8%	16.9%	16.6%	16.4%	7.9%
Mutual Savings Banks	6.9%	5.9%	4.6%	3.5%	3.3%	2.3%
Credit Unions	1.1%	1.3%	1.9%	1.9%	2.0%	2.1%
Mutual Funds	2.9%	3.5%	1.5%	2.7%	3.9%	6.4%
Money Market Funds	0.0%	0.0%	2.0%	3.5%	3.1%	4.4%

In addition to the activities of Credit Union One, CUNA would like to point out other examples of credit unions participating in community development. Illustrations from the following states provide a small sample of the many examples of credit union philosophy at work.

**Alabama**

America's First Credit Union, with main offices in Birmingham, was considering ways to reduce costs last year. A study concluded that a branch located in a poor, minority area was less efficient than other branches of the credit union. The branch is located in an area many banks have abandoned through the years. Instead of closing the branch, America's First's management decided to continue to serve the needs of its members in that community by leaving the branch open.

Stillman Community Development Federal Credit Union received its charter in late July and will serve 100 minority-owned businesses in the Tuscaloosa area. Alabama Mental Health Credit Union supports the operations of Stillman by assisting in month-end closings and providing technical training to Stillman's staff.

**California**

A new community development credit union, Episcopal Community Federal Credit Union, recently opened in the Los Angeles area. Episcopal is up and running thanks in part to the efforts of nearby Los Angeles Water and Power Credit Union. LA Water and Power provided technical assistance in the planning stage. Three of LA Water and Power's managers, plus the CEO, continue to work with Episcopal to provide support as needed.

South Central Peoples Federal Credit Union, which serves residents of riot-scarred South Central Los Angeles, opened in September, 1993. South Central currently has 800 members, 190 of whom have loans worth a total of \$556,000. The California Credit Union League as well as a number of area credit unions were instrumental in providing start-up funds for South Central. South Central receives interest on \$3.5 million that California Credit Unions have deposited with the California corporate credit union; approximately half the principal amount is available for South Central Peoples to use as loan demand grows. Now that South Central is up and running, credit union involvement continues. Xerox Federal Credit Union serves as South Central's sponsor, providing substitute employees when South Central's employees attend training sessions as well as technical advice and support.

**Florida**

Florida Central Credit Union is in the process of opening a branch in East Tampa, a minority neighborhood which currently has no depository institutions. The branch is scheduled to open in January of 1985 and reflects a combined effort by Florida Central, as well as city and non-profit agencies, to spur economic development in East Tampa.

**Georgia**

Two credit unions have recently expanded to include low-income areas in their fields of



membership. First Railroad Community Federal Credit in Waycross is expanding to take in low-income portions of Coffee, Brantley and Charlton Counties. Peachtree Federal Credit Union in Atlanta is expanding to the predominately minority Cabbagetown area of DeKalb County.

#### **Idaho**

Credit unions in Pocatello are working with the Pocatello Neighborhood Housing Service to provide loans to members who do not meet normal underwriting requirements for home improvement loans.

#### **New York**

Central Brooklyn Federal Credit Union opened in April, 1993 to serve residents of the Bedford-Stuyvesant, Crown Heights and Prospect Heights neighborhoods in New York City. In addition to giving members a place to deposit money which is returned to the neighborhood in loans, Central Brooklyn provides check-cashing and money orders at rates significantly below those of neighborhood check-cashing outlets. Central Brooklyn currently has over 1600 members and assets of \$2.6 million with \$300,000 in loans outstanding. To assist Central Brooklyn, other New York credit unions contributed about \$400,000 in zero- or very low-interest deposits to provide an initial deposit base, and the New York corporate credit union provided free check-processing services for a year.

Port Washington Federal Credit Union, a community credit union, cites a number of cases which prove its commitment to low- and moderate- income members. A Hispanic couple turned to the credit union after being discouraged by mortgage interviews at local banks. The husband has a full-time job, but a part-time cleaning business provides a significant part of the family's income. The credit union worked with the couple to document this income and the mortgage will close shortly. In another case, Port Washington financed the first loan for a landscaping business started by a refugee family from El Salvador. Today, this business supports about 20 family members and the family now owns their own multi-family house.

#### **North Carolina**

Self-Help Credit Union, opened in 1984, now has over \$70 million in assets and provides loans to small businesses and low-income people throughout the state. In 1993, Self-Help financed 106 mortgages worth \$6.1 million; 46% of borrowers were minorities and 47% were households headed by women. The average family income of the mortgage borrowers was \$27,000. Self-Help also provided 144 commercial loans worth \$5.3 million in 1993, creating, saving or stabilizing more than 950 jobs. In addition to their own lending activities, Self-Help's management provides advice and support to other credit unions interested in expanding low-income lending services.

#### **Oregon**

Portland Teachers Credit Union, which serves school employees in the Portland area, prides itself on serving mortgage borrowers outside the usual qualifying standards. One such loan the credit union funded this year was a loan to refinance a mortgage for a single mother who is a school custodian. This member had numerous collections, judgements and unpaid bills and no savings account. Her mortgage was with a finance company and carried a 17% interest rate. PTCU

consolidated her outstanding debts and judgements as well as her existing mortgage into one loan with a lower interest rate.

#### **Pennsylvania**

In the Philadelphia area, American Heritage Federal Credit Union just signed an agreement to purchase loans made by Germantown Federal Credit Union, a small community credit union serving a low-income neighborhood. The loans purchased will be primarily first mortgages and home equity loans. American Heritage's purchase of these loans will allow Germantown to make more loans in the community it serves.

#### **Texas**

The Texas Credit Union League is assisting several new and existing low-income credit unions. Currently, league staff are working with groups in San Juan, Washington County, Odessa and TexArkana to form new credit unions to serve disadvantaged residents of these areas. League efforts paid off this summer, when Canyon Lakes Credit Union, serving a low-income area of Lubbock, received its charter. The League coordinated efforts to obtain equipment for Canyon Lakes, resulting in the donation of a computer and a commitment for a start-up deposit from WestTex Credit Union.

Another low-income credit union Texas credit unions assist is the Alpine Community Credit Union in Alpine. The League coordinated efforts to obtain \$600,000 in non-member deposits for the \$1.3 million Alpine in order to meet strong loan demand.

#### **Vermont**

Vermont Development Credit Union in Burlington specializes in serving the needs of low and very-low income Vermonters. The median income of VDCU consumer loan borrowers is \$16,650 and loans granted range from \$140 to \$15,200. VDCU also recently began mortgage lending. To date, VDCU has made 22 mortgage loans in amounts of \$22,733 to \$97,000. Most of the mortgage applicants require assistance in budget and debt management before they can qualify for a mortgage. VDCU works intensively with borrowers to prepare them to qualify.

#### **CUNA Activities**

CUNA is also working to make mortgage loans more accessible to low- and moderate- income credit union members. CUNA Mortgage initiated its Unique Mortgage Program this year to provide nonstandard loans that credit unions could hold in their portfolios. The Unique Mortgage Program will work with credit unions desiring to make such loans, creating a new set of underwriting standards for mortgage lending and arranging sales of nonconforming mortgages within the credit union system. The Unique Mortgage Program will begin working with several low-income credit unions in the Rio Grande valley of Texas later this year.

CUNA has also initiated efforts to bring financial services to a number of Indian tribes located in Wisconsin. Currently, discussions are underway with three tribes who are nearly ready to start credit unions, and at least five other tribes have been offered assistance in organizing credit unions.

STATEMENT OF AUGUSTO GOMES,  
CHIEF EXECUTIVE OFFICER OF LUSITANIA  
TO THE HOUSE SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE  
(SEPTEMBER 22, 1994)

Chairman and members of the Committee, my name is Augusto Gomes and I am the Chief Executive Officer of Lusitania Federal Credit Union, a federally chartered credit union with two offices located in Newark, New Jersey.

Lusitania was chartered in 1980 to serve the savings and credit needs of our community, which consists primarily of the Portuguese community located in the so called "Ironbound" section of Newark. The field of membership for our credit union is the Portuguese community of Newark, New Jersey. Specifically, our charter states that our field of membership shall be limited to "dues paying members of Filantropica Botiquense, Inc. in Newark, New Jersey." Filantropica is a Portuguese Society, and our community is primarily Hispanic. The officers, directors and employees of Lusitania generally speak the Portuguese and Spanish language and are familiar with the difficulties encountered by the local community and by recent immigrants. Lusitania has been one of the primary sources of loans for many of the local retail businesses and for much of the area's individual and multi-family dwellings.

Lusitania is not the traditional Company or Employee credit union, which makes consumer loans and deducts the loan payments from the paycheck of the employee members. Lusitania is located at a street front location in Newark, New Jersey, and was created for the purpose of serving the local Portuguese community by making mortgages and other real estate loans to purchase homes and businesses. Our credit union has grown and operated profitably, by originating mortgages secured by real estate located in our community. Historically, these loans have consisted of mortgages secured by residential real estate, commercial real estate and mixed-use real estate, consisting primarily of stores and businesses with an attached residence. As of June 30, 1994, Lusitania had total assets of \$51.0 million and net worth of \$6.8 million or 13.48% of assets. As of June 30, 1994, real estate mortgage loans and home equity loans totalled \$26.0 million or 92% of our total assets.

The NCUA has severely criticized Lusitania during recent years for granting loans secured by real estate. It is the position of the NCUA that a credit union should offer primarily credit card loans, car loans and other consumer loans. The reports filed with the NCUA indicate that it is not safe for more than 25% of a credit union's assets to consist of real estate loans. As a result, the NCUA has been highly critical of our Credit Union making real estate loans. Credit unions are prohibited from granting loans on multi-family real estate or commercial real estate with a maturity in excess of 12 years. This has essentially foreclosed Lusitania from a major segment of our lending. A large segment of the buildings in our local market area consist of commercial real estate or real estate for mixed use. In addition, there is significant demand in the area for units which contain two-to-four residences.

The NCUA originally issued Lusitania a directive, which prohibits the Credit Union from originating mixed use, multi-family and commercial real estate mortgages, and in May 1994, the NCUA notified Lusitania that it was to cease originating any new real estate loans for its own portfolio because its asset portfolio already contains too high of a percentage of real estate loans. As such, Lusitania, under its Federal Credit Union Charter, is unable to fulfill its purpose to grant mortgages to the ethnic community located in the Ironbound section of Newark, New Jersey.

Accordingly, on August 3, 1994 Lusitania filed an application with the Office of Thrift Supervision ("OTS") to organize a federal mutual savings bank and through a statutory merger transfer all the assets and liabilities of Lusitania Federal Credit Union to "Lusitania Savings Bank, fsb", a de novo Federal savings bank. Lusitania has applied to become a federal mutual savings bank for numerous business reasons and to serve the needs of its community. While the NCUA and other credit unions are strenuously opposing the requirement for credit unions to comply with the Community Reinvestment Act, it is our desire to meet the CRA needs of our community. Since our incorporation, we believe that we have filled our mission to serves the credit needs of the community, and we desire to continue to do so.

The Subcommittee has asked us to address several issues including the following:

1. Do we believe it is appropriate for credit unions to meet community investment requirements identical or similar to those under the Community Reinvestment Act?  
-- There are certain types of credit unions, for which we believe it is unnecessary to impose CRA requirements. For example, many credit unions solely serve the credit needs of the employees of a company or a similar limited and specific group of persons. For so called "company credit unions" imposing a need to serve the credit needs of the community would make no sense or serve no purpose. However, for street front credit unions which were chartered to serve a specific geographical community, such as Lusitania, we believe that such credit unions should have a duty to serve the needs of the community, as is the case with other financial institutions pursuant to the CRA.
2. Would compliance with the CRA impose an undue burden? --We do not believe that imposing CRA requirements on community credit unions (as opposed to company credit unions) would be unduly burdensome. As evidenced by the fact that we have applied to become a federal savings bank, which is subject to the CRA, we believe that by promoting Lusitania's business interests to make loans to local businesses and residences secured by local real estate, we will be able to grow and prosper without being subject to undue regulatory burden. We note that many small community savings banks and traditional savings and loan associations operate a business very similar to ours and have always been subject to CRA since its inception without it constituting an undue regulatory burden.



3. To the extent that CRA standards apply to credit unions, do we believe that such a standard should recognize the different sizes and types of credit unions? -- As previously indicated, although we believe that is appropriate for CRA standards to be met by community credit unions, such standards should not apply to company or similar type credit unions serving a limited population of members. In addition, we believe that CRA for all types of financial institutions, not just credit unions, should recognize different requirements based upon the size of the institution. Although all institutions should substantively be required to serve their community, we believe it is necessary that the administrative procedures and examinations associated with meeting CRA reporting requirements be kept to a minimum, especially for institutions of a small asset size.

4. The U.S. Central Credit Union reportedly invests between \$4 billion and \$8 billion of credit members funds in foreign banks. Do we believe that is appropriate for credit unions to place depositor funds in foreign controlled investments? -- As we have indicated, it is the desire of Lusitania to invest its funds primarily in loans secured by commercial and residential real estate located within its community. We believe that credit unions should primarily invest their funds by making consumer and real estate loans to meet the credit needs of their members. However, we recognize, that depending upon interest rates and market conditions, there is often excess liquidity when a financial institution has deposits that exceed the demand for loans. In such cases, we generally invest such funds in mortgage-backed securities or government insured investment securities. Although these types of investments produce a lower yield, they are backed by the U.S. government, pose essentially no credit risk and generally have a short term to maturity. As a general matter, we do not believe that it is appropriate to place the funds of credit union members in foreign banks, unless such funds not only yield a sufficient return but also constitute a low-risk, high-grade investment.

We are confident that we can meet the substantive requirements of the CRA, if we are permitted to complete our charter conversion to a Federal savings bank. As such, we support the idea that community credit unions should be required to fulfill the CRA needs of its community, but caution that the reporting requirements be kept to reasonable level, especially for small savings institutions and credit unions such as Lusitania.

We have applied with the OTS and the FDIC to become a federal savings bank for the following reasons:

1. By becoming a federal savings bank, Lusitania will be able to accept deposits and originate loans to all businesses and residences located in its market area, not just persons of Portuguese descent, as required by its field of membership.
2. Thrift institutions are specifically chartered for the purpose of originating real estate loans. In fact, pursuant to the qualified thrift lender ("QTL") test imposed upon thrift institutions, savings and loan associations are required to invest most of their funds in loans secured by real estate.

3. The NCUA directive to cease originating all real estate loans for portfolio prohibits Lusitania from carrying on an active profitable business. Without real estate loan originations, Lusitania is likely to lose money.
4. Upon obtaining a federal savings bank charter, Lusitania believes that it will be able to continue to grow by originating real estate loans to the residents and businesses of its community. Furthermore, Lusitania believes that there is an active need and demand for such lending in its market area.
5. In the future, if necessary, as a federal savings bank, Lusitania will be able to raise capital through methods not available to credit unions.

Lusitania has met with representatives of the OTS in Washington, and they have indicated that the economic and operating profile of Lusitania fits squarely within the traditional operations of a federal savings association. If the FDIC and the OTS grant Lusitania a de novo charter and insurance of accounts, we believe that we should be permitted to transfer the assets and liabilities to our new federal savings bank charter. However, since the filing of our application on August 12, 1994, the NCUA has indicated that Lusitania must first obtain its approval to become a federal savings association. Furthermore, NCUA has notified us that they will not act upon our application until they adopt regulations. Since we plan to terminate our federal credit union charter and terminate NCUA insurance of accounts, the NCUA will have no further interest in our operations. As such, we ask Congress to affirmatively support our right to transfer our assets and liabilities to become a federal savings loan association if the OTS and the FDIC approves our application without any approval from the NCUA.

#### Conclusion

In conclusion, I would like to reiterate the following three comments:

1. For certain types of credit unions with a narrow field of membership, such as credit unions which only accept deposits and make loans to persons employed by a particular company, the imposition of CRA makes no sense and serves no purpose. However, for "street front" credit unions which are organized to serve a particular geographical region, we believe these institutions should be subject to CRA requirements to serve the needs of the community just like any other financial institutions.
2. We do not believe that the imposition of CRA requirements upon community credit unions would be an unduly burdensome requirement. Community banks and traditional thrift institutions run very similar operations and have been able to meet the requirements of CRA since its inception. We caution, however, that although we believe that the substantive requirements of CRA should be applicable to community credit unions, the administrative requirements, reports and examinations necessary to

demonstrate compliance with the CRA should be kept to a minimum, especially for smaller institutions.

3. Current legislation and regulations permits charter conversions from credit unions to thrift institutions, thrift institutions to commercial banks, state chartered to federal chartered and vice versa. Over a period time, the business and community needs of an institution change along with economics, the regulatory environment, the community, customers and the business objectives of an institution. As such, we believe it is important that all types of financial institutions be permitted to switch their charter without the approval of the agency from which they are exiting. The ability to change charters is an important means to assist institutions in reaching their business goals and to serve the needs of their community.

b:10109hus/gomea2 new

Thank you for the opportunity to testify here today. My name is Thomas Callahan and I am executive director of the Massachusetts Affordable Housing Alliance. MAHA is a statewide coalition of 140 organizations seeking to increase both public and private sector investment in affordable housing. In the past five years we have helped to win over a half a billion dollars in bank investment in low income neighborhoods throughout the state. MAHA has entered into CRA agreements with seven of the largest financial institutions in the state. We have provided technical assistance to local organizations in their efforts to engage financial institutions in cities and towns across the state.

"Credit unions by definition must serve their community."

Undoubtedly each member of this subcommittee has heard this, and will continue to hear this from credit unions and their lobbyists. In Massachusetts however that is not the case!

Massachusetts gives Community Reinvestment Act ratings to all state-chartered credit unions. Fully 37% of the 78 ratings given to credit unions have been failing grades of "needs to improve" or "substantial non-compliance". The Massachusetts Division of Banks awards only 6% of banks a failing grade. The Federal Deposit Insurance Corporation gives 5% of its Massachusetts banks a failing grade. The Office of Comptroller of the Currency 0%. The Office of Thrift Supervision 11%. But 37% of credit unions fail the CRA test. That does not sound like an industry that by definition is serving community needs

Furthermore, no credit union in the state has received an "outstanding" rating compared to 12% of the state's banks that have received an "outstanding" grade. This year banks are receiving 17% "outstanding" grade. This is from a state regulatory agency that for much of the past four years has been led by a commissioner, in our opinion, who has been a very lenient grader.

In Massachusetts, five credit unions have been examined for CRA twice. In four of the five cases, those credit unions improved their rating—showing that the CRA law can have an impact.

Credit unions have responded, albeit slowly, to a state examiner asking questions about geographic distribution of mortgages, services for low income consumers, branch patterns and hours, marketing, and outreach to community groups.

Credit unions compete with banks. In Brockton, Brockton Credit Union is a \$400 million institution. Crescent Credit Union is a \$164 million institution. Brockton Brotherhood Credit Union is a \$55 million institution. They compete with Boston-based banks very well thank you. Baybank has \$188 million in assets in the county. Citizens Bank has \$236 million. Fleet has \$258 million.



In Pittsfield, Greylock Credit Union has \$261 million in assets. Only one bank has more assets in Berkshire County. Greylock Credit Union dwarfs most other banks in the county.

For credit union customers, and my family is one, there is little difference between a bank and many credit unions. If CRA did not apply to credit unions, many communities would not be fully served by all their financial institutions.

In the 1992 Annual Report to the Commissioner of Banks, only 7 credit unions reported that they offer flexible mortgage products. Over half (87) of the credit unions did not even offer a low cost checking account to their customers.

Only 3 credit unions reported that they were engaged in special community housing and economic development lending. Clearly, a CRA law and strong enforcement are needed if credit unions are to truly meet low and moderate income credit needs.

Let us talk about a few examples. My hometown of Brockton is home to at least three significant credit unions. They compete very well with some very large banking institutions in the city. The Brockton Credit Union has stepped forward over the past two years and is now taking a leadership role in affordable housing in the city of Brockton.

Brockton Credit Union is an active member of the Brockton Housing Partnership, a consortium of banks, government and community groups that is seeking to revitalize housing stock in Brockton. Brockton Credit Union offers a special first time home buyer program. Brockton Credit Union has worked closely with the Brockton Community Corporation, a non-profit housing development organization.

The Pittsfield GE Credit Union (now called Greylock Credit Union) is a leading financial institution in Berkshire County in Western Massachusetts. Greylock Credit Union has been an important player with the county's top non-profit development organization, Berkshire Housing. Greylock offers a first time buyer program (Good Samaritan) at 1% below the market rate, with low down payments and reduced closing costs. Greylock is an active partner with many of the area's community organizations.

CRA has also been an incentive for Greylock who is looking to expand its charter and has needed state regulatory approval—which includes a thorough CRA review and opens the credit union to a public challenge of its application.

If you read through the narrative evaluations of the credit unions, as we have, it is clear that credit unions are not being penalized for failure to produce the sometimes voluminous documents and glossy CRA statements of some of the larger retail banks.

Instead regulators look at whether the board has discussed CRA, at where the bank markets its services, at how loans are distributed throughout the credit union's geographic area. If you are already meeting low and moderate income community credit needs, it is clearly not a burden to prove it under CRA.

# WHO'S WATCHING THE BANKS ?

Third Annual Report on How Well Banks and Bank  
Regulators Are Meeting Their Obligations Under  
the Community Reinvestment Act

Prepared for

**Massachusetts Affordable Housing Alliance**

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by

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November 10, 1993

### CRA RATINGS OF OTHER INSTITUTIONS

As noted earlier, there are Massachusetts financial institutions other than banks that are subject to CRA supervision. (In addition, as discussed above, a one-page supplement immediately following the main listing of current ratings provides detailed information on all ratings of current banks that have subsequently been superseded by later ratings from the same regulator.) This final section identifies a total of 219 financial institutions not included in the listing of current Massachusetts banks, and provides detailed information on the 62 CRA ratings received by 60 different institutions.

**Credit Unions.** State-chartered credit unions are covered by the Massachusetts CRA, although federally-chartered credit unions are not covered by the federal CRA. Of the 142 state-chartered credit unions in business as of September 30, 1993, only 29 (20%) have so far received public CRA evaluations: just five public CRA evaluations of credit unions were listed by the state during the past year. The ratings of these credit unions, listed in Table 8, are substantially lower than those received by banks: fewer than half of the credit unions evaluated (14 of 29, or 48%) were judged to have a "satisfactory" record of meeting community credit needs (and none were rated as "outstanding"), while another 14 received ratings of "needs to improve," and 1 (3%) was rated in "substantial noncompliance" with the CRA. (Two of the "satisfactory" ratings resulted from upgrades of previously lower evaluations.) The extraordinarily slow pace of CRA exams by the state and the exceptionally low ratings received by the credit unions raise obvious questions about the performance of both the Division of Banks and the credit unions themselves.

**Loan Offices of Foreign Banks.** Three foreign banks maintain offices in Boston that make loans but do not accept deposits: these offices are subject to the state (but not the federal) CRA. All three of these have received CRA evaluations from the Division of Banks: both Daiwa Bank and ABN AMRO Bank received ratings of "satisfactory" in January 1993, while the Bank of Nova Scotia received a rating of "needs to improve" in August 1992. Two other loan offices of foreign banks closed in the last year: Sanwa Bank had received a rating of "needs to improve" in September 1992, while Barclays Bank had not been rated.

**Branches of Out-of-State Banks.** Two banks that are based in other states but operate branches in Massachusetts are not counted as Massachusetts banks in this report. Northeast Savings, N.A., is based in Hartford, Connecticut and the First Federal Savings and Loan Association (Hyannis) is based in Rochester, New York. "Satisfactory" ratings for the former were reported on the OTS lists for the first quarters of 1991 and 1993; the latter received an OTS rating of "satisfactory" in the fourth quarter of 1992.

**Investment Companies.** Four non-bank investment companies are subject to CRA examinations by the state. Of these, Brown Brothers Harriman & Co. received a rating of "needs to improve" in October 1992, and Fiduciary Trust Co. received a rating of "satisfactory" in December 1992. Fidelity Management Trust Co. and Putnam Fiduciary have not yet been evaluated.

**Failed and Merged Banks.** Of the 346 banks operating on July 1, 1990 (when the requirement that CRA ratings be made public became effective), 61 have since disappeared -- more than one-sixth of the total. 38 banks failed and another 23 merged into other banks. The pace of disappearances slowed considerably during the past year, as only six banks were lost -- two as a result of failures and four through mergers. Ten of the 38 failed banks and 8 of the 23 merged banks received public CRA performance evaluations before they disappeared (these 18 banks received a total of 20 evaluations). These banks and the ratings that they received are listed in Table 9. The distribution of ratings was very similar to that for the surviving banks: 1 rating (5%) was "outstanding," 15 ratings (75%) were "satisfactory," and 4 ratings (20%) were "needs to improve."

TABLE 8

## ALL CRA EVALUATIONS RECEIVED BY CURRENT MASSACHUSETTS CREDIT UNIONS

Bank	City/Town	Curr Mass Eval	Curr Mass Ust	Curr Mass ExamDate	Prev Mass Eval	Prev Mass Ust Date	Prev Mass Exam Date
Athol CU	Athol	SAT	Jan-93	08/04/92			
Bridgewater CU	Bridgewater	SAT	Oct-93	07/08/93			
Brockton Brotherhood CU	Brockton	SNC	Jul-92	07/01/91			
Brockton CU	Brockton	SAT	Jul-92	09/03/91			
Cambridge Portuguese CU	Cambridge	NI	Aug-92	08/18/91			
Charlton CU	Charlton	NI	Jun-92	05/10/91			
Community CU of Lynn	Lynn	NI	Jul-92	07/01/91			
Everett CU	Everett	NI	Sep-92	02/20/92			
Fall River Muni Employees CU	Fall River	NI	Aug-93	05/12/93			
Haverhill Ital-Amer CU	Haverhill	SAT	cumOnly	10/18/91			
Holyoke CU	Holyoke	SAT	Jul-92	09/09/91			
Industrial CU	Boston	SAT	Sep-92	03/18/92	SNC		09/04/90
Jeanne D'Arc CU	Lowell	NI	Jun-92	05/13/91			
Leominster CU	Leominster	SAT	Jul-92	07/25/91			
Luso-American CU	Peabody	SAT		04/09/91			
Marquette CU	Winchendon	NI	Aug-92	09/26/91			
Mass State Employees CU	Boston	SAT		07/30/90			
Metropolitan CU	Chelsea	NI	Aug-92	08/29/91			
Milbury CU	Milbury	NI	Sep-92	02/24/92			
New Bedford CU	New Bedford	NI	Jun-92	05/08/91			
Pittsfield GE Employees CU	Pittsfield	SAT	Jul-93	04/01/93			
Polish National CU	Chicopee Falls	NI	Aug-92	08/12/91			
Sharon CU	Sharon	SAT		03/01/91			
Southbridge CU	Southbridge	NI	Sep-92	01/17/92			
St. Jean's CU	Lynn	NI	Aug-92	08/21/91			
St. Joseph's CU	Salem	NI	Jun-92	05/20/91			
St. Mary's CU	Marlboro	SAT	Jan-92	04/16/91			
Webster CU	Webster	SAT	Jul-93	05/11/93	NI	Sep-92	01/14/92
Williamansett CU	Chicopee	SAT	Jan-92	05/08/91			



## Massachusetts Credit Unions and CRA Ratings

As of July 10, 1994  
Compiled by Jim Campen

Bank	City/Town	Mass Reg	Curr Mass Eval	Curr Mass List	Curr Mass ExamDate
Athol Credit Union	Athol	yes	SAT	Jan-93	08/04/92
Boston Edison Employees CU	Boston	yes	SAT	Dec-93	08/16/93
Boston Firefighters CU	Boston	yes	SAT	Feb-94	11/22/93
Boston Gas Employees CU	Boston	yes	SAT	Feb-94	11/22/93
Boston Post Off. Empl. CU	Boston	yes	SAT	Mar-94	11/15/93
Bridgewater CU	Bridgewater	yes	SAT	Oct-93	07/08/93
Brockton Brotherhood CU	Brockton	yes	NI	Jan-94	09/20/93
Brockton CU	Brockton	yes	SAT	Jul-92	09/03/91
Brookline Municipal CU	Brookline	yes	SAT	Jun-94	02/14/94
Brotherhood CU	Lynn	yes	SAT	Feb-94	10/29/93
Cabot CU	Boston	yes	SAT	Apr-94	12/13/93
Cambridge Portuguese CU	Cambridge	yes	SAT	Jan-94	10/04/93
Carmel CU	Chelsea	yes	SAT	Jun-94	01/04/94
Chanton CU	Charlton	yes	NI	Jun-92	06/10/91
City of Boston CU	Boston	yes	NI	Jan-94	09/20/93
Community CU of Lynn	Lynn	yes	NI	Jul-92	07/01/91
Crescent CU	Brockton	yes	SAT	Jan-94	09/27/93
Essex Agricultural CU	Hathome	yes	SAT	Jun-94	02/14/94
Everett CU	Everett	yes	NI	Sep-92	02/20/92
Fall River Muni Employees CU	Fall River	yes	NI	Aug-93	05/12/93
GE River Works Empl. CU	Lynn	yes	NI	Apr-94	12/20/93
Gas Electric Empl. CU	Maldose	yes	NI	Apr-94	12/20/93
Harvard U Employees CU	Cambridge	yes	SAT	Dec-93	08/30/93
Haverhill Itai-Amer CU	Haverhill	yes	SAT	cumOnly	10/18/91
Holyoke CU	Holyoke	yes	SAT	Jul-92	09/09/91
Industrial CU	Boston	yes	SAT	Sep-92	03/16/92
Jeanne D Aro CU	Lowell	yes	SAT	Dec-93	08/10/93
Leominster CU	Leominster	yes	SAT	Jul-92	07/25/91
Luso-American CU	Peabody	yes	SAT		04/09/91
Lynn Police CU	Lynn	yes	NI	Jun-94	02/07/94
Lynn Postal Employees CU	Lynn	yes	SAT	Jun-94	02/22/94
Malden City Employees CU	Malden	yes	SAT	Apr-94	12/13/93
Mar uetta CU	Winchendon	yes	NI	Aug-92	09/26/91
Mass State Employees CU	Boston	yes	SAT		07/30/90
Metropolitan CU	Chelsea	yes	NI	Aug-92	08/29/91
Millbury CU	Millbury	yes	NI	Sep-92	02/24/92
New Bedford CU	New Bedford	yes	NI	Jun-92	05/08/91
Northern Mass Tel Workers CU	Lowell	yes	NI	May-94	08/23/93
Octane CU	Everett	yes	SAT	Jun-94	01/10/94
Pittsfield GE Employees CU	Pittsfield	yes	SAT	Jul-93	04/01/93
Plan CU	Boston	yes	NI	Apr-94	01/05/94
Polish National CU	ChicopeeFalls	yes	NI	Aug-92	08/12/91
Quincy Municipal CU	Quincy	yes	SAT	Oct-93	07/29/93
Sharon CU	Sharon	yes	SAT		03/01/91
Shirley CU	Revere	yes	SAT	Jun-94	01/21/94
Southbridge CU	Southbridge	yes	NI	Sep-92	01/17/92
St. Anne s CU	Fall River	yes	NI	Nov-93	09/13/93
St. Jean s CU	Lynn	yes	SAT	Dec-93	09/08/93
St. Joseph s CU	Salem	yes	NI	Jan-94	10/12/93
St. Mary s CU	Marlboro	yes	SAT	Jan-92	04/16/91
Telephone Workers CU	Boston	yes	SAT	Nov-93	07/26/93
University CU	Boston	yes	NI	Jun-94	01/25/94
Webster CU	Webster	yes	SAT	Jul-93	05/11/93
Western Mass Tel Workers CU	Springfield	yes	SAT	May-94	01/03/94
Williamsett CU	Chicopee	yes	SAT	Jan-92	05/08/91
Workers CU	Fitchburg	yes	SAT	Mar-94	12/06/93
American CU	Springfield	yes	SAT	Jul-92	08/13/91
Amesbury Franco-Amer CU	Amesbury	yes	NI	Sep-92	02/24/92

*Oral Statement of*

*Richard L. Mount*

*Independent Bankers Association of America (IBAA)*

*Before the*

*House Committee on Banking, Finance and Urban Affairs*

*Subcommittee on Consumer Credit and Insurance*

*Washington, D.C.*

*September 22, 1994*

Mr. Chairman, distinguished Members of the Committee, my name is Richard L. Mount, and I am president and CEO of the Saratoga National Bank in Saratoga, California. Today I am pleased to appear before you as president-elect of the Independent Bankers Association of America (IBAA), the only national trade association that exclusively represents the interests of our nation's community banks. With your permission, I will summarize my remarks and submit my entire statement for inclusion in the Record.

I commend you for convening this hearing today on two subjects near and dear to the hearts of commercial bankers: credit unions and CRA.

(Lightly) I believe if you would have thrown in non-bank banks and the Farm Credit System and other financial service providers, we could have had a majority of our membership here today. While these subjects may be controversial, they are important subjects that deserve serious and thorough attention, and soon.

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The Community Reinvestment Act is the law of the land and community bankers are committed to the effective implementation of this statute. Community lending, including lending to low- and moderate-income areas, is the lifeblood of our industry.

-----

Last year, President Clinton called for reform of the CRA process, and the regulators issued a proposal for public comment.

We support parts of that proposal, particularly the proposed streamlined examination for small institutions.

At the same time, we do not believe CRA will be fully effective until it is applied to all sectors of the financial services industry.

Should that include credit unions? The answer is an unequivocal yes. The remainder of my testimony today will be devoted to explaining why.

It wasn't long ago, Mr. Chairman, that banks and thrifts held 70 percent of the assets in our nation's financial services industry. Today, we hold less than 30 percent. While banks and thrifts have been losing market share, the growth of the credit union industry has been nothing short of phenomenal. Since 1980, share growth in credit unions has gone up 450 percent, and loans have increased some 360 percent. At the end of last year, total assets held by credit unions approached \$300 billion, and they had more than 65 million members. There is no longer any valid argument for continuing to exclude this industry from the requirements of CRA.

----

Credit unions argue that they should not come under CRA because they are already fulfilling the "spirit" of CRA. Unfortunately, fulfilling the spirit of CRA is not enough. More importantly, we believe that there is a strong case to be made that credit unions are not fulfilling even the spirit of this law.



They also argue that since CRA is a geographically-based law, it should not apply to credit unions since, and I quote from a September 12 NAFCU newsletter -- "Most credit unions do not serve their members based on where they live..." Well, I would certainly agree with that statement. In fact, most credit unions serve their members based on *whether* they live, rather than where they live, but I'll get into that a little bit later in my testimony.

-----

Since credit unions accept deposits from all segments of their community, there is no justification for exempting credit unions from the reasonable requirement that they meet the credit needs of all segments of that community, including the low- and moderate-income segments.

In adopting CRA, Congress stated that regulated financial institutions "have a continuing and affirmative obligation to help meet the credit needs of the local community in which they are chartered." The law does not define "community," in geographical terms. In fact, military banks define their community to include its entire deposit customer base without regard to geographic proximity."

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Mr. Chairman, since the common bond issue is so central to the question of credit union membership and therefore the applicability of CRA, I would like to spend a few minutes examining this issue in more detail.

The Federal Credit Union Act of 1934 said credit union membership should be "limited to groups having a common bond of occupation or association, or to groups within a well defined neighborhood, community, or rural district."

Since 1989, the National Credit Union Administration -- the industry's regulator -- has been unraveling this fundamental statutory principle of membership. Recent NCUA actions have expanded the common bond rule to permit virtual unlimited membership. I draw your attention to this ad from a Wisconsin credit union, which I will submit for the Record.

Yet there is no requirement that credit unions serve all segments of their communities, including the low- and moderate-income areas. More importantly, since credit unions are exempt from CRA there is no evaluation of a credit union's performance. Even credit union members do not have access to the type of public evaluation on the credit union's community performance that can be obtained from any bank or thrift.

-----

What public policy purpose is served by not performing a CRA analysis? Do we just allow credit unions to continue to expand without considering what services are being provided, and where they are being offered?

-----

In July, 1991, the U.S. General Accounting Office (GAO) issued a report on the NCUA's relaxation of common bond requirements.

Changes to the common bond principle should be decided by Congress, and not the NCUA. We hope that this hearing will be the first step in that process.

-----

Credit unions today bear little resemblance to the credit unions originally chartered by Congress.

As you, Mr. Chairman, noted in the *AMERICAN BANKER* last week, when credit unions were small organizations, the argument that they were fulfilling the requirements of CRA may have made sense. Today, however, many credit unions operate just like a bank or a thrift. Many of them operate across state lines. Yet unlike banks and thrifts, credit unions are under no obligation to serve the low- and moderate-income segments of their community.

CRA is premised on the finding that banks and thrifts have a continuing and affirmative need to help meet the needs of the local communities in which they are chartered. This finding stemmed from the view that the government has granted these institutions special privileges including: charters to do business; deposit insurance; and access to the Federal Reserve discount window and Federal Home Loan Bank System advances.



Mr. Chairman, I note that credit unions have all of these special privileges, just like banks and thrifts.

And they also have the very special privilege of a tax exemption. Last year, commercial banks paid \$14 billion in taxes. The \$300 billion credit union industry paid nothing, while competing with community bankers for a shrinking deposit and customer base. This is grossly unfair, can no longer be justified on any grounds, and should be remedied by Congress.

In 1990, CBO estimated that if credit unions paid taxes like other mutual financial institutions, it would yield an additional \$3.7 billion in tax revenue for the period 1991 through 1995. This source of revenue should no longer be ignored.

-----

Community banks challenge credit unions to step up to the CRA plate. If, as they contend, they are complying with the spirit of CRA, then extending this law should pose no problems.

**If, credit unions are not complying with the spirit of CRA, then the public and our communities are entitled to know.**

**Thank you, Mr. Chairman, for the opportunity to present the views of our nation's community bankers. I would be happy to answer any questions you or the other Members of the Subcommittee may have.**

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**Statement of**  
**Richard L. Mount**  
**on behalf of the**  
**Independent Bankers Association of America (IBAA)**  
**Before the**  
**House Committee on Banking, Finance and Urban Affairs**  
**Subcommittee on Consumer Credit and Insurance**  
**Washington, D.C.**  
**September 22, 1994**

Mr. Chairman, distinguished Members of the Committee, my name is Richard L. Mount, and I am chairman, president and CEO of Saratoga Bancorp, and president and CEO of the Saratoga National Bank in Saratoga, California. Today I am pleased to appear before you as president-elect of the Independent Bankers Association of America (IBAA), the only national trade association that exclusively represents the interests of our nation's community banks.

Saratoga National Bank is an \$82 million bank founded in 1982. It is located in a community of 36,000 people just outside the San Jose/San Francisco metropolitan area. The current tier one capital of the bank is 24 percent, and we have consistently been one of the top performing banks in California as well as the United States. I'm very happy to be with you today to share the views of our nation's community bankers.

Mr. Chairman, I commend you for convening this hearing today on two controversial subjects: credit unions and CRA. While they may be controversial, these are important subjects that deserve serious and considerate attention.

**Community Reinvestment Is Our Business**

The Community Reinvestment Act is the law of the land and community bankers are committed to the effective implementation of this statute. We also are committed to community reinvestment. It is our ongoing business. Community lending, including lending to low- and moderate-income areas, is good for banking.

**Credit Unions Should Not Be Exempt**

Last year, President Clinton called for reform of the CRA process, and the regulators issued a proposal for public comment. We understand that a revised proposal will be

published soon. We support parts of that proposal, particularly the proposed streamlined examination for small institutions. At the same time, we do not believe CRA will be fully effective until it is applied to all sectors of the financial services industry.

Should credit unions be subject to CRA? The answer is an unequivocal yes. The remainder of my testimony today will be devoted to explaining why.

#### Credit Unions Enjoy Phenomenal Growth in Market Share

Mr. Chairman, the growth of the credit union industry has been nothing short of phenomenal. Twenty years ago, the total assets held by credit unions was around \$18 billion. At the end of last year, total assets held by credit unions approached \$300 billion! Share growth in credit unions has gone up around 450 percent just since 1980, with loans increasing about 360 percent during that same period.

Twenty years ago, credit union membership totalled around 23 million. Today, federal and state credit unions have more than 65 million members, with a potential of more than 210 million members. *That's nearly the entire population of the United States.*

Put another way, Mr. Chairman, it wasn't that long ago that banks and thrifts held more than 70 percent of the total assets in the financial services industry. Today, we hold less than 30 percent. And as is evident by these figures, credit unions have captured a significant portion of that lost market share.

#### Credit Union Arguments Lack Merit

The National Association of Federal Credit Unions -- a political arm of the credit union industry here in Washington -- argues that credit unions should not come under CRA because they are already fulfilling -- and I quote -- "the spirit of CRA." Well, as a banker who has made the very same argument -- if community banks didn't serve the financial needs of their communities they could not long remain in existence -- I can assure them that argument just won't wash. Under today's rules, fulfilling "the spirit of CRA" is not enough. More importantly we believe that there is a strong case to be made that credit unions are not fulfilling even the spirit of this law.

NAFCU also argues that since CRA is a geographically-based law, it should not apply to credit unions since, and again I quote from their September 12 newsletter -- "Most credit unions do not serve their members based on where they live..." Well, I would certainly agree with that statement. In fact, most credit unions serve their members based on *whether* they live, rather than where they live, but I'll get into that a little bit later in my testimony.

Credit unions accept deposits from their community that they define by a common bond. There is no justification for exempting credit unions from the reasonable requirement that they meet the credit needs of all segments of that community, including the low- and



moderate-income segments, regardless of how the common bond is defined.

CRA requires that banks and thrifts demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business. This requirement includes both deposit and credit needs. In adopting CRA, Congress stated that regulated financial institutions "have a continuing and affirmative obligation to help meet the credit needs of the local community in which they are chartered." The law does not define "community," and need not be limited to geographical terms, as NAFCU has suggested. In fact, the law requires the financial institution to define the community that it serves.

This is amply illustrated by the language included in the statute for military banks that states that a military bank may define "its 'entire community' to include its entire deposit customer base without regard to geographic proximity." (emphasis added) So the argument advanced by the credit unions that they should not be subject to CRA because CRA is a geographically-based requirement is clearly without merit.

#### Common Bond Coming Unravalled

Mr. Chairman, since the common bond issue is so central to the question of credit union membership and therefore the applicability of CRA, I would like to spend a few minutes examining this issue in more detail.

The Federal Credit Union Act of 1934 said credit union membership should be "limited to groups having a common bond of occupation or association, or to groups within a well defined neighborhood, community, or rural district." Moreover, the legislative history of that Act clearly indicates that Congress sought the creation of a "cooperative society. . . limited in each case to members of a specific group with a common bond of occupation or association."

Since 1989, the National Credit Union Administration -- the industry's regulator -- has been unraveling this fundamental principle of membership. Recent NCUA actions have expanded the common bond rule to permit virtual unlimited membership. Today, credit unions draw members from areas that may encompass total states, whole regions, or even the entire country. Mr. Chairman, I would raise the question whether or not that lies within either the letter or the spirit of the 1934 Act.

Furthermore, there is no requirement that credit unions serve all segments of these areas, including the low- and moderate-income areas. More importantly, since credit unions are exempt from CRA there is no evaluation of a credit union's performance. Even credit union members do not have access to the type of public evaluation on the credit union's community performance that can be obtained from any bank or thrift.

Interestingly, credit unions are subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). Without giving too much credence to HMDA, which is

often used to reach inappropriate conclusions on discrimination, I would note that 1992 HMDA data shows that credit unions had a greater minority-to-white application denial rate ratio than banks. Referring to this data, Chairman Kennedy last week was quoted as saying, "I thought that was clear evidence that the notion that somehow credit unions should get by without CRA was not the case." We fully agree.

Moreover, the NCUA signed-on to an interagency statement that called on all financial institutions "to intensify their equal credit opportunity education programs for management, lending personnel, and consumers." I can only assume that NCUA felt that credit unions needed this encouragement and this suggests that credit unions may not be meeting the credit needs of their entire communities.

#### Credit Unions on Expansion Drive

Columnist Jane Bryant Quinn, in an August 28, 1994 article in the WASHINGTON POST, noted that credit unions were engaged in a "...ferocious expansion drive. By the end of the decade, they hope to number their members at 100 million, up from 65.5 million today." I contend that this kind of expansionist agenda is inconsistent with the principles of common bond membership. Moreover, the actions of the NCUA -- which we believe sometimes acts more like a cheerleader than a regulator -- have promoted this expansionist drive, and makes a mockery of the common bond principle. Furthermore, this type of expansion suggests that credit unions could selectively include new members to the possible exclusion, intentional or unintentional, of other low- and moderate-income persons from those areas.

#### NCUA Acts More Like Cheerleader

Recently, NCUA enacted a proposal, adamantly opposed by the IBAA, expanding the field of membership standards and community chartering policies for credit unions. They defined the operational area of a credit union as a 25 mile radius, which effectively empowers credit unions to cover whole towns and many metropolitan areas, including crossing state lines. Again, this is a geographically-based expansion, akin to banks opening a branch in a new area, that, at a minimum, warrants a CRA analysis to determine if the credit and deposit needs of the entire area are being served.

Some banking groups have challenged this ruling. In July, the Independent Bankers Association of Texas and the Texas Bankers Association sued the NCUA for allowing a proposed expansion of the Communicators Federal Credit Union of Houston. They wanted to serve all persons over the age of 19 within a 25 mile radius, giving them a potential market of 578,000 customers! Calling this a credit union stretches credulity. We see no reason why this institution should be exempt from CRA.

In Maine, the Saco Valley Federal Credit Union applied to convert to a community charter and to expand to eighteen diverse geographic locations. IBAA filed a statement

opposing this application, which again defies all logic from a common bond standpoint. This might be a good example of the common bond being based on *whether* the person is living, rather than where the person is living. And again, what public policy purpose is served by not performing a CRA analysis? Do we just allow credit unions to continue to expand without considering what services are being provided, and where they are being offered?

NCUA issued another ruling that would permit credit unions affected by "base or plant closing or similar shocks" to convert to a community federal credit union. A shift from an employee-based, occupational charter to a community-based charter is the most sweeping kind of credit union expansion. It fundamentally alters the credit union's field of membership, operations and terms of competition in the financial marketplace. Credit unions can now go to the general public for business rather than groups with a common bond. What you have as a result is a bank -- without comparable regulation. What the community gets is an insured financial institution with no responsibility to meet the credit needs of all areas of the community.

#### **Congress Should Decide Common Bond**

In July, 1991, the U.S. General Accounting Office (GAO) issued a report on the NCUA's relaxation of common bond requirements. They concluded that changes to the common bond principle should be decided by Congress, and not the NCUA. We fully agree. We hope that this hearing will be the first step in that process.

Mr. Chairman, community bankers are not afraid of competition. We welcome competition. But the playing field must be level. The way the system has evolved, we no longer have a level playing field.

#### **Credit Unions Have Evolved**

Credit unions today bear little resemblance to the credit unions envisioned by the drafters of the 1934 Act. A by-product of the populist movements in Britain and Germany in the 19th century, credit unions were originally designed as membership groups for low and moderate income working people. Members would pool their resources in share accounts, and credit unions could make loans that others might not make. And, in fact, for a long time, the typical U.S. credit union was a non-profit cooperative that made small consumer loans to people who belonged to the same church or club, or worked for a particular company. They complemented, rather than competed with, the commercial banking industry.

By contrast, today many credit unions operate just like a bank or a thrift, offering a wide array of consumer and small business loans, paying interest on checking accounts, and issuing credit cards. Since 1978, credit unions can even make 30-year mortgage loans. And many of them operate across state lines. Yet unlike banks and thrifts, credit unions are under no obligation to serve the low- and moderate-income segments of their community.

(We recognize that limited-income credit unions are designated to serve "predominately low-income members." But with only 181 such credit unions in existence, most of them being small, we felt this subset of credit unions was statistically insignificant in examining whether or not the credit union industry as a whole was meeting the goals of CRA.)

While credit unions assert that membership is limited to a defined common bond, in many instances the common bond is defined by geography. Particularly when geography serves as the basis for the common bond, there is no reason that credit unions should not be subject to a requirement to invest and lend in all segments of that geography.

In many instances, credit unions allow family members and other relatives or sometimes even friends of a member to join. This is the worst example of an "old boy's network." If you know someone you get in, but if you don't then you are out of luck. While knowing your customers is good business -- in fact, it's a slogan that many community banks use, it is not justification for excluding or avoiding segments of your community. Membership criteria suggests that some people will not qualify. This is so subjective that it could lead to a disparate impact on a protected class.

Credit unions still enjoy the tax-free and relatively painless regulatory status that was envisioned for the small mom and pop credit unions created by the 1934 Act. We believe that if credit unions want to look and act like banks and offer bank-like products and services and serve bank-like markets and compete with banks for customers, then they should be subject to the same laws, rules and regulations as banks -- including compliance with CRA. Credit unions should become full-fledged members of the financial services industry, with all the attendant duties and responsibilities that attach to such status.

Last Friday's AMERICAN BANKER, in an article in their credit union section entitled, "Rep. Kennedy: Industry Should Come Under CRA," contained the following:

*"Credit unions argue that they shouldn't be subject to CRA because by lending only to their members they are fulfilling the intent of the law.*

*"Rep. Kennedy said that argument was justifiable in the past but may now be open to question.*

*"When credit unions were very small organizations. . . the argument that they were already accomplishing the goals of CRA made sense," he said.*

*"Now credit unions are larger and have wider membership bases, and 'with that comes a responsibility to meet the needs of the local community,' he said."*

Mr. Chairman, your words reflect our concerns in this area exactly.

All we are asking for is a level playing field. And, just as importantly, we believe our communities are entitled to the public results of a CRA examination.

#### Financial Landscape Has Changed

When Congress passed CRA in 1977 and applied it only to banks and thrifts, the financial landscape of the United States was far different than it is today. Credit unions were still just credit unions. Since then, the cost of deposit insurance has skyrocketed, securities firms have gained access to the Fed's discount window, non-bank financial institutions have grabbed significant market share from banks and thrifts, and products like mutual funds have drained the deposit base of many community financial institutions. As a result of this change in market structure and shift in market share, CRA now applies to a much smaller portion of the financial marketplace than when the CRA legislation was enacted.

This is a serious public policy consideration. Banks and thrifts cannot carry the CRA responsibility for the entire financial services industry. It is time to share that responsibility and extend CRA to the entire range of financial service providers, including credit unions.

CRA is premised on the finding that banks and thrifts have a continuing and affirmative need to help meet the needs of the local communities in which they are chartered. This finding stemmed from the view that the government has granted these institutions special privileges including: charters to do business; deposit insurance; and access to the Federal Reserve discount window and Federal Home Loan Bank System advances.

Mr. Chairman, I note that credit unions have all of these special privileges, just like banks and thrifts. And they also have the special privilege of a tax exemption. Last year, commercial banks paid \$14 billion in taxes. The \$300 billion credit union industry paid nothing, while competing with community bankers for a shrinking deposit and customer base. This is grossly unfair, can no longer be justified on any grounds, and should be remedied by Congress.

In 1990, the Congressional Budget Office (CBO) estimated that if credit unions paid taxes like other mutual financial institutions, it would yield an additional \$3.7 billion in tax revenue for the period 1991 through 1995. This potential source of revenue should not be ignored any longer.

Credit unions are government-protected, government-exempted, government-privileged financial institutions that can select their clientele (members) and compete for their business on uneven terms against community banks. We do not believe such special treatment can be justified.

#### Credit Union Challenge

Community banks challenge credit unions to step up to the CRA plate. If, as they contend, they are complying with the spirit of CRA, then extending this law should pose no problems. If, credit unions are not complying with the spirit of CRA, then the public and our communities are entitled to know.



Thank you, Mr. Chairman, for the opportunity to present the views of our nation's community bankers. I would be happy to answer any questions you or the other Members of the Subcommittee may have.



**Testimony of VADM Thomas J. Hughes, USN (Ret.) on Behalf of  
The National Association of Federal Credit Unions**

Before the House Banking Committee's  
Subcommittee on Consumer Credit and Insurance

September 22, 1994

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Concerning the Community Reinvestment Act (CRA)

Chairman Kennedy and Members of the Subcommittee on Consumer Credit and Insurance, I am Thomas J. Hughes, Vice Chairman of the National Association of Federal Credit Unions (NAFCU) and President/CEO of Navy Federal Credit Union. Thank you for this opportunity to appear before your Subcommittee to express NAFCU's views with respect to the relationship of credit unions to the Community Reinvestment Act (CRA).

The National Association of Federal Credit Unions (NAFCU) is the only national organization dedicated to exclusively representing the interests of our nation's federally-chartered credit unions before government. As federally chartered credit unions, NAFCU's membership is made up of non-profit, member-owned financial cooperatives from throughout the nation that collectively have over 18.6 million members and almost \$91 billion in assets. Navy Federal Credit Union is the nation's largest credit union, with over 1.4 million members and assets of \$8.4 billion.

Mr. Chairman, NAFCU and the credit unions that we represent applaud the diligence with which you and your colleagues on this Subcommittee relentlessly pursue those issues that affect

the availability of financial services to those of modest means. Like those credit union pioneers, Edward A. Filene and Roy Bergengren, every credit union takes very seriously its statutory mandate "to make more available to people of small means credit for provident purposes..." (12 USC 1751). Today, we can confidently report that credit unions remain dedicated to serving the needs of all of our members.

By definition, every credit union serves a unique community in that it is a member-owned, not-for-profit cooperative financial institution formed to permit those in a specified, chartered field of membership to pool their savings, lend them to one another, and own the organization in which they save, borrow and obtain other necessary financial services. Credit unions fill a unique and important niche in today's society. Understanding the underlying tenets of credit unions is vital to an appreciation of their uniqueness. These tenets reflect a commitment to self-help, cooperation and economic democracy.

Members are the heart of the credit union, the very reason for its existence. Only the members own the credit union, and they are

its community. Clearly, credit unions are organizations of people, not stockholders. This is reflected in the democratic structure, process and control of credit unions, including one vote per member, regardless of the number or value of shares owned.

Throughout history, people have worked together to do collectively what could not be done individually. In a credit union, members join together to encourage savings by offering a good return, to use their collective monies to make loans to other members at competitive interest rates, and to provide other financial services.

The motto, "Not for profit, not for charity, but for service," captures the essence of credit unionism. Although a positive "bottom line" (which remains as member-owner equity) is important for economic viability, credit unions' primary focus is on service, a characteristic distinguishing them from other financial institutions. There is no group of stockholders or outside third parties for whom "profits" must be generated. Credit union returns are redistributed to their members -- the source of the organization's income. Thus, credit unions offer a sharp contrast to the profit-oriented



institutions of the financial services industry.

I'm sometimes amused by the vigor with which our friends in the banking and thrift industries pursue their differences with credit unions, as though credit unions are some sort of threat to the survival of the banking and thrift industries. In reality, the assets of every single federally-insured credit union in the country -- a total of \$289.7 billion held by 12,138 credit unions on June 30 of last year -- are dwarfed by the combined assets of two --just two -- banks. Bank of America and Citicorp, combined, hold \$403 billion -- and are growing!

Credit unions held just 7.8% of consumer savings as of December 1993. This compares to 54.8% held by commercial banks, 21.7% by savings institutions, 10.5% by money market mutual funds, and 5.2% held in U.S. Savings Bonds.

Our experience at Navy Federal Credit Union emphasizes the dedication of all credit unions to meeting the credit needs of all of their members. We are a large credit union (1.4 million members) serving many low- and moderate-income people. I like to think of us as the largest small credit union in the world.

Many of Navy Federal's 1.4 million members serve in the Navy and Marine Corps in duty stations around the world. Our corporate motto is: "We Serve Where You Serve"; this clearly reflects no geographic locality, but rather our people orientation. Prior to becoming President of Navy Federal, I served over forty years in the U.S. Navy. As a result, I believe I am qualified to address the need of our membership with emphasis on transient active duty members. Specifically, Navy Federal is the financial institution for transient members of the Navy and Marine Corps. We provide them credit often denied by other financial institutions because of their "transient" nature. We provide free checking accounts to these people which allows them access to their funds as they move from Sasebo, Japan . . . to Sigonella, Sicily . . . to Singapore.

Let me share with you a few statistics:

- 680,000 members, or 52% of our entire membership, have less than \$100 in their share savings accounts.
- 350,000 of those members have less than \$10 in their share savings accounts.

- Over one-third of our consumer loans are for less than \$2,500, which is the smallest loan some large banks will make, given the processing costs.

It may be tempting to dismiss anecdotal evidence about one credit union; however, in order to assist this Subcommittee, NAFCU is in the process of conducting a survey of its members. Our data so far indicates that approximately 90% of all credit unions offer low-cost deposit services, and 60% of those institutions require a minimum balance of \$10 or less! Almost 90% require minimum balances of \$50 or less! Furthermore, over 97% of our respondents offer or plan to offer in the near future loan or credit cards in small dollar amounts, with some as low as \$50 for both personal loans and credit card accounts. Our survey data clearly shows that credit unions have not lost their commitment to small borrowers.

We are proud of the record of member service that credit unions have established over the decades, and these figures prove that credit unions continue to offer low cost consumer financial services directed to all of their members.

Now let me turn to some specific points about CRA and credit unions. When CRA was first written in 1977, credit unions were not left out by accident.

The rationale for excluding credit unions from CRA coverage was enunciated quite clearly in a letter the Administrator -- and first Board Chairman -- of the National Credit Union Administration submitted to the House Banking Subcommittee on Financial Institutions Supervision, Regulation and Insurance on August 11, 1978, as that Subcommittee held six days of comprehensive hearings relating to "community credit needs." In his letter [see Appendix A] Administrator Connell wrote:

"Finally, I wish to comment on the exclusion of federally chartered and insured credit unions from the coverage of the [Community Reinvestment] Act. I agree that the exclusion is warranted, since a credit union's "community", defined by the field of membership provision in its charter, in most cases is based on an occupational or associational "common bond" rather than a geographic one. Further, it is inherent in the common bond concept that credit unions must provide equal services to all eligible members."

The years have not changed this situation. The difficulty inherent in attempting to apply CRA or CRA-like requirements to credit unions was succinctly stated earlier this summer in a letter from the General Counsel of the National Credit Union Administration Board to the Federal Housing Finance Board in response to an FHFB proposal to extend by regulation CRA-like requirements to credit unions that belong to a Federal Home Loan Bank. In that letter [see Appendix B] dated July 15, 1994, NCUA General Counsel Robert M. Fenner wrote:

"Membership in an FCU is limited by its charter to its common bond which may be occupational, associational, or community. Services at an FCU are available only to its members, not to the general public. Because of field of membership requirements, there is no standard measure to demonstrate how much FCUs contribute to their communities. As an example, there are many credit unions which serve only employees of the sponsor organization. Many of those employee/credit union members do not live near the credit union and, as in many instances, live in other states or countries and yet maintain accounts at their employer's credit union. Defense department employee credit unions, with a world-wide membership of many thousands, are good examples. Defining a "community" for a credit union with a large, diverse and dispersed field of membership



would be a difficult task. Only a small number of credit unions hold true community based charters. Those credit unions receive shares and make loans only within their community boundaries.

Any CRA-like specific standard issued by FHFB for FCUs would be impossible to follow due to chartering and field of membership requirements as well as statutory and regulatory limits on investments and business lending. See 12 C.F.R. §701.2 (h). CRA-like requirements which expand services beyond an FCU's field of membership and into a geographically defined community would be in contravention of the FCU Act. Instead, we believe the purposes behind community support requirements are already being met by the daily operations of FCUs within their respective fields of membership regardless of the credit union or members' location."

Even bank regulators realize the important role that credit unions already provide in extending necessary financial services to the un-banked and under-banked. An interagency task force consisting of representatives of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the Comptroller of the Currency has published a series of questions and answers "to provide useful guidance to agency personnel, financial institutions and the public" regarding

CRA and CRA compliance. I would like to direct the Subcommittee's attention to question 18:

"In addition to traditional direct lending activities, what activities can financial institutions consider in meeting obligations and responsibilities under the Community Reinvestment Act?

... The following are some nontraditional activities that financial institutions may consider to help meet the responsibilities under the Community Reinvestment Act. . .

Assistance to community development credit unions in the institution's local community through, for example, provision of technical assistance or stable deposits to fund the credit union's lending."

Against this backdrop it would seem unnecessary, inappropriate and ironic to subject credit unions to CRA coverage, when investments in credit unions are recognized as legitimate and proper ways for banks and thrifts to meet part, if not all, of their CRA obligation. This view was reinforced last month when an official of the Comptroller of the Currency's Office, Rick Saillard, speaking at a conference in Chicago noted that credit unions were

exempted from CRA because of their unique cooperative structure. He went on to point out that he, personally, sees no reason to bring credit unions under the CRA umbrella.

Mr. Chairman, there is absolutely no compelling reason to bring credit unions under CRA. Credit unions' cooperative form of ownership doesn't warrant it and credit unions' record of member service doesn't justify it.

Of the responses we have received to our credit union survey, over half of the responding credit unions report that 25% or more of their members have annual household incomes of below \$25,000 per year. The numbers range from 25% to 95% of membership. Further, 58% serve specific low-income select employee groups (SEGs), and 62% are actively seeking to serve such groups.

In addition, credit unions offer a number of specific services that are tailored towards meeting the special needs of low- and moderate-income members. According to our survey, 86% of credit unions offer their members financial counseling of some type. 80% offer or plan to offer in the near future special programs geared to first-time borrowers. Even more significantly, 87% have or plan to

establish special programs to ensure that minority borrowers receive equitable treatment.

Credit unions also have a number of programs geared towards potential homeowners. Almost 82% allow borrowers to pre-qualify for mortgages before they begin to look for a home. 76% allow borrowers to make a lower downpayment than the 20% industry standard: 78% of those responding allow downpayments of 10% or less, 61% allow 5% or less, and 18% allow 3% or less. In addition, 86% allow prospective borrowers to establish their creditworthiness by using alternate methods such as payment histories for utilities or similar responsibilities, and 80% have a second look program that automatically reviews applications that would be denied on the first examination.

At Navy Federal Credit Union, we provide every avenue feasible to meet our low- and moderate-income member credit union needs and overall financial needs. Here are a few representative programs to show how we meet our responsibilities to our members:

- We offer totally free checking accounts, ATMs and OTS on-line throughout the world. You have heard of "lifeline services"; we provide them to our members.
- We offer free budgetary counseling to help members keep meals on the table -- not financial counseling on how to beat taxes, or where to invest in the stock market. (134 new requests for help were received in March 1994). We also give free personal financial training to our members on our military bases at the request of the command.
- We operate many of our offices at a loss (particularly overseas). This, in effect, is a subsidy to the U.S. government. If we did not provide these services, the government, through the military banking facility contract, would have to do it.
- In our credit card programs, we have issued 153,000 cards (38.8% of the total) to enlisted personnel, of which 84,113 were issued to grades E-5 and below. In addition, our "Credit Renewer" and "Credit Builder"



VISA programs have allowed 28,000 of our members to qualify for regular VISA accounts. Currently, we have loaned more than \$4 million through these programs.

- Our Utility Deposit Guarantee Program helps young enlisted personnel to guarantee utility deposits in some Navy towns. They can get their utilities turned on upon arrival at their new duty station without having to pay large deposits up front. Essentially, we pay these deposits. 67.8% of the participants in this program are E-5 and below.
- We have a debt management program (530 members at the end of March 1994 which made 3,199 payments for \$228,997 in March 1994, and only \$54,847 of that went to NFCU). Under this program, we handle members' pay and negotiate repayment to creditors.
- Of 27,500 mortgage loans made in 1993, 40% were to members who had less than median U.S. income, and 24% with less than 80% of medium U.S. income.

- Finally, we offer three mortgage programs specifically geared to low-income borrowers:
  - ◆ Home Ownership Opportunity Program: Not saleable in the secondary market
    - \$5 million set aside;
    - Maximum Loan of \$75,000;
    - Number counseled since inception a year ago: 83;
    - 15 received \$804,000 HOOP;
    - 38 referred to other programs;
    - 22 referred to budgetary counseling;
    - No delinquency or losses in almost a year.
  - ◆ Moderate Income Mortgage: Saleable to Fannie Mae
    - This program has been in effect for three years;
    - 5% down payment (consumer loan 2% plus closing costs);
    - 50 loans made (\$3.65 million);
    - Maximum \$137,500;
    - Maximum family income (Washington: \$69,700; California: \$53,500; Other: \$45,500;

- No delinquency or losses.
- ◆ VA
  - Zero down (about 45% of our first mortgage business).

Mr. Chairman, as this record shows, credit unions go well beyond the call of duty to meet the credit needs of all of their members. CRA is inappropriate for credit unions, and would impose a heavy regulatory burden without resulting in any significant benefit to credit union members.

Before I shift to addressing problems with credit unions' HMDA data, let me briefly touch on one other point. In your August 30th invitation to testify, you raised a question regarding "large geographic credit unions [that] operate essentially like large banks or thrifts." You specifically referred to "One Illinois credit union [which] has a nine-county field of membership, and \$1.2 billion in assets," and ask whether such credit unions should be held to community investment standards similar to banks and thrifts. I think it becomes clear, if you get into the heart of that credit union, that there is absolutely no reason why it should be

subjected to such standards. In fact, as that credit union has grown, expanding beyond its original field of membership -- employees of the Caterpillar Company -- the median income of its members has dropped substantially. The average annual salary of non-Caterpillar employed members is 56% of the average salary for Caterpillar employees!

Mr. Chairman, your invitation to testify raised a point concerning recent HMDA data which seems to indicate that credit unions slightly exceed banks in the ratio of turndowns for minority loan applicants relative to non-minorities.

In response to this data, in April 1994 the National Credit Union Administration released an extensive study of credit union lending practices [see Appendix C]. That review examined a representative sample of 1,663 denied mortgage applications and 809 approved loans. According to NCUA's report:

" . . . there was no evidence of any overt discrimination on the part of the credit unions reviewed; . . . some mitigating factors were found which contributed to the disparate rate such as incorrect codes on HMDA reports, secondary market standards, declining real estate values in certain parts

of the country, and careless record-keeping."

The report went on to say:

"In reviewing their credit unions, the regional examiners looked closely at the following areas: lending policies; lending procedures and approval practices; the results of staff interviews; and all supporting documentation in the applicants' files. The objective was to determine if all mortgage-related applications at federal credit unions were provided fair and equitable treatment.

"The examiners reported that all mortgage loans reviewed appeared to be approved or denied based on nondiscriminatory credit criteria. The findings were very similar in each of the reports. Denials and approvals were supported by such documentation as credit reports, debt-to-income ratios, appraisals, loan-to-value ratios, monetary assistance provided to each applicant, follow-up for information requests, etc."

At Navy Federal Credit Union, we are also concerned about the denial rate ratio that was shown in our HMDA data. However, it should be recognized that, at NFCU, for example, the overall mortgage denial rate is much smaller than the national average (as is similar for other credit unions). We are approving a greater percentage of mortgage loans than the national average. I do not



want to disparage banks, but our approval rate overall is over twice that of the national average.

Navy Federal had one of the worst credit union statistics in 1991 for HMDA black to white ratio of denials for home purchase mortgages. However, our ratio has gone from 4.33 in 1991 to 4.0 in 1992 to 1.0 in 1993.

We turned down 14% of black applicants in 1992 (versus the 36% national average) compared to a 4% white denial rate (versus 16% white nationally). We approved most of the applications received, but the ratio of denial appeared excessive. NFCU received 25,000 mortgage loans in 1993 and approved 24,600. That is an approval rate of 99%. Of the 400 disapproved, 40 were loans for minorities. Four of the 40 loans were subsequently approved as a result of a subsequent review by our ad-hoc minority committee review. Over 40% of the mortgages we made in 1993 were to members with incomes below the national median income.

As indicated by the large proportion of credit unions responding to the NAFCU survey that have special programs to ensure the equitable treatment of minority loan applicants, we do

not take this issue lightly. However, as the NCUA study showed, it would be a mistake to assume that the HMDA data proves that the differences between the denial rate ratios were caused by discrimination.

Given the purpose and nature of credit unions, I firmly believe that it is inappropriate to attempt to apply geographic support or geographic reinvestment standards to credit unions. In fact, it is virtually impossible to formulate any geographic standards against which credit union performance could be measured. You would be changing our nature from people helping people -- the people specified in our federal charter -- to a geographic objective.

Insisting that credit unions comply with CRA lending support requirements would ultimately cost credit union members through higher service fees, higher interest rates and reduced dividends on savings in order to benefit a localized geographic area of different makeup. It would so change the ways that credit unions operate that they would cease to be the unique consumer alternative to other financial service providers.

In summary, Mr. Chairman, saying that credit unions should be covered by CRA is to say that there is no difference between credit unions and other financial institutions. This is a false premise. Credit unions are different. Credit unions were formed primarily to serve the needs of their members wherever they may be located; not the unique needs of a geographic area.

CRA stands for Community Reinvestment Act. Most credit unions are established to serve the needs of specific members or member groups -- and that alone defines their community, not the needs of some geographic region. The entire focus of the CRA is on geography. How can you apply the standards of the Community Reinvestment Act to credit unions when they generally do not serve specific geographic locations?

To the best of my knowledge there are no data that support the proposition that credit unions are failing to meet the needs of any segment of their membership community. Let me emphasize that credit unions were established to serve the underserved, and credit unions are still fulfilling that mission today. Please do not cast us into the cauldron which will further contribute to melting

us into a monolithic financial pool where the American alternative of cooperative personal financing will eventually be obliterated.

Mr. Chairman, this concludes my prepared statement. Again, NAFCU appreciates this opportunity to share our views on these issues.

## Appendix A

1435



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D. C. 20456

August 11, 1978

Office of the Administrator

Honorable Fernand J. St Germain, Chairman  
Subcommittee on Financial Institutions  
Supervision, Regulation and Insurance  
Committee on Banking, Finance and Urban Affairs  
U. S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you again for providing me the opportunity to appear before the subcommittee on August 1 and present my views on H.R. 11310, a bill to create the National Credit Union Central Liquidity Facility. As promised at that time, I am now submitting my comments concerning the Home Mortgage Disclosure Act (HMMA), the Community Reinvestment Act (CRA), and the proposed regulations of the other supervisory agencies implementing the CRA.

Home Mortgage Disclosure Act

In general, the HMMA and Regulation C apply to commercial banks, savings banks, savings and loan associations and credit unions, and require that those institutions make public disclosure of the number and dollar amount of various classifications of mortgage loans made or purchased each fiscal year, catalogued by the census tract in which the mortgaged property is located. The disclosures are designed to enable the public to determine whether the institutions are fulfilling "their obligations to serve the housing needs of the communities and neighborhoods in which they are chartered." My experience has shown that the HMMA does not provide for disclosure of sufficient information to achieve this and other important purposes.

To illustrate part of the problem, consider the following three situations.

First, the situation where the HMMA disclosures indicate that an institution has had little or no mortgage lending activity in a specific inner-city neighborhood. While this fact may raise questions,



it is possible that the inactivity resulted from a lack of demand for mortgage loans from the institution. The information currently required to be disclosed will not show whether there has been a lack of demand and, if so, why. (One reason might be discriminatory marketing practices.)

Second, the case where the HMDA disclosures indicate that an institution has made a substantial number of mortgage loans in a specific inner-city neighborhood. From the current disclosures, it is impossible to determine whether such lending activity results from an honest effort to provide fair housing opportunities to existing residents or from housing rehabilitation and sale to affluent individuals who are displacing existing residents from their homes.

Third, the focus of existing HMDA disclosures would hamper a concerned citizen group in its efforts to determine the overall availability of mortgage funds in its community. Existing HMDA disclosures only reveal each individual institution's activities.

Various measures might be taken to correct these problems. Where lending activity by a given institution is minimal, it would be helpful to know of the institution's marketing practices and the number of applications rejected during the reporting period. Also, consideration of an institution's total outstanding loan portfolio at a given time, in addition to consideration of loans made within any disclosure period, might give a more accurate picture of the institution's commitment to the community.

With respect to the situation where the existing disclosures reveal increased lending activity by an institution in a particular inner-city neighborhood, information concerning characteristics of the borrowers (in general terms) would greatly assist in determining whether the institution has, in fact, made a strong commitment to providing mortgage funds to existing residents of the community.

The difficulty in determining the overall availability of mortgage funds in a particular community could be minimized by the establishment of centralized reporting procedures and by the inclusion under HMDA of other mortgage originators, such as mortgage bankers, that are not currently covered by the Act.

All of these problems suggest a need for more sophisticated data compilation and analysis, in order to make the HMDA both more meaningful to the public and more useful as a regulatory and enforcement tool. I am not unmindful of the substantial costs which this would entail, and believe a specific recommendation concerning extension

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of the HMDA beyond its June, 1980, expiration date would be premature at this time. In considering this question, however, I note that the supervisory agencies are developing monitoring programs under their Equal Credit Opportunity Act and Fair Housing Act enforcement authorities which may resolve many of the above noted problems. Thus, rather than the limited data which is presently made public under HMDA, perhaps the agencies should be charged with analyzing and making public disclosure of relevant data, as part of their regular examination and supervision process.

#### Community Reinvestment Act

The CRA, which applies to federally chartered or insured financial institutions other than credit unions, requires that the appropriate supervisory agencies periodically assess each institution's record of meeting the credit needs of its entire community, and further requires that this record be taken into account when the agencies evaluate specified types of applications (including branching applications).

In a sense, the CRA is not a new concept. Rather, it affirms the existing obligation of financial institutions to meet the credit needs of their communities as a part of their overall responsibility to serve the public need and convenience. One of my concerns with the CRA is that by addressing only credit needs, it may serve to de-emphasize other financial needs of the community; e.g., the need for convenient banking hours and the need for provision of a full range of services such as deposits, check cashing and food stamp distribution. Hopefully, the institutions and regulators will gain an enhanced awareness of these other types of community needs in implementing the Act.

A major shortcoming of the CRA relates to the inclusion of state chartered institutions that make federally related mortgage loans in its coverage. When a state regulator does an adequate job of ensuring that community credit needs are being met by these institutions it is unnecessarily duplicitous and time consuming for a Federal regulator to evaluate an application for the same purpose. A possible solution would be to establish an exemption procedure for qualifying states, such as has been done under the Federal Consumer Credit Protection Act.

Concerning the proposed CRA implementing regulations (published collectively at 43 F.R. 29918), I believe the agencies have addressed a difficult subject with fairness. I feel, however, that certain points could be clarified in keeping with Congress' intent.

The first and most important clarification that I would suggest relates to the fact that the CRA is an affirmative, rather than a proscriptive, statute. That is, while it does not directly prohibit

Appendix A (cont.)

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specific practices, it does impose an affirmative obligation upon regulated institutions to meet the credit needs of their local neighborhoods and communities. Thus, a mere passive attitude of non-discrimination towards any particular segment of the community will not suffice. I believe the proposed regulations should make this point emphatically clear.

Also, to dispel any confusion about the relationship between the affirmative obligation contained in the CRA and the prohibitions contained in the Equal Credit Opportunity Act and the Fair Housing Act, the CRA regulations might specify that regulations under these three laws are intended to be complementary.

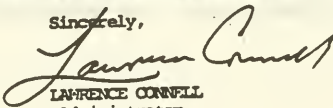
Another respect in which the proposed regulations follow the approach of the Act is that they do not specify whether remedial processes will be used when an agency's assessment reveals that an institution is not meeting its obligation to the community. This may leave the impression that the agencies will take no action, other than to note the failure, for future consideration, in the event the institution makes an application of the type specified in the Act. I do not believe the agencies intended this. Rather, in cases where an institution has clearly failed to meet its obligation, the agencies should use methods to encourage compliance and, if necessary, use their administrative powers to remedy the situation. I feel this intention should be stated in the regulation.

Finally, I wish to comment on the exclusion of federally chartered and insured credit unions from the coverage of the Act. I agree that the exclusion is warranted, since a credit union's "community", defined by the field of membership provision in its charter, in most cases is based on an occupational or associational "common bond" rather than a geographic one. Further, it is inherent in the common bond concept that credit unions must provide equal services to all eligible members.

I believe that the existing body of law applicable to Federal credit unions, in combination with NCUA's regulatory and enforcement authority, will effectively ensure that Federal credit unions comply with the intent of the CRA. In fact, as FCU's now enter the field of long term mortgage lending, my staff is reviewing NCUA's non-discrimination regulations (12 CFR 701.31) with a view to amendments furthering the purposes of the ECOA and the Fair Housing Act. In keeping with the spirit of the CRA, we will conduct this review with the intent of ensuring that FCU's continue to serve the credit needs of all members, including those residing in low income neighborhoods and communities.

In closing, I thank you for the opportunity to comment on these subjects, and hope my comments will be helpful. If you have any questions or if I can be of further assistance; please let me know.

Sincerely,



LAWRENCE CONWILL  
Administrator



## National Credit Union Administration

July 15, 1994

Penny Bates  
Federal Housing Finance Board  
1777 F Street, N.W.  
Washington, D.C. 20006

Re: Proposed Rule on Community Support Requirements

Dear Ms. Bates:

In a telephone conversation with Martin Conroy of this office, you asked for NCUA comment on community support requirements for credit union members of the Federal Home Loan Bank (FHLB) system. As you know, the Community Reinvestment Act of 1977 (CRA) does not apply to Federal credit unions (FCU's). Parallel CRA requirements would in our view place inappropriate requirements on FCUs. We believe if such requirements are adopted it would result in discouraging FCUs from joining the FHLB system and would likely force the withdrawal of many current FCU members.

#### ANALYSIS

Section 704 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 extended membership to credit unions that wanted to join the FHLB system. 12 U.S.C. §1424(a)(2). Section 710 mandated that the Federal Housing Finance Board (FHFB) issue community support regulations for members to "maintain continued access to long-term advances." 12 U.S.C. §1430(g)(1). The statute states that regulations must take into account "factors such as a member's performance under the [CRA] and the member's record of lending to first-time homebuyers." 12 U.S.C. §1430(g)(2). The FHFB issued a proposed rule to define community support requirements for members not covered by the CRA. 58 Fed. Reg. 46569 (September 2, 1993).

The FHFB recognizes that CRA requirements do not apply to FCUs. FHFB has proposed that credit union FHLB members either comply with CRA criteria or adopt parallel CRA requirements adapted to institutional differences. We believe these requirements are unnecessary and would be unduly burdensome for credit unions.

Membership in an FCU is limited by its charter to its common bond which may be occupational, associational or community. Services at an FCU are available only to its members, not to the general public. Because of field of membership requirements, there is no standard measure to demonstrate how much FCUs contribute to their

## Appendix B (cont.)

Ms. Penny Bates

July 15, 1994

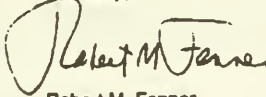
Page 2

communities. As an example, there are many credit unions which serve only employees of the sponsor organization. Many of those employee/credit union members do not live near the credit union and, as in many instances, live in other states or countries and yet maintain accounts at their employer's credit union. Defense department employee credit unions, with a world-wide membership of many thousands, are good examples. Defining a "community" for a credit union with a large, diverse and dispersed field of membership would be a difficult task. Only a small number of credit unions hold true community based charters. Those credit unions receive shares and make loans only within their community boundaries.

Any CRA-like specific standard issued by FHFB for FCUs would be impossible to follow due to chartering and field of membership requirements as well as statutory and regulatory limits on investments and business lending. See 12 C.F.R. §701.21(h). CRA-like requirements which expand services beyond an FCU's field of membership and into a geographically defined community would be in contravention of the FCU Act. Instead, we believe the purposes behind community support requirements are already being met by the daily operations of FCUs within their respective fields of membership regardless of the credit union or members' location.

We are available to discuss these issues with you at your convenience.

Sincerely,



Robert M. Fenner  
General Counsel

GC/MM:bhs  
SSIC 3501  
94-0341





## National Credit Union Administration

**REPORT ON  
SPECIAL EXAMINATIONS FOR  
DISCRIMINATORY PRACTICES BY CREDIT UNIONS**

*April 11, 1994*

This report summarizes the findings of Regional Office special examinations into field of membership expansions, community chartered credit union practices, and Fair Lending by selected credit unions in the respective regions. The special examinations were to look into field of membership expansions and community charter activity for possible discriminatory practices and to offer further insight into the significant racial and ethnic differences in loan denial rates at credit unions as evidenced by recent Home Mortgage Disclosure Act data.

**FIELD OF MEMBERSHIP EXPANSIONS**

In general, the Regional Offices worked through their Supervisory Examiners (SEs) to review all recent expansions by credit unions under their supervision. The SEs were also directed to look at new charters for credit unions in their areas. The SEs were asked to look at each credit union from the following perspective:

1. Has the credit union intentionally excluded from its field of membership geographic or business areas for low income or minority/ethnic groups in its field of membership requests?
2. Is there any indication that low income, minority, or ethnic considerations are part of the credit union's expansion policies or practices?
3. Are there indications of any other problems related to discrimination in lending or in other areas?

None of the regions found any evidence whatsoever of any overt discrimination by the credit unions reviewed. The bylaws were examined to ensure that minorities have the potential to be included in each credit union. Regions reported that many recent charters were by minority groups. The observation was made, however, that some credit unions do seek groups that are eligible for payroll deduction when they decide to expand. The observation was also made that discrimination in select group expansion would be very difficult to detect. A number of conversions to community charter were reviewed and, again, areas containing minorities were found to be included in the charter.

### COMMUNITY CHARTER ACTIVITIES

With respect to community charters, several areas were reviewed. First, the regional offices, mostly through their SEs, looked at existing community chartered credit unions in the region for any discriminatory practices against low-income, minority, or ethnic groups within the service area; second, community charter conversions and expansions were examined to see if there was a pattern of discrimination in excluding communities or areas from the expansion or conversion request; and third, one community chartered credit union from each region was selected for a close review of its dedication to its community from the perspective of both the Home Mortgage Disclosure Act and the Community Reinvestment Act.

No indication of discrimination was found in the general review of the practices of community chartered credit unions. Community boundaries were generally found to be comprised of specific political jurisdictions, such as villages, towns, townships, or counties which are all-inclusive of the population, regardless of income or minority/ethnic status, within the geographic area. No patterns of discrimination were found in lending practices nor in charter conversions or expansions in any of the regions. No examples were found whereby minority areas were excluded from the field of membership of the community charter. Bylaws of community charters did not preclude the inclusion of any area in the membership of the credit union.

The six community chartered credit unions (one from each region) selected for close review of their overall activities demonstrated admirable records. Their HMDA lending records were outstanding. In fact, two of the credit unions approved all applications from minority group applicants, and two others only denied 1 minority applicant. There was also no evidence of redlining. The credit unions were very active in making small loans in the community to their members for business purposes. They were making loans that other institutions would not make. They were involved in efforts to educate their members and to participate in the affairs of the local community. One opened a branch in a neighborhood that had been abandoned by other institutions as being not profitable. This branch is very successful today. The credit unions try very hard to serve their marginal members. For example, one credit union markets real estate loans to its lower income members who have been turned down elsewhere and they make variable rate loans which are not necessarily written to standards for sale on the secondary market.

### FAIR LENDING

In an attempt to obtain further insight into the disparate rate of denial to minority credit union members for mortgage related loans, each region conducted special in-depth Fair Lending reviews of the particular credit unions identified by the HMDA data as having disparate rates. A total of 44 credit unions in 20 states were reviewed. Within these credit unions, a total of 1,663 denied loans and 809 approved loans were reviewed for consistent application of credit-worthiness standards.

## Appendix C (cont.)

A study of the completed reviews reveals the following: that there was no evidence of any overt discrimination on the part of the credit unions reviewed; that some mitigating factors were found which contributed to the disparate rate such as incorrect codes on HMDA reports, secondary market standards, declining real estate values in certain parts of the country, and careless record-keeping. While the results of these reviews do not fully explain the disparate rate, NCUA is more confident of the performance of credit unions' fair lending record. In addition, the reviews have assisted in pointing out areas where NCUA and credit unions can seek improvement.

**CONDUCT OF THE REVIEWS**

In reviewing their credit unions, the regional examiners looked closely at the following areas: lending policies; lending procedures and approval practices; the results of staff interviews; and all supporting documentation in the applicants' files. The objective was to determine if all mortgage-related loan applicants at federal credit unions were provided fair and equal treatment.

The examiners reported that all mortgage loans reviewed appeared to be approved or denied based on nondiscriminatory credit criteria. The findings were very similar in each of the reports. Denials and approvals were supported by such documentation as credit reports, debt-to-income ratios, appraisals, loan-to-value ratios, monetary assistance provided to each applicant, follow-up for information requests, etc.

The reasons for denial in most cases were very similar. The most common reasons for denial were: adverse credit reports; high debt to income ratio; and insufficient equity in the collateral. A complete breakdown of the denials is as follows:

<u>Reason</u>	<u># Loans Denied</u>	<u>Reason</u>	<u>#Loans Denied</u>
Credit Report	515	Debt Ratio	368
Equity in Property	205	Withdrawn by Member	163
Incomplete/No Response	67	Collateral/Appraisal Value (LTV)	51
Income/Stability of Employment	36	Mortgage Product Not Offered	20
Cash for Closing or Down Payment	14	Other Reasons*	224

**TOTAL: 1,663**

\*Other Reasons included; insufficient income; unable to verify self-employment or income; unable to verify other income (rental); VA would not guarantee loan; denial requested by applicants; other lien holders would not subordinate; would not pay for

## Appendix C (cont.)

appraisal; unfavorable share or loan history at credit union; failure to provide additional information; counter-offers not accepted; delinquent taxes; etc.

### MITIGATING FACTORS

A major problem disclosed in the reviews was that some credit unions did not code information correctly on their HMDA report. Making errors on HMDA submissions has been an historic problem for credit unions and one that has required costly editing by the Federal Reserve HMDA processing unit. Errors noted in the reviews were mostly racial and gender code errors. However, there was no indication of any intent to falsify any applicant's information.

Many credit unions had mortgage lending policies that required adherence to secondary market standards. A majority of the denied loan applicants for purchases and refinances failed to meet the requirements of the "secondary market standards". These standards are quite specific regarding debt ratio maximums, credit report evaluations, employment stability, equity limits and condition, income consideration etc. Although many credit unions had no plans to sell part or all of their mortgage loans, they felt it prudent to adhere to secondary market standards in case they had to sell mortgage loans in the future.

Two credit unions had addressed the problems caused by the secondary market standards. One of them had started a special program for mortgage loans that did not meet secondary market standards. *As a result, this credit union later was able to approve 6 of the 20 applications that it had previously denied.* Another credit union holds all mortgage-related loans in its portfolio and does not adhere to the secondary market standards. All mortgage loans at these credit unions are performing adequately.

NCUA has traditionally encouraged credit unions to write mortgage loans to secondary market standards. This itself could have been a contributing factor in credit union practices. One result could be the exclusion of many low and moderate income individuals from qualifying for a mortgage loan. Presently, however, we are sending a letter to all credit unions encouraging them to examine the benefits of making a certain percentage of their loans on a non-conforming basis.

Finally, it was noted that in the northeast and the west a number of refinance and equity loan requests were denied due to high loan-to-value ratios resulting from declines in real estate values. Further, in some credit unions errors of omission and careless record-keeping distorted the denial rates significantly.

### SUMMARY

While the results of the reviews do not disclose any overt discrimination on the part of individual credit unions, NCUA will continue to improve our analysis of this area to ensure that there is no discrimination in credit unions. Obviously, the HMDA data alerts

## Appendix C (cont.)

us to the fact that credit unions can do better in serving all segments of their membership. The data also suggests that improvements are needed in NCUA's examination procedures and training in this area.

Some steps have already been taken to try and improve this area of lending. They include: selected Fair Lending reviews by the Compliance Officer from NCUA's Office of Examination and Insurance; adoption of interim Fair Lending Procedures which included a Fair Lending Checklist; inclusion of credit unions in the Federal Financial Institute Examination Council's (FFIEC) Fair Lending study. This study will produce uniform Fair Lending examination procedures that will be adopted by all financial regulators, including NCUA; initiation of a "Consumer Compliance" seminar with emphasis on Fair Lending and HMDA; distribution of the publication "Compliance, A Self-Assessment Guide" which gives credit unions guidelines on what a good Fair Lending program should encompass; and appointment by each region of a staff person for the compliance area.

In addition, plans are underway to:

- \* Conduct a conference with the regional compliance persons to map out a strategy for uniform compliance tracking and strategies;
- \* Provide expanded training in Fair Lending, HMDA, and other compliance areas to the regional compliance persons; and
- \* Use the further training of these individuals to expand the review of Fair Lending in credit unions where examiners deem it is warranted.

### RECOMMENDATIONS

1. That NCUA encourage credit unions to make a proportion of their real estate loans non-conforming to the secondary market standards. Establish management policies for such loans.
2. That NCUA conduct additional training to improve its ability to detect discriminatory practices by credit unions.
3. That NCUA examiners ensure that credit unions use proper codes on HMDA reports.
4. That NCUA examiners look closely at credit unions for efforts to reach out to minorities in lending programs and to educate members on financial matters in general.



**Selected Case Studies  
of  
Credit Union Involvement**

- NAFCU CRA Response (Xerox FCU - 9/8/94)
  - Xerox Community Involvement Program

Working with our sponsor, Xerox Corporation, employees of Xerox FCU volunteer their time in a variety of outreach programs. In Los Angeles, Dallas, and Rochester, N.Y., our employees have painted community centers, repaired old gyms, and fixed up run down parks. We believe that working side by side with our member-owners is the best way to re-inforce our commitment to the communities in which we work and live.

- South Central LA People's CU

It was working with the XCIP program that led to our involvement with the South Central LA People's FCU. It was through the efforts of our employees that we were able to assist South Central LA People's FCU in obtaining lowcost (and free) data processing systems with which they now serve residents of their community. We are the sponsor for this CU., providing them with technical expertise and support in areas such as accounting and strategic planning. One of our staff is a member of their Supervisory Committee. Volunteers from our staff work at the CU to allow their employees to attend training meetings.

- Episcopal Community FCU

After our success with South Central LA People's FCU, the NCUA asked us to assist another CDCU - the newly chartered Episcopal Community FCU, also located in South Central LA. We met with their volunteers, assisted them with a variety of startup questions and lined up another CU sponsor - LA Water & Power CU. Credit unions are a tight community and we help our own - without the need for additional regulations.

### **Credit Union Housing Alliance**

Xerox Federal Credit Union is presently playing a leading role in the formation of a formal alliance of California Credit Unions - "The Credit Union Housing Alliance". It is the intent of this Alliance to develop a low cost "total home buying support network" to credit union members with a special emphasis on the first time home buyers among our low and moderate income and younger members.

A second feature of the Alliance will be providing cooperative marketing, educational, training and support, through its more experienced members, to less experienced Credit Unions (such as South central Peoples FCU and Episcopal community FCU), allowing them the opportunity to bring such services to their members.

Several dozen Southern California Credit Unions have already expressed their support of the Alliance concept and it is expected that the Alliance will be formally organized and operating by the first quarter of 1995.

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15th Annual

# CHILDREN'S FAIR '94



WE CAN MAKE A DIFFERENCE

### TO OUR COMMUNITY:

The 15th Annual Children's Fair was a great day for all of us. Over 10,000 people spent all over Imperial Park to enjoy a day of excitement after the rain. (The day before we all considered postponement; we should never have doubted, the weather was perfect!)

There were more and better booths than ever, the Imperial Valley Press Express children's crew was a great hit, as well as the new Kid Car ride. Finally the youth table is attracting everyone, with our beloved Tom and Jerry, Doodlehopper horses and camel rides, as well as a greatly expanded and improved Petting Zoo. The party didn't rain from for a playground at IVC for physically challenged kids was a favorite.

We have grown far too much to try to thank you all personally - there are over 800 of you who are now chaperos and costume characters. Everybody has grown together to create a beautiful experience. The Fair is not a load (rider for the Child Abuse Prevention Council) - we just try to cover expenses. We want to provide an impressive day of family fun in the Park.

*"Our children, our life. Our purpose is to alleviate and prevent the kind of suffering that concerns us above all others - the suffering in the lives of children." John F. Kennedy*

The child focus of the CAP Council is public awareness and preventing children. Being a parent is one of the toughest jobs in the world and one we think needs no special training. It does. We live in a difficult world and to accept the challenge of making it a better world, our children must have a great start. Costly take the Preventing Children and from learn how to lead a child yourself. Call our office for more information.

El Centro Kansas is the backbone of the Fair, providing the transportation and the equipment to build booths, put them up and take them down, move stages and costumes, and provide one of the great events of the Fair, the Frisbee Derby. This year California Fish and Game permit us, helping kids to learn to love the outdoors.

Since our first year, we owe our power to the IED and the terrific guys from the Eltonchick's Union, our wares to Youcaine Wares, our music to Old Sings. Thanks for photos in Herald Express, VII for balloons and Tom & Jerry, Duggan Construction for building our very own new stage. The Church of Laster Day Subject has given us their parking lot and the church as communal center for the chaperos and costume characters. El Centro Sanitation and Page's Ice are generous to us, as well as Union Engineering.

The County of Imperial and the City of El Centro give us their support with tables and kind security from the Sheriff's Department Explorer Scouts and El Centro's Press, BC Parks and Recreation present us their support with tables and help in every way. Fire Departments all over the County are key staff of our show. Gold Cross Ambulance provides First Aid.

The Imperial Valley Live Enforcement and California Correctional Officers Association support their County Board for the benefit of the CAP Council this year and provided us with our money for the Fair. Generous donations from Imperial Valley Press and Coon Oaks as well as some individuals who won't let us see their names (but you know who you are) helped us come out in the black.

To all of you, who gave of yourselves to obtain our beautiful gratitude.

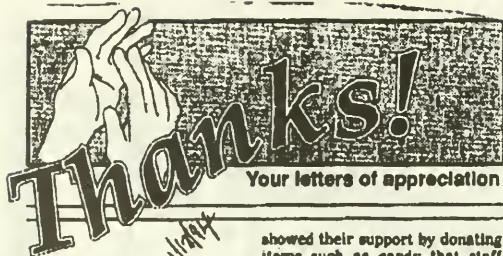
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### Centinela prison

My staff and I would like to take this opportunity to thank many of the businesses throughout Imperial Valley for their generous contributions and continued support. Throughout this calendar year, many business

showed their support by donating items such as candy that staff members received and distributed as Halloween goody bags for the children and senior citizens in the area.

Many thanks to the following businesses for making Centinela's First Annual Christmas Ball a huge success: The Gun Shop, Alford Distributing, Owl Cafe, Rio Bend RV Park; Coppels; Amelia's Hair Designers; Little Caesar's Pizza; Wind & Sand Restaurant; La Mexicana Restaurant; Travel Centre; Storm's Crossing; Starlite Cruises; Costco; Wal-Mart; Broken Spoke; Book Nook; Yellow Mart; Del Norte Chevrolet; B.J.'s Boutique; Rick's Fix It; Subway Sandwich; El Mariachi Restaurant; Seeley Games Market; Lewis Homes; Ironwood Acre Estates; Arrowhead Construction and Government Agencies Federal Credit Union.

The donations provided by these agencies have assisted in the morale and comradery of all staff at Centinela. Staff are more aware of the services offered in the Imperial Valley and this encourages them to purchase items locally. We hope for your continued support in the New Year 1994. Centinela staff wish you all a happy and prosperous

New Year.

ROSIE B. GARCIA,  
Centinela State Prison



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### 'Principal for a Day'

On April 30, 10 members of the community served as a "Principal for the Day" in the El Centro School District. This event was sponsored through the Educational Committee of the El Centro Chamber of Commerce.

The El Centro School District is very appreciative of the chamber's efforts in providing this marvelous opportunity for both our district's principals and the community members involved in the program. The chamber provided an orientation breakfast for school district staff and community members. Additionally, a wonderful dinner was hosted by the chamber at the completion of the day's event in which the community members were recognized for their participation in the program.

Community members who served as principals for the day were involved in such activities as monitoring student arrival, making classroom visitations, participating in students discipline conferences, making home visitations, supervising at recesses and lunch, and many other activities that are part of a principal's daily routine. Both our district staff and community participants felt this experience was very beneficial, and was a great way for someone in the private sector to find out exactly what goes on

in an elementary school. It was a fun event that was enjoyed by our principals and their community counterparts as they spent the day together.

The El Centro School District wishes to thank Kevin Kelley, Paulette Vaughn, and Joanne Watson of the El Centro Chamber of Commerce, the chamber's Educational Committee chaired by Ron Hull, the chamber's membership, and particularly, the following community members who so willingly gave of their valuable time to serve as Principal for the Day: Pat Miller Gordon, DeAnza School; Mary Edney, Hedrick School; Leticia Corfman, Desert Garden School; Ken Gonzalez, Harding School; Mary Edney, Hedrick School; Larry Escalera, King School; Richard Velasquez, Lincoln School; Gary Glud, McKinley School; Mike Robinson, Washington School; Ray Dawson, Kennedy Middle School; and Angel Rosamond, Wilson Junior High School.

EVERETT "BUTCH" TAYLOR,  
Associate Superintendent,  
El Centro School District

## A.6 - ATTACHMENT

Pentagon Federal supports two low income credit unions in the general geographic area of its main office. Both serve low income populations. The first credit union, located in Alexandria, Virginia, is church-based and a designated low income credit union. Support has been in the form of training of volunteers and donation of furniture and equipment.

Sessions were held for the credit union's board and supervisory committee members. Presented were general credit union board responsibilities and operating procedures. Our Manager, Loan Officer Review and Training and Senior Vice President, Credit and Collection provide one-on-one review of loan applications and training for loan officers. Pentagon Federal Director, Delinquency Control, has assisted with the review and collection of past due loans. He also performed the delinquency review portion of the Supervisory Committee's annual audit.

Our Director, Financial Accounting, has provided an on-going review of and training on income statement and balance sheet items. Members of our Financial Accounting staff performed the credit union's annual Supervisory Committee audit and made recommendations thereon.

The President of Pentagon Federal has provided on-going advice to the president of the Alexandria-based credit union on a full range of credit union management issues. This credit union's Vice President, Planning and Corporate Relations provided advice on field of membership issues and recommendations for investment options for liquid funds.

Pentagon Federal also donated and delivered, at no cost, a copier machine, with stand, typewriter, desk/table, chairs, adding machines, and a safe. Our insurance CUSO donated a computer, with stand. We have also provided mailing services for the credit union. Pentagon Federal has posted and paid for mailing on quarterly statements.

The second credit union is located in Maryland's Delmarva Peninsular. It serves a low income, rural population. We have just taken on this credit union in our mentor program. As such, we have not provided actual services. However, a senior official met with their President and Chairman of the Board to assess their needs. It is anticipated we will provide computer training, Truth-in-Savings training, marketing support, product development support and furniture and equipment, as well as supplies to rehabilitate their facility.

# American

## FEDERAL CREDIT UNION

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American 1 Federal Credit Union has two formal partnerships within our community.

One partnership is with an Elementary School in a low income area. (Within two blocks of our Main Office.) These children are considered "at risk" for becoming illiterate, or for dropping out of school. We provide funding for tutoring programs and incentive programs for the children and their parents. This is a preventative program to stop the problem of illiteracy before it starts. Our staff also volunteers on occasion to be special guest readers in the classrooms to encourage the children to read and learn to love to read.

We also have a partnership, and are the largest contributor to the Jackson County Literacy Council. We assist with volunteers and funding to provide adult one to one tutoring, tutoring for "at risk" children, and workplace tutoring. We are in the process of planning and sponsoring a major fund raising event for literacy in Jackson. Our Marketing Director serves on the Board of Directors of the Jackson County Literacy Council.

1993 - Major contributor to the Great American Read Aloud, a community event to draw attention to the importance of reading, and learning to read at any age.

Annual supporter of 4-H Clubs in Jackson. We normally contribute \$1,000 per year to this Jackson area youth organization.

Our staff participates in the March of Dimes annual walk in Jackson.

We are also a regular contributor to Special Olympics

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National Federation of Community Development Credit Unions

Testimony to the  
Subcommittee on Consumer Credit and Insurance  
U.S. House of Representatives  
by  
Carol Aranja  
Chairperson  
National Federation of Community Development Credit Unions

September 22, 1994





Chairman Kennedy, thank you for the invitation to address the Subcommittee today.

My name is Carol Arango, and I am the manager of the D. Edward Wells Federal Credit Union, a 37-year old institution serving a predominantly African-American community in Springfield, Massachusetts. I am speaking today as Chairperson of the National Federation of Community Development Credit Unions, a nonprofit association of credit unions which specialize in serving low-income communities across the United States. The National Federation has more than 120 member institutions in more than 30 states. Our credit unions are urban and rural, serving communities from Harlem, to Appalachia, to the Mississippi Delta, to the Navajo Reservation, to South-Central Los Angeles.

I would like to present today the National Federation's response to the questions which the Subcommittee's Chairman has posed to us.

1. First of all, it is the National Federation's position that Community Reinvestment Act (CRA) requirements should NOT be extended to credit unions. Credit unions ARE different from banks, and that difference should be maintained. Credit union uniqueness would be eroded by the application of bank regulations such as CRA to the credit union movement.

On the regulatory front, we believe that under the leadership of Chairman Norman D'Amours, the National Credit Union Administration (NCUA) has made considerable progress in addressing issues related to mortgage lending discrimination and related matters. It is important to note that not all credit unions originate mortgages. This in itself could account for some of the statistical differences in loan approval rates between credit unions and banks. We hope and expect that mortgage lending by credit unions will increase. We are confident that under the leadership of Chairman D'Amours, NCUA will develop proper guidelines to assure that credit union lending is carried out in a strictly non-discriminatory manner.

We are pleased, too, that NCUA has recently issued new Field-of-Membership (FOM) guidelines, which will make it possible for credit unions to expand into low-income areas more readily. NCUA reached out to the National

Federation in drafting its regulations. We are pleased that the agency adopted our suggestions to build safeguards into the credit union expansion process, with the express purpose of assuring that lending discrimination--intentional or unintentional--does not result. The National Federation intends to monitor developments in this area, and we have every expectation that NCUA, under Chairman D'Amours' leadership, will also aggressively and effectively monitor expansion situations, to assure that no problems result.

(2) With regard to the matter of the burden of CRA regulations, we do not believe that the Massachusetts CRA regulation is comparable to federal CRA law. Therefore, we do not believe it is proper to draw any conclusions regarding the extension of federal CRA standards.

(3) We do NOT think it is appropriate to develop different standards for credit unions based on their size or type. All federal credit unions have the same basic legal structure, so we believe it is appropriate to treat all types of credit unions the same. Furthermore, as the Subcommittee is well aware, discrimination may take place in institutions of all asset levels; accordingly, we do not think it is appropriate to make a distinction based on size.

(4) Finally, with regard to the matter of placing funds in "risky, foreign-controlled investments," we do not hold ourselves out as experts as to the level of risk that may or may not be involved. We know that NCUA is looking into the matter of corporate credit unions, and we would like to see them pursue their study to its conclusion, and engage in a full dialogue with the credit union industry on any proposed regulatory changes, before any legislative action is pursued.

Needless to say, we are intensely interested in increasing investment in low-income communities. We do believe that there is much that the federal government can do in this area.

First of all, we would like the federal government to do whatever it can to expand the scope of existing secondary markets. Simply put, existing secondary markets have not done nearly enough to facilitate lending to low-income people. They could do a great deal more, especially by working through institutions like community development credit unions. I am sure that as the federal government and

the major secondary markets do more, you will find more credit unions putting more of their assets to work in loans to low-income people.

Second, the federal government can help strengthen those institutions which have a special mission of serving the poor, like community development credit unions. Tomorrow, September 23, 1994, President Clinton will sign into law the Community Development Financial Institutions Act. Congress should assure that over the next four years, the new Community Development Financial Institutions Fund receives full appropriations.

Mr. Chairman, thank you for the opportunity to address the Subcommittee.

TESTIMONY OF C. KENDRIC FERGESON  
on behalf of  
THE AMERICAN BANKERS ASSOCIATION  
presented to the  
SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE  
of the  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
UNITED STATES HOUSE OF REPRESENTATIVES

September 22, 1994

Statement of C. Kendrick Ferguson  
on Behalf of the American Bankers Association  
Before the  
Subcommittee on Consumer Credit and Insurance  
Committee on Banking, Finance and Urban Affairs  
United States House of Representatives

September 22, 1994

Mr. Chairman, I am Ken Ferguson, Chairman of the Board of the National Bank of Commerce in Altus, Oklahoma. I am Chairman of the American Bankers Association's Community Bankers Council, and former chairman of the Oklahoma Bankers Association. The ABA is the only national trade and professional association serving the entire banking community, from small banks to large bank holding companies. ABA members represent about 90 percent of the industry's total assets. Approximately 94 percent of our members are community banks with assets of less than \$500 million.

We commend you, Mr. Chairman, for holding these hearings to explore the issue of extending the responsibilities codified in the Community Reinvestment Act (CRA) to credit unions. We believe that all financial service providers have an obligation to help promote the economic well-being of the local communities from which they draw savings and investment funds. We believe that credit unions -- which take federally insured local deposits -- should be included under CRA. Credit unions offer the same services my bank offers, and they compete for the same customers. There is no reason why they should not be held to the same high standards of community responsibility as my bank.

Credit unions are clearly alarmed by proposals to include them under the CRA mantle, in part because they are aware of the huge volume of paperwork that accompanies the current administration of CRA. Mr. Chairman, there is little question that CRA, as currently structured, is more burdensome and less effective than it should be.

As you know, the regulatory agencies are currently working to redraft the regulations implementing CRA. As the agencies rethink how the administration of CRA can be made



more efficient for those currently covered under the statute, it is also appropriate for Congress to rethink *who should be covered* under that statute.

I would like to make three points to the Subcommittee in my statement here this morning.

- (1) First, credit unions should be included under CRA. These institutions look and act like banks, and they compete directly with banks in local markets across the country. Not holding them to the same standards of community reinvestment responsibility as banks simply cannot be justified.
- (2) Second, given the dramatic changes in financial markets since CRA was enacted, we believe it is appropriate for Congress to review the role of all financial service providers in meeting community credit needs. As more funds flow to banks' competitors, certainly their role in reinvesting those funds back into local communities deserves consideration. This Subcommittee started that type of review earlier this year in its action with respect to insurance availability.
- (3) Third, we must reduce the cost and complexity of CRA compliance, and make the system more flexible and efficient for all institutions.

#### Credit Unions Should Be Included Under CRA

The Federal Credit Union Act says that credit unions are to "...make more available to people of small means credit for provident purposes." The credit union industry will argue that this is what they do -- and that there is, therefore, no need to include them under CRA.

But let's look at who credit unions actually do serve. According to a recent demographic survey conducted by the Credit Union National Association (CUNA), credit union members have an average household income of \$39,730 -- 27 percent higher than non-members. Credit union members also have more years of education, they are more likely to have full-time employment, and they are more likely to own their own home than non-members. Studies comparing banks and credit unions have shown that the average

credit union member has a higher income than the average bank customer. So despite their "blue-collar" image, the fact is that credit unions serve a relatively affluent and well-educated segment of the American population.

Certainly, part of the reason for this is that credit unions are able to define and extend their constituency as they please, allowing them to "cherry pick" those areas and individuals they want to serve. A good example of this is the recently proposed mega-merger of three large west coast credit unions (Patelco in California, First Technology in Oregon, and Seattle Telco in Washington). This merger will create, in the words of the Patelco CEO, *a credit union "holding company" with \$1.3 billion in assets, more than 180,000 members, and nearly 40 branches in three states*. This credit union will have selected the members it wants to serve, yet will have no obligation to serve any of the low and moderate income neighborhoods in the areas in which their 40 branches are located.

Mr. Chairman, if a bank were to undertake a merger like this, the law requires its CRA performance to be scrutinized. If the bank did not have a good record of serving its entire community, such a merger would be impossible. But similar scrutiny does not apply to credit unions. Why should credit unions be permitted to merge without any consideration of how effectively they are serving their current members, let alone the low and moderate income communities in which they are located?

In fact, the ability to string together a number of groups, each with its own common bond is, in effect, a license to redline. Many credit unions have linked together literally dozens of groups -- groups which often have above average income. What would the Subcommittee members think if they were told that another type of federally insured depository institution was expanding geographically by cherry-picking such groups and not serving low and moderate income areas adjacent to and between the cherry-picked markets? I would bet the Subcommittee would want to know why the regulator was allowing that to happen. And yet this is exactly what many credit unions are doing -- just imagine what a map of these credit unions' markets would look like.

In some ways it is even more disturbing that *community-based* credit unions -- credit unions whose field of membership is based on a town, a county or even an entire state -- are under no obligation to serve low and moderate income neighborhoods in their service areas. These credit unions are *virtually identical* to a community bank. And in some cases -- like

the Illinois credit union with a *nine-county* field of membership and *\$1.2 billion in assets* you mentioned in your invitation letter -- they look and act like large banks. But they have no CRA responsibility.

It will come as no surprise that this situation is more than a little irritating to bankers on the front lines trying to make credit available to their entire community. But there is something more important than just our irritation, and that is that our communities are being short-changed by not having all financial institutions involved in meeting the local credit needs. Without shared and equal responsibilities, our communities are less well served than they should be.

### Credit Unions Are Fast-Growing, Full-Service Financial Institutions

Credit unions have clearly become full-service financial institutions -- they offer virtually all the products any community bank can offer, and more. For example, credit unions offer savings and transaction accounts, CDs, auto loans, personal loans, mortgage loans, business loans, credit and debit cards, ATMs, telephone banking services, financial planning, IRAs and Keoghs, investment products including mutual funds, and insurance products provided by CUNA Mutual Insurance Co., a CUNA affiliate. In fact, through CUNA and its affiliates, even small credit unions have the ability to offer a full line of products and services. And, in the latest affront to the common bond, some credit unions are developing shared branch networks.

Credit unions also have federal deposit insurance and a tax exemption to boot. In fact, given their tax exemption, it would seem that credit unions should be first in line for application of CRA responsibilities. But despite the fact that credit unions are virtually identical to banks, they continue to say that proposals to bring credit unions under the same type of regulatory standards as banks and thrifts -- including CRA, accounting treatment of deposit insurance contributions, and federal taxation -- are "misguided" and lack an "understanding" of the purpose of credit unions. Let me assure you, Mr. Chairman, that bankers understand all too well that credit unions offer the same services that banks offer and have lower regulatory costs. What we don't understand is why they are unwilling to assume the same high commitment to their communities.

Simple economics tells us that firms with low regulatory costs will be able to grow faster than firms with high regulatory costs. Further facilitated by the dissolution of any meaningful common bond, this is exactly what has occurred. During the 17 years since the passage of CRA, credit union assets grew at an average annual rate of 11.6 percent, while bank assets grew slightly less than 7 percent per year. Over the past ten years, the disparity in growth rates between banks and credit unions grew even wider -- between 1983 and 1993, the average annual growth rate of credit union assets was 11.3 percent, more than double the 4.7 percent average annual growth of bank assets.

This rapid growth means three things. First, the competitive advantages of credit unions and the erosion of the common bond do indeed have a very real impact on their ability to compete with banks. Second, credit unions clearly have the means with which to help meet the credit needs of the communities in which they are located -- including low and moderate income neighborhoods. And third, differences in regulatory costs are driving communities' funds from banks to credit unions and others without equal regulatory requirements. This means that, slowly but surely, less funds are being reinvested in local communities.

The credit union industry argues that it is so small in comparison with the banking industry that the differences in regulatory costs are unimportant and that there is little to be gained by including them under CRA. That is simply not true. In local markets, *individual banks* compete with *individual credit unions* -- the relative size of the two industries is certainly not the relevant factor in this head-to-head competition. And in many local markets, it is the credit union that is the biggest competitor. For example, my branch in Enid, Oklahoma -- with about \$21 million in assets -- competes with the Tinker Credit Union which has over \$780 million in assets.

Examples like this are common. Take the Illinois credit union you mentioned in your letter of invitation -- *at \$1.2 billion in assets, it is larger than 98 percent of the banks in the state*. You would have a hard time convincing the 21 banks with assets less than \$50 million serving the Peoria area that Citizens Equity Federal Credit Union's exemption from CRA does not have any competitive impact. The lower regulatory costs of that credit union enable it to attract funds away from these local banks -- making these funds no longer available for CRA-type lending. The bottom line is that Peoria -- and communities across the country -- would clearly benefit from the application of CRA to credit unions.

### Applying CRA to Credit Unions is Feasible

Application of CRA to many credit unions would, in fact, be quite simple using the same approach as is applied to banks. The bank regulators have recognized in their CRA proposal that one-size does not fit all in applying CRA to banks of different types and sizes. The same would be true if CRA were applied to credit unions. As you found in your state, Mr. Chairman, there are ways to apply CRA to credit unions.

For community based credit unions, application of CRA is simple -- it should be exactly the same standard as applied to banks serving similar markets. The potential customer base is identical; the services provided are identical; and the regulations applied should be identical too.

For many non-geographically based credit unions, the approach could be one that emphasizes services and investments, along the lines of the proposed CRA rules applicable to wholesale banks. For example, they could make investments into community-development credit unions or other non-profit entities serving the low and moderate income communities. They could invest in securities issued under low and moderate income housing programs being developed by Fannie Mae, Freddie Mac and others. And there are certainly hundreds of other projects targeted to distressed areas that would benefit from active participation or investments by credit unions. For those larger credit unions that string together many common bonds (a practice we believe goes beyond the intent of Congress), certainly there could be a requirement to reach out and include some low income neighborhoods. For an industry that prides itself on meeting the special needs of particular groups, creativity applied to CRA investments should come naturally and, in the process, provide a real contribution to our communities.

### Farm Credit System Lenders Should Be Included Under CRA

It would also seem quite simple and straight forward to apply CRA-type reinvestment standards to Farm Credit System lenders. The Farm Credit System (FCS) is a government-assisted, tax-favored, Government Sponsored Enterprise (GSE) that has retail outlets that compete directly with banks for certain types of business. Over the years, FSC has sought to both increase the volume of farm loans and to offer a wider array of financial services to

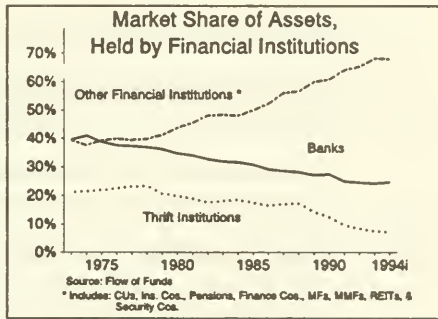


a broader clientele than just farmers and ranchers. And there is evidence that the Farm Credit System is targeting above average income, high net worth customers and ignoring the marginal customers it was intended to serve. Shouldn't they have responsibilities to their low and moderate income communities?

### CRA Should Change with Changing Financial Markets

As this Subcommittee is considering which institutions should share in the responsibility for reinvesting in the communities from which they draw their funds, we believe it is important to look at the significant changes financial markets have undergone during the 17 years since CRA was enacted. Today, banks hold a much smaller portion of the total assets held by financial institutions. In 1977, banks held about 35 percent of financial assets; today, banks hold only about 23 percent -- a reduction of more than one-third.

It simply makes no sense to place the entire burden of community reinvestment on an industry that holds less than one-quarter of the financial assets in this country. Without a broader approach, the natural result will be to drive more and more funds from banks to those with no responsibility to reinvest in their communities. That is why these hearings are so important. *Without a broader approach, not only banks, but our communities will suffer.*



We have already discussed the necessity for including other direct community lenders like credit unions and the Farm Credit System. But a quick look at the numbers shows that investment companies, securities firms, insurance companies, and pension funds currently control billions of savings and investment dollars drawn out of communities across the

country. Yet they do not have any obligation to channel these funds back into these communities.

I know that these nonbank financial service providers will complain that they are not direct retail lenders and do not have a specified community and, therefore, cannot feasibly participate in community reinvestment. Yet these same firms, which are growing very rapidly, offer saving and investment products that compete directly with banks -- and they are taking bigger and bigger bites out of community savings without any thought of reinvestment.

Moreover, banks certainly do not have a monopoly on community lending. Just as financial markets now offer greater options for saving and investment dollars, financial innovations have also made nonbanks very active in traditional bank lending markets. Consumers and businesses looking for loans today often turn to nonbank sources of credit. For example:

- ▶ six of the ten fastest growing credit card lenders are nonbanks
- ▶ banks hold less than half of total consumer installment credit outstanding
- ▶ the two largest residential mortgage loan originators -- with almost \$1 billion in originations in 1993 -- are not banks
- ▶ two large securities firms -- Merrill Lynch and CS First Boston -- are gearing up to enter the large corporate loan market
- ▶ finance companies have become increasingly important business lenders -- the ratio of finance company business loans to bank commercial and industrial (C&I) loans has jumped from 25 percent in 1980 to 67 percent today
- ▶ commercial paper has given many business borrowers direct access to investors funds -- the ratio of commercial paper to bank C&I loans has grown from 13 percent in 1980 to 33 percent today

My point, Mr. Chairman, is that these nonbank financial providers compete head to head with banks for both funds and loans. They are successfully attracting significant

resources out of communities across the country -- but they are under no obligation to reinvest those funds back into the communities from which they are drawn.

It is important to note, as mentioned earlier, that there are many special purpose banks -- such as credit card banks and wholesale banks -- that must currently comply with CRA. These banks have very active programs even though they do not have delineated communities and do not engage in retail lending. These institutions have found innovative ways to make a difference in their communities, and so can nonbank financial institutions. For example, some large wholesale banks invest in private non-profit mortgage companies that make loans to low and moderate income borrowers. This type of targeted investment could be an effective way for financial service firms without retail community-based offices to participate in community reinvestment.

### Conclusion

Few regulatory issues raise as much emotion as CRA. The hearings today will certainly raise the level of the debate along with the blood pressure of credit unions and other nonbank competitors. These institutions will no doubt be resistant to the idea of being covered under CRA. But having siphoned billions of dollars out of communities, shouldn't they have some responsibility to return something back to these savers and investors?

Massachusetts has already decided to include credit unions under CRA, and has demonstrated that applying a similar set of regulations to banks and credit unions is, in fact, quite feasible.

We believe it's time to take a fresh look at the CRA treatment of credit unions at the national level. Since 1977, the so-called credit union movement has evolved into a full-service competitive *industry*. We hope, Mr. Chairman, that you and members of this Subcommittee will carefully examine what credit unions' responsibilities for community reinvestment ought to be. We think that you will reach only one conclusion -- credit unions should be included under CRA.

**HOUSE BANKING FINANCE  
AND URBAN AFFAIRS COMMITTEE**

**SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE**

**CHAIRMAN JOSEPH P. KENNEDY, II**

**TESTIMONY OF THE  
CONGRESS OF RELIGIOUS CREDIT UNIONS**

**PRESENTED BY  
GEORGE T. FARRELL  
NATIONAL DIRECTOR**

**SEPTEMBER 22, 1994**

**TESTIMONY**

The cooperative credit union movement was born in Europe during the mid 1800's. The first credit union was organized in Belgium in 1848 during a period of severe economic depression. At the same time, cooperative credit societies were being developed in Germany to provide a self-help vehicle for the shopkeepers, urban workers and farmers who had been forced to pay usurious rates charged by the area money lenders. These societies were democratically controlled, all capital came from the savings of the members, and they were open to voluntary membership. The credit union system crossed national borders through religious institutions.

By 1900, the financial cooperative idea had traveled to Canada and in 1909, the first credit union was organized in the United States by Saint Mary's Bank. This first religious based credit union proved so successful that by 1935, thirty-eight (38) states and the District of Columbia had laws permitting the establishment of credit unions and over 3,000 were organized.

In 1934, Congress passed the Federal Credit Union Act "to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the



credit structure of the United States." The Act set the basic structure which governs Federal credit unions today.

If we read this paragraph again, the terms "people of small means" and "for provident purposes" hold the most meaning. Fifty (50) years later in 1994, there is a structure for low income people and minorities in America to establish a "national system of cooperative credit."

Chairman Kennedy, according to the National Credit Unions Administration, the definition of a small credit union is one with less than \$2,000,000 in assets. Approximately 580 of these are religious based credit unions ("RBCUs"). Altogether, there are 2,000 small credit unions. These credit unions operate with dedication and a competent staff of volunteers. Of these 2,000, 1,400 are without computers and are therefore not prepared to meet Truth in Savings legislation, and face termination of their charters through excessive regulations. Community Reinvestment Act ("CRA") regulations would be a knockout punch for small low income and minority credit unions.

Chairman Kennedy, my point is that applying current Community Reinvestment Act legislation to Credit Unions would significantly decrease the availability of financial services to low income and

minority communities by eliminating through excessive and unnecessary regulation the very credit unions in low income and minority communities. this goes against the spirit of the NCUA Act to "make more available to people of small means credit for provident purposes".

Chairman Kennedy, I, as the National Director of the Congress of Religious Credit Unions, and my members across America sincerely appreciate your interest for people of small means and we know that your intentions are good. Therefore we wish to suggest a less expensive and more effective way to provide credit by expanding development of depository financial institutions. A community's problem can best be solved by that community.

Chairman Kennedy, the members of CRCU offer the following solutions for expanding credit to low income and minority communities:

1. The NCUA must develop a training and certification program which concentrates on developing successful loan programs for the operation of full service safe and sound credit unions in low income and minority communities.

2. The NCUA currently has no meaningful outreach program for the chartering and improvement of minority and low income credit unions, and the Community Development Credit Union Office has a staff of three (3). CRCU deems the NCUA staff inadequate in number to respond to the technical needs, both education and training, of well over 805 religious based and low income community development credit unions.

CRCU currently administers a program geared specifically to provide continued education and training to religious based and low income community credit unions. Presently, this program is funded by the participating credit union. Consequently, program participation is limited by a credit union's ability or inability, as is often the case to pay for contractor services. CRCU has developed a program to expand its technical support, via education and training, to religious based and low income community development credit unions, which can be funded from the NCUA operational surplus currently projected at 50 million dollars. CRCU suggests that 10% of the NCUA surplus be used to fund outreach and training programs.

3. **The SBA must extend the small business loan Guarantee Program to Credit Unions. CRCU is developing a program that uses the current SBA loan document guarantee program as a model. If this Program were expanded to include credit unions, the SBA would have an additional 12,000 loan outlets available.**
  
4. **Through the Community Development Financial Institution Act of 1994, the new Community Development Fund must actively seek out existing low income and minority credit unions for equity inspections and deposits.**

**Chairman Kennedy, the purpose for expanding CRA to Credit Unions is to expand credit to low income and minority communities. However, CRCU feels that this can best be achieved by allowing minority and low income communities to develop their own safe and sound depository financial institutions through the credit union structure. The suggestions of CRCU involve expanding unused resources with funding that is in place, and using existing oversight powers of Congress to ensure that this mission of expanding services to low income communities is completed.**

# Congress of Religious Credit Unions



*Dedicated to Religious Based Credit Unions  
and Community Based Credit Unions*



**HOUSE BANKING, FINANCE AND URBAN AFFAIRS  
COMMITTEE**

**Subcommittee on General Oversight,  
Investigations and the Resolution of  
Failed Financial Institutions**

**CHAIRMAN FLOYD M. FLAKE**

**Testimony of the  
CONGRESS OF RELIGIOUS CREDIT UNIONS, INC.**

**Presented By**

**GEORGE T. FARRELL  
National Director**

**September 16, 1994**



**CONGRESS OF RELIGIOUS CREDIT UNIONS**  
Washington, D. C. Area

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**WELCOME!**

Dear Colleagues:

**WELCOME** to the Eighteenth Annual Congressional Black Caucus Legislative Weekend, "Embracing Our Youth For A New Tomorrow".

Our youth are our future and we owe our children financial security so that they may have life, liberty, and the pursuit of happiness as guaranteed by the Bill of Rights of the United States of America.

Please take the time to review our testimony and case studies which present workable solutions to establishing strong, insured, depository financial institutions in African American communities across America.

Sincerely,

**CONGRESS OF RELIGIOUS  
CREDIT UNIONS, INC.**

**George Farrell**  
National Director

MARCH, 1958

"Well it has been said ... that Negroes too often buy what they want and beg for what they need. Negroes must learn to practice systematic saving. They must also pool their resources through serious cooperative enterprises. Such agencies as Credit Unions, Savings and Loan Associations, and finance companies are needed in every Negro community. All of these things that would serve to lift the economic level of the Negro which would in turn give him greater purchasing power. This increased purchasing power will inevitably make for better housing, better health standards, and for better educational standards."

DR. MARTIN LUTHER KING, JR.

1994 - 1995  
Dade County, Florida

**CRCU'S APPEAL TO THE COMMUNITY**

"Let us take the collective wealth of the communities and keep it in the communities to provide financial services to meet the needs and priorities of the communities. Let us form our own financial institutions that will respect the people and businesses of the community, address their economic health and provide economic justice in the dispensation of credit."

**B. THOMPSON, REGIONAL DIRECTOR  
CRCU, INC. - SOUTHEAST**

The cooperative credit union movement was born in Europe during the mid 1800's. The first credit union was organized in Belgium in 1848 during a period of severe economic depression. At the same time, cooperative credit societies were being developed in Germany to provide a self-help vehicle for the shopkeepers, urban workers and farmers who had been forced to pay usurious rates charged by the area money lenders. These societies were democratically controlled, all capital came from the savings of members, and they were open to voluntary membership. The credit union system crossed nautical borders through religious institutions.

By 1900, the financial cooperative idea had traveled to Canada and in 1909, the first credit union was organized in the United States by Saint Mary's Bank. This first Religious Based Credit Union proved so successful that by 1935, thirty-eight (38) states and the District of Columbia had laws permitting the establishment of credit unions and over 3,000 were organized.

In 1934, Congress passed the Federal Credit Union Act "to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." That Act set the basic structure which governs Federal credit unions today.

If we read this paragraph again, the terms "people of small means" and "for provident purposes" hold the most meaning. Fifty (50) years later in 1994, there is a structure for low income people and minorities in America to establish a "national system of cooperative credit."



The Congress of Religious Credit Unions, Inc., hereinafter referred to as CRCU, is dedicated to providing technical services, training and education, solely to religious and fraternal based credit unions. At present, we are conducting our activities from Washington, D.C. and Miami, Florida.

As the trade and professional organization for Religious Based Credit Unions (RBCUs), we represent and protect the interests of the members of the Congress of Religious Credit Unions before the National Credit Union Administration.

Our mission is to develop stronger credit unions through training, information and services; to provide aid in the formation and chartering of new Federally insured credit unions; and to advise the religious community of available economic and financial opportunities.

The teachings of the Christian faith are quite clear with regard to those in need. Assisting others is a central part of the message. The story of the Good Samaritan is one of the most familiar parables of the New Testament. The legal summary "You shall love the Lord your God... and your neighbor as yourself." Need we ask who is our neighbor?

Churches have begun to responding to the needs that have become so apparent in our times. At one time, churches were sending out missionaries to other countries to answer calls for relief from famine, flood or natural disaster in other parts of the world but now we are seeing problems of hunger, homelessness and poverty on our doorsteps. We are truly learning in these past three decades that "Charity begins at home." Churches are doing more and are recognizing how much more still needs to be done, both in terms of meeting the immediate needs of those close to us and by supporting better public programs so government can respond more effectively.

People of faith today are beginning to question some of the root causes of the problems we face. Why so many homeless? Why so many hungry? Why aren't there enough jobs? They are beginning to ask if there is not more that can be done with the structure of our economy to solve these problems -- to cure the disease rather than just to alleviate the symptoms.

Twentieth century good Samaritans must marshal a new kind of power -- power to build counter-structures that effectively challenge unjust social structures.

The question is no longer limited to those of our 'neighbors' who are in desperate straits -- actually homeless and hungry. It is now a question for middle class Americans who seem to be losing their share of the land of plenty, and for their children who can't seem to get a start on a decent job and a home of their own.

Something is wrong with the structure. We cannot keep supplying band-aids, like good Samaritans, without questioning the system that generates these problems. Why doesn't our society give a fair and equal opportunity to all? Why can't it extend enough help to those who have not had as much of a chance to get started as others have had?

To talk about root causes of hunger and homelessness today, or the lack of adequate employment, career and business opportunities, affordable housing and health care, is to raise questions concerning the basic structure of our economic institution. What can we do to create social and economic structures that will restore the opportunities that were once available in our society. How can we create a system that will offer people who are now being left out a place, something to work for,

something to live for? How can we empower the economically powerless so that they can become participants in the prosperity enjoyed by others? How can we prevent more and more people from falling into the expanding class of the economically disadvantaged?

We all know that the churches have actively supported civil rights and other social justice programs. They have also developed programs to meet the needs of their "neighbors" who are hungry, homeless and unemployed through direct services. **Beyond this, however,** there is the question of economic justice; the issue of equitable access to available resources resulting in a reduction of inequalities based on income, wealth and power.

Where Churches have provided free lunches (and will continue to do so), we need jobs so that people can support themselves. Where Churches have provided shelter (and will continue to do so), we need affordable homes that people can own. Where we now have minimum wage jobs (and will continue to help people get started), we need career opportunities. It is in this area that the Church is seeking to chart a new direction.

## **ECONOMIC JUSTICE INITIATIVES**

**"ECONOMIC JUSTICE"** is defined as equitable access to available resources resulting in a reduction of inequalities based on race, income, wealth and power. When we talk about economic justice, however, we are talking about the empowerment of people. **"EMPOWERMENT"** can be defined as actions or opportunities which allow, encourage and develop the ability of those who are powerless, oppressed and/or left out of the decision making structure to make decisions, to determine actions

and increase control of their own economic destinies. Economic empowerment is a matter of having control over your means of earning a livelihood.

Inasmuch as the economic initiatives discussed here constitute a challenge to the prevailing practices in our economy, it is all the more important that they be undertaken by Church groups. Such groups constitute established economic powers in communities and it takes "Power" to bring about change.

To be successful, people from churches who are involved in the search for economic justice must "make community" with people from other religious groups and with like-minded people in society. We should seek ways to work together, enhancing rather than replicating efforts. All efforts should be geared toward the positive support of empowering institutions which exist in our communities. This will require an understanding of the connections within and between communities, and the willingness to act in partnership with others.

Church people are themselves based in a community which can put its energy and resources behind an economic justice project and this means that they can be effective participants in the process of community renewal.

If directed toward areas of great need, the financial resources of religious communities could make a significant difference in economic development. Many congregations are in areas in which economic development is severely hampered by the lack of available capital for business ventures. The religious community will make a tremendous impact by placing their investment capital into their own Federally insured

financial institution where a significant percentage of its funds could be devoted to economic development in their region. Churches will actually be creating jobs in high unemployment areas.

## **COMMUNITY DEVELOPMENT CREDIT UNIONS**

**THIS IS THE MOST DYNAMIC ECONOMIC JUSTICE STRATEGY FOR MAKING CAPITAL AVAILABLE TO INDIVIDUALS AND GROUPS WHO HAVE BEEN LEFT OUT OF THE ECONOMIC MAINSTREAM TO FOCUS ON THE AVAILABILITY OF CREDIT.**

The credit union is a financial cooperative. Members pool their money in order to make it available on reasonable terms as loans to other members. Savings and money management are encouraged. The modern credit union provides all the services associated with other financial institutions: certificates of deposit, IRA's, checking accounts (share drafts) and credit cards.

Credit unions are organized on a cooperative model; one member/one vote, regardless of the number of shares a member has. The board of directors and the major committees are made up of volunteers elected by the membership.

Recently the National Credit Union Administration recognized in its chartering process a special type of credit union designed for lower income communities: the community development credit union. Such a credit union extends the opportunity of credit union membership and services to low and moderate income members in a specific geographical community. It provides specialized financial counseling and education programs to its members.



The community development credit union also has a mandate to assist in the economic development of the community around it. It specializes in home improvement loans from its own assets as well as in conjunction with other lending institutions. And, it offers loans to members involved in the start-up or recapitalization of businesses. In both ways it contributes to the economic strength of the community and to the creation of new jobs. It can work together with community development corporations, community land trusts, housing cooperatives and worker owned businesses to help finance these enterprises.

Normally credit unions may accept share deposits only from those in their field of membership. However, since credit unions with a majority of low income members might not have sufficient assets to do much community development lending, especially in their early years, the National Credit Union Administration allows them to accept non-member deposits. These deposits can be from corporations, foundations, churches, low-income loan funds and private individuals. Often these deposits are made at lower-than-market interest rates, which enables the credit union not only to maintain reasonable interest rates for its members but also to earn income to cover its own expenses. Non-member deposits permit a credit union to capitalize more quickly and to assist more effectively in community development projects. Deposits of up to \$100,000 are insured in Federally chartered credit unions.

Unifying, the religious communities can eliminate the "underground economy" consisting of loan sharks, high interest check cashing shops, neighborhood appliance dealers and furniture stores offering inflated interest rates. Pawn shop collateral loans and bars that run a tab and then cash checks for fees between 12% and 20% of the purchase price would also be eliminated.

The church itself can assist community development credit unions by making longer-term deposits (trust funds, building funds, etc.) and by uniting and encouraging all members to join and make deposits.

Small to large congregations must seek to work with other churches and community organizations to get things done. Not only can't you do it alone, you don't have to.

## STATEMENT

There can be no meaningful economic empowerment or development without strong, safe and sound depository financial institutions to aggregate and re-circulate a community's capital.

## CONCLUSIONS and SOLUTIONS

1. Religious institutions across America, particularly African American Churches, must unite and form both multi-group associational credit unions and community development credit unions that provide full financial services in a safe and sound manner. Assistance from the Congress of Religious Credit Unions (CRCU) is available.
2. Religious institutions with religious based credit unions can and must increase their fields of membership by expanding their charter to include other nearby churches and/or their surrounding communities. CRCU assistance is available.
3. The Small Business Administration must extend the small business loan low document guarantee program to credit unions. CRCU is developing a program that uses the current SBA loan guidelines. Expanding SBA programs to credit unions would increase available SBA lenders by 12,000.
4. The National Credit Union Administration (NCUA) should increase the limit for business loans from Fifty Thousand (\$50,000.00) Dollars to One Hundred Thousand (\$100,000.00) Dollars to spur business lending.
5. NCUA must implement programs for the development of minority credit unions. This program can be funded by using

ten (10%) percent of the operational surplus projected at Fifty Million (\$50,000,000) Dollars for fiscal year 1994. There are currently no outreach programs targeting the minority community for starting or improvement of minority credit unions. CRCU has developed outreach programs for minority credit unions.

6. African Americans must stop saving and banking where they cannot borrow and support Community Development Financial Institutions where they can.
7. African Americans must stop doing business with the financial rapists in our communities. This includes borrowing from pawn shops and cashing checks at liquor stores and check cashing outlets; dealing with furniture and jewelry stores and even credit cards with high rates of interest. These businesses remove cash from our communities and fail to re-circulate our dollars.
8. African Americans must be willing to endure sacrifice in developing Community Development Financial Institutions. We are not discriminated against because we are Baptist, Methodist, Catholic, Episcopalian, Muslim, CME or AME. We are discriminated against because of the colors of our skin. We must be willing to unite across religious beliefs to solve our common economic problem.
9. Affluent African Americans must realize that when it comes to financial services, they are still likely to face discrimination; it is therefore in their interest to assist in the development of safe and sound minority depository financial institution. A Gold card is not a business loan.

**KEEP GOD FIRST!**

### CASE STUDY CREDIT UNION FORMATION

Prince Georges County, Maryland, a suburb of Washington, D.C., has the highest median income for African Americans in the United States. The county is also 51% African-American.

Even though African Americans are relatively affluent in this area, there are only half as many depository financial institutions when compared with a neighboring, predominantly white county. According to the Washington Post of August 20, 1994, the neighboring Montgomery County, Maryland has 318 bank branches while Prince Georges County residents have access to only 165 branches. This lack of financial institutions translates to lack of funds for investment in the county.

To resolve this problem, the residents and churches in Prince Georges County are forming their own Community Development financial institution known as the First Combined Community Federal Credit Union.

Led by First Baptist Church of Highland Park and under the direction of the Congress of Religious Credit Unions, the formation and Chartering process has begun and a Charter is expected by January, 1995.



**CASE STUDY  
CREDIT UNION FORMATION**

Dade County, Florida has the fourth largest international banking community in the world, yet has the fourth highest poverty level in America. Obviously, money is not circulating through to African-American communities.

**CRCU - Southeast Regional office**, along with the **Metro-Miami Action Plan (MMAP)** and **Southern Bell** began unifying entities in the Northern area of Dade County with an Economic Empowerment Conference in December, 1993, at the Hyatt Regency - Miami. The regional director of the National Credit Union Administration (NCUA), representatives of the NCUA Board of Directors, regulators and lawmakers attended this conference. The credit union message was heard by representatives of the communities of Dade County, including the extensive religious community. As a result, we have succeeded in uniting ten (10) churches of different denominations, eleven (11) corporations inclusive of Southern Bell, volunteers from the Greater Miami Chamber of Commerce, three (3) employee based credit unions, and most important, commitments to support and participate have been confirmed in writing by two (2) major banks.

Since August 24th, there has been a tremendous amount of discussion within the community about the "Overtown" project and the withdrawal of two (2) major banks from the "shared bank" planned for that area. Hope for equitable economic access is at an all time low. In Overtown, the promise of a bank has caused community and religious groups to be hesitant about participating in the Community Development Credit Union in the belief that adequate banking services to their communities would follow. This promise has delayed their participation in the implementation of this self-help, economic initiative. Community leaders are now calling for inclusion of their community in the field of membership of the CDCU.

We are well into the chartering process. Surveys required by NCUA to determine the specific needs, community participation and support for a credit union began in January, 1994, and are continuing as our field of membership increases to encompass groups that were slow to hear of our efforts. Committees are writing the policies and procedures based on community priorities and needs; the Directors, credit and supervisory committees have been defined and our target date is January, 1995.

**Metro-Miami Action Plan (MMAP)** has pledged **Two Hundred Fifty Thousand (\$250,000.00) Dollars** for 1995, and **Two Hundred Fifty Thousand (\$250,000.00) Dollars** in 1996, to support the payroll cost of a professional staff. **Legion Park Medical Center** has contributed **Five Thousand (\$5,000.00) Dollars** for technical assistance and has committed a **second Five Thousand (\$5,000.00) Dollars** to assist with the translation of print media and distribution of information to the Haitian, Hispanic, and other foreign born residents.

Ken Robinson, President of the National Association of Federal Credit Unions, has arranged a mentor/partner relationship with the **Dade County School Employees Credit Union** who will be donating desks and equipment in addition to a pledge of **One Hundred Thousand (\$100,000.00)** in **Twenty-Five Thousand (\$25,000)** Dollar increments to be loaned in the community. Mr. Robinson has indicated that at least two other employee based credit unions serving the Miami area will be pledging long-term deposits. Chartering is expected in January, 1995.

In the very immediate future, CRCU will assist in the training and indoctrination of community members who will be working with the professional staff of the credit union. **Southern Bell** is partially funding this educational module. Training will also be provided for loan officers, tellers, customer service representatives and new accounts personnel in conformance with credit union policies.

**CASE STUDY**  
**CREDIT UNION REVITALIZATION**

In 1992, the newly appointed manager of Bethel AME FCU called the Congress of Religious Credit Unions, Inc., for assistance.

The NCUA Region II Head Examiner was preparing the results of an annual examination, a job usually not performed by the Head Examiner. Since this was the new manager's first examination, he asked if CRCU personnel would attend. We agreed.

During the examination, the NCUA Examiner placed the Credit Union under a "Letter of Understanding and Agreement" (LUA) with unreasonable performance criteria. CRCU protested the unreasonable positions and had the LUA restructured. CRCU then began the work to remove the LUA.

Under the capable guidance of James Tibbs, \$22,000.00 in delinquent loans were written off as uncollectible, and the rebuilding began. The loan portfolio was analyzed and successful loan products expanded. A mentorship with Aberdeen Proving Ground FCU was started through the CRCU "Union to Union" Program. All Supervisory and Credit Committee policies were reviewed and updated. Capital has increased from two (2%) percent to eleven (11%) percent.

In less than two years, loan productivity has increased by Two Hundred Thousand (\$200,000) Dollars and non-member deposits are expected to reach Three Hundred Thousand (\$300,000) Dollars. Church members are rediscovering their credit union.

During the next two years, the LUA is expected to be removed and the credit union will go from a part-time to full-time service.

**SPECIAL THANKS**

**Honorable Congressman Floyd M. Flake  
Honorable Congressman Kweisi MFume  
National Association of Federal Credit Unions**

**For Membership Information:**

**Congress of Religious Credit Unions, Inc.  
10306 Eaton Place, Suite 200  
Fairfax, Virginia 22030  
(703) 691-0233**

**or**

**17210 N.W. 64th Avenue, Suite 110  
Miami, Florida 33015  
(305) 557-6656**

LIST OF ORGANIZATIONS AND/OR INDIVIDUALS ELIGIBLE TO JOIN  
TINKER CREDIT UNION

4003rd Army Garrison	Midwest City	OK	4/80	TINKER
95th Reserve Group	OKC	OK		TINKER
A & J Industries	Moore	OK	10-16-84	TINKER
AAR Oklahoma, Inc.	OKC	OK	3/80	TINKER
Acco Feeds	OKC	OK	10-15-86	TINKER
Air Refiner (affiliate of Dana Corporation)	OKC	OK		TINKER
Allen Bradley Company (now Allen Bradley/TDK Magnetics)	Shawnee	OK	3/80	TINKER
Alpha and Omega Salon	OKC	OK	6/78	TINKER
American Energy Savers (formerly American Sun Protection, Inc.)	OKC	OK	4/80	TINKER
American Legal Services, Inc. (see Pre-Paid Legal Services, Inc.)	OKC	OK	2-17-87	TINKER
American Level Mfg. Co. (absorbed by Macklenburg Duncan)	OKC	OK	8/79	TINKER
American Milkwork Company, Inc.	OKC	OK	3/79	TINKER
American Red Cross, Oklahoma County Chapter, Okla. City	OKC	OK	2-18-86	TINKER
American Sun Protection, Inc. (now American Energy Savers)	OKC	OK	4/80	TINKER
Anacomp (now U.S. Data Corporation)	OKC	OK		TINKER
Arlington Memory Gardens	OKC	OK	6/79	TINKER
Artcraft Printers	OKC	OK		TINKER
Arthur Harris Ford	OKC	OK	1-17-84	TINKER
Arvink Pipe and Supply Company	Norman	OK	10-15-85	TINKER
Asset Data Service	OKC	OK	7-21-81	TINKER
Associated Auto Service	Wheatland	OK	12/79	TINKER
Baker Lift Systems (was KOBE) (now Tnco Submersible Systems)	OKC	OK		TINKER
Baker's Printing	OKC	OK		TINKER
Barrett Trailers, Inc.	OKC	OK	12/76	TINKER
Bass Memorial Hospital Employees	Enid	OK	10-15-85	TINKER
Belle Isle Plumbing, Heating and Air Conditioning Company	OKC	OK	1/78	TINKER
Bertram Group, The (OKC & Tulsa)	OKC	OK	8-18-83	TINKER
Bethany Nazarene College (now Southern Nazarene University)	OKC	OK		TINKER
Bison Nitrogen Products (now Terra International 1-88)	Woodward	OK	3/80	TINKER
Blair Broadcasting (KOKH-TV 25)	OKC	OK	1/80	TINKER
Boardman Company, The (now TBC Fabrication, Inc.)	OKC	OK	10/76	TINKER
Bryan, Mike, Office Supply	OKC	OK		TINKER
Burroughs Company Restlers	OKC	OK	4/78	TINKER
Butler Paper Company	OKC	OK		TINKER
Cain's Coffee Company	OKC	OK	1-00-76	TINKER
Cain Coors Systems, Inc. (now Campbell Beverage 4-1988)	Tulsa	OK	5-00-80	TINKER
Campbell Beverage	Tulsa	OK	4/88	TINKER
Candid Color Systems	OKC	OK		TINKER
Capital Corporation (See American First Corporation) CLOSED	OKC	OK		TINKER
Capital Paper Company (Now Zeller/Bach)	OKC	OK		TINKER
Career Point Business School (Division of Tulsa, Inc.)	OKC	OK	2-19-83	TINKER
Carpenter Paper Company	OKC	OK		TINKER
Center of Family Love, Okarche, OK	Okarche	OK	2-18-86	TINKER
Central Tooling & SB Industries	OKC	OK	3-24-81	TINKER
Century Martial Arts Supply, Inc.	Midwest City	OK	5-15-84	TINKER
Century Printing Company	OKC	OK		TINKER
Channel 4, K Four TV	OKC	OK		TINKER
Channel 9, KWTV	OKC	OK		TINKER
Cherokee Color Press	OKC	OK		TINKER
Cheyenne Petroleum Company	OKC	OK	1/78	TINKER
Christianson Diamond Products (now Norton Christensen, Inc.)	OKC	OK		TINKER
Chromalloy American Corporation	OKC	OK		TINKER
Church of the Savior Day Care Center	OKC	OK	8/79	TINKER
City of Ada	Ada	OK	4-18-88	TINKER
City of Del City (Employees)	Del City	OK		TINKER
City of Edmond	Edmond	OK	7-15-86	TINKER
City of Enid	Enid	OK		TINKER
City of Moore	Moore	OK	2-17-87	TINKER



City of Norman (Employees)	Norman	OK	TINKER
Classic Filters (now Perry Filters)	OKC	OK	10/78 TINKER
Clean Services, Inc.	Enid	OK	11-20-84 TINKER
Clements Foods Company	OKC	OK	6-17-85 TINKER
Cleveland County Employees	Norman	OK	6-17-86 TINKER
Cleveland County Private Industry Council		OK	TINKER
Cleveland County Youth & Family Center (now Cle. Co. Private Ind. Council)		OK	TINKER
CM Corporation	Norman	OK	6/78 TINKER
Colborn Lumber, Inc.	OKC	OK	1/78 TINKER
Commander Aircraft	OKC	OK	3/80 TINKER
Consumer's IGA, Inc. (#'s 1 thru 7)	Bethany	OK	12-14-83 TINKER
Coors Central (was Ford Distributing)	OKC	OK	10-21-83 TINKER
Core-Slab Structures of Oklahoma City	OKC	OK	4/78 TINKER
Cosgrove-Smith Fire Suppression, Inc. (now Smith Fire Suppression)	OKC	OK	TINKER
Covercraft Industries, Inc.	OKC	OK	5/78 TINKER
Cox Construction, E.V.	Pauls Valley	OK	3-22-94 TINKER
Credit Bureau (OKC Retailers)	OKC	OK	TINKER
Cromwell's, Inc.	OKC	OK	TINKER
Cummins Construction Company, Inc.	Enid	OK	10-16-84 TINKER
Custom Printing	OKC	OK	TINKER
C. H. Guernsey Company	OKC	OK	4/78 TINKER
Dana Corporation	OKC	OK	3-00-78 TINKER
Data Documents, Inc.	OKC	OK	4/78 TINKER
Davis, William E., and Sons	OKC	OK	TINKER
Del Paint Manufacturing	OKC	OK	1-17-84 TINKER
Delta Dental Plan of Oklahoma	OKC	OK	9-16-80 TINKER
Demco Printing	OKC	OK	TINKER
Demco/Flow Cooper Industries, Inc.	OKC	OK	3/78 TINKER
Dickinson of Tulsa, Inc. d/b/a Career Point Business School	Tulsa	OK	1-19-83 TINKER
Diffee Motor Company	OKC	OK	3/78 TINKER
Diversified Employee Leasing	Norman	OK	7-20-93 TINKER
Don Eckell Typesetting	OKC	OK	3/78 TINKER
Don James Company	Norman	OK	11-15-83 TINKER
Dougherty Press (was Haymaker Press)	OKC	OK	TINKER
Dufthey's, Inc.	OKC	OK	6/78 TINKER
Dun & Bradstreet Plan Services-OKC employees only	OKC	OK	11-16-93 TINKER
Easman Christensen (formerly Norton Christensen)	OKC	OK	TINKER
Edson Corporation - Shawnee Plant	Shawnee	OK	11-18-80 TINKER
EBSCO Graphics (was Meier o-Press, Inc.)	OKC	OK	TINKER
El Dorado Chemical (LSB Industries)	OKC	OK	3-24-81 TINKER
Electronic Distortion Systems, Inc. (OKC & Tulsa)	OKC	OK	7-00-77 TINKER
ELS Language Center (LSA Language School)	OKC	OK	12/77 TINKER
EMSCO Electric Supply Company, Inc.	OKC	OK	3/80 TINKER
Evans Furniture	OKC	OK	4/78 TINKER
Evergreen Mills, Inc.	Ada	OK	11-17-87 TINKER
Excelsystem Resistor	Bethany	OK	4/78 TINKER
Express Services (OK Temporary Services/d/b/a Express Services)	OKC	OK	TINKER
E. V. Cox Construction Company	OKC	OK	6/80 TINKER
Farm Bureau Insurance (Oklahoma)	OKC	OK	TINKER
Fine Arts Engraving	OKC	OK	TINKER
First Baptist Church, Midwest City	Midwest City	OK	10-21-80 TINKER
First Life Assurance (See American First Corporation)	OKC	OK	TINKER
Fleck Bearing Co., Inc., The	OKC	OK	8-16-84 TINKER
Fleming Company, Inc. (OKC Division ONLY)	OKC	OK	5-15-84 TINKER
Ford Audio & Video Systems, Inc.	OKC	OK	4/78 TINKER
Ford Distributing Company (now Coors Central)	OKC	OK	4/78 TINKER
Power Toyota AMC/Jeep	Norman	OK	7-17-84 TINKER
Fox Meyer Drug Co. (KS, CO, AR, MO, and LA)	OKC	OK	10-15-85 TINKER
Freymler Trucking, Inc.	Bakerfield	CA	2-22-94 TINKER
Frontier Food Service Management (formerly Rastler Food Service)	OKC	OK	TINKER
Frontier Printers, Inc.	OKC	OK	TINKER
Garfield County Office Employees	Garfield Co.	OK	9-17-85 TINKER
Gene Green Company (now Green Graphix 8-86)	OKC	OK	TINKER
General Motors and Satellite Companies	OKC	OK	12/77 TINKER
Gibson a Products Company of OKC, and Del City & N. MacArthur, OKC)	OKC	OK	10-15-85 TINKER
Globe Color Press (Midwest) (NOW with Communication C.U.)	OKC	OK	TINKER
Golden West Broadcasters - KAUT Channel 43 (now Rolling Telecasting)	OKC	OK	3-20-84 TINKER
Governor Corporation	OKC	OK	4/78 TINKER
Grace Petroleum Company	OKC	OK	TINKER
Great Southwest Dental Lab (formerly Heritage of Oklahoma Dental Lab)	OKC	OK	4/80 TINKER
Green Graphic	OKC	OK	8/89 TINKER
Griffin Television - KWTV Channel 9	OKC	OK	5/77 TINKER
Guernsey, C. H., Company (see C. H. Guernsey)	OKC	OK	4/78 TINKER
Gulf Stream Aerospace (formerly Rockwell International)	OKC	OK	3/78 TINKER
Guilco Industries, Inc. (purchased Ingram, Inc. Emp. Q. OSEED)	OKC	OK	4/78 TINKER
Guy H. James Industries	OKC	OK	TINKER
H & R Block (Closed)	OKC	OK	12-17-85 TINKER
Hamilton Engineering Unlimited, Inc. was Environmental Eng. Q. OSEED)	OKC	OK	7/78 TINKER
Harris Ford, Arthur	OKC	OK	1-17-84 TINKER
Hart Industrial Supply (LSB Industries)	OKC	OK	9-16-80 TINKER
Haymaker Press (now Dougherty Press)	OKC	OK	TINKER
Heritage Color Press (now Heritage Media Graphx)	OKC	OK	TINKER

Heritage of Oklahoma Dental Laboratory (Now Great Southwest Dental Lab)	OKC	OK	4/80	TINKER
Heritage Park Medical Center inc	Midwest City	OK	4/78	TINKER
Hibdon Tire Center Inc.	OKC	OK	12/78	TINKER
Hilton Inn Northwest (NOT A MEMBER)	OKC	OK		TINKER
Hollyhock Carpet Mills (Anadarko & Wetmore employees)	Anadarko	OK	2-22-84	TINKER
Howell & Associates (see Howell Weber and Sharp)	OKC	OK		TINKER
Howell, Weber and Sharp (now Howell & Associates)	OKC	OK	3/78	TINKER
Hudourg Chevrolet, Inc	Midwest City	OK	4/78	TINKER
Hugo Soil Conservation Service (see Soil Conservation Service)	Hugo	OK		TINKER
Hydri Company	OKC	OK	8/78	TINKER
H. E. Leonard Lumber Company	OKC	OK	4/78	TINKER
I.E.D. Press (Closed)	OKC	OK		TINKER
Industrial Advertising Association (LSB Industries)	OKC	OK	3-24-81	TINKER
International Crystal Manufacturing Co	OKC	OK	9-16-80	TINKER
International Environmental (LSB Industries)	OKC	OK	3-24-81	TINKER
International Union of Operating Engineers Local #1760	Okmore	OK	12/79	TINKER
Jack Matherly	OKC	OK		TINKER
Jack's Service Company of the U.S. Inc	OKC	OK	12-20-83	TINKER
Jackson Press Inc	OKC	OK		TINKER
James Company, Don	OKC	OK		TINKER
James, Guy H., Industries	OKC	OK		TINKER
Jasco Products, Inc	OKC	OK	8/78	TINKER
Jim Cox Company	OKC	OK	10-15-85	TINKER
John L. Stark, D.D.S.	OKC	OK		TINKER
Journal Record Publishing Company	OKC	OK	12/78	TINKER
KALUT Channel 43, Rollins Telecasting (was Golden West Broadcasting)	OKC	OK		TINKER
KCCO, Inc	OKC	OK	4/78	TINKER
Kerr McGee Corporation - Drumright and Seminole Plants	Seminole/Drumright	OK	3/80	TINKER
Kerr McGee Corporation - Wynnewood Plant	Wynnewood	OK	12/79	TINKER
Kmray, Inc	OKC	OK	11/79	TINKER
King Distributing Company	OKC	OK		TINKER
KOBE (now Baker Lift System)	OKC	OK		TINKER
KOCO-TV Channel 5	OKC	OK	10/78	TINKER
KOKH Channel 25, Blair Broadcasting (not on 92 list)	OKC	OK		TINKER
KTVY Channel 4	OKC	OK	1/79	TINKER
Kutner Enterprises, Inc (House of Tobacco) (Closed)	OKC	OK	8/77	TINKER
KWTV Channel 9, Griffin Television	OKC	OK		TINKER
Leas Siegler, Inc.	OKC	OK	4/78	TINKER
LeeWay (Commercial Lovelace-merged to general membership)	OKC	OK		TINKER
Leo Oppenheim & Company, Inc. (See Americans First Corporation)	OKC	OK		TINKER
LSB Computer Corporation (LSB Industries)	OKC	OK	3-24-81	TINKER
LSB Extrusion and Forming Company (LSB Industries)	OKC	OK	3-24-81	TINKER
LSB Industries	OKC	OK	3-24-81	TINKER
Lumberman's Investment Corporation	OKC	OK	2-00-79	TINKER
L&D Specialty Company, Inc.	OKC	OK	11-20-84	TINKER
L&S Bearing Co.	OKC	OK	3-00-78	TINKER
Maidenburg-Duncan Company	OKC	OK	3/78	TINKER
Magazine Club Billing Service	OKC	OK	10-15-85	TINKER
Magna Color, Inc.	OKC	OK		TINKER
Mail-Well Envelopes (formerly Oklahoma Envelope Manufacturing)	OKC	OK		TINKER
Manley Office Supply (merged with Mike Bryan Office Supply)	OKC	OK	10-21-80	TINKER
Masey Graphics and Marketing (was The Print Shop)	OKC	OK		TINKER
Matherly Mechanics (Matherly, Jack)	OKC	OK		TINKER
Matrix Metal Products, Inc.	OKC	OK	1/78	TINKER
McAlester Health Employees (McAlester Regional Hospital)	OKC	OK		TINKER
Mead Merchants (now Zeller/Bach 8-1988)	OKC	OK		TINKER
Mercury Press, Inc.	OKC	OK		TINKER
Metroplex Electric	OKC	OK	3/80	TINKER
Metro-Press, Inc. (now EBSCO)	OKC	OK		TINKER
Midwest City Industrial Corporation (Merged to General Membership)	OKC	OK		TINKER
Midwest Dialysis	OKC	OK	7-15-80	TINKER
Moore Youth and Family Service	Moore	OK	6/78	TINKER
Morrison Printing Company	OKC	OK		TINKER
Myrad Systems, Inc.	OKC	OK	7-20-93	TINKER
National Pre-Paid Legal Services of Mississippi (see Pre-Paid Legal Services, Inc)	OKC	MS	2-17-87	TINKER
National Pre-Paid Legal Services, Inc. (see Pre-Paid Legal Services, Inc)	OKC	OK	2-17-87	TINKER
National Webbs (was Rainbow Color Press)	OKC	OK		TINKER
Ninety-Fifth Reserve Group	OKC	OK		TINKER
Norman City Employees	OKC	OK		TINKER
Norman Regional Hospital Employees	OKC	OK		TINKER
Norrick Brothers, Inc.	OKC	OK		TINKER
Northrup Worldwide Service Inc	OKC	OK		TINKER
Northwest Datsun, Inc. (now Northwest Nissan Inc.)	OKC	OK	3/78	TINKER
Northwest Nissan, Inc.	OKC	OK		TINKER
Norton Christensen, Inc. (Now Eastman Christensen 10/5/85)	OKC	OK		TINKER
NFB Industries (Closed)	OKC	OK	6-00-78	TINKER
NuWay (Oklahoma Linen Service)	OKC	OK	2/77	TINKER
Oklahoma Aerotronics, Inc.	Hartshorne	OK	6-17-86	TINKER
Oklahoma Bar Association Employees	OKC	OK	12-15-81	TINKER
Oklahoma Blood Institute	OKC	OK	11/77	TINKER
Oklahoma Christian Academy	OKC	OK	7-20-93	TINKER
Oklahoma Christian College	OKC	OK		TINKER

Oklahoma City Housing Authority	OKC	OK	7.77	TINKER
Oklahoma City Retirees Assn. (Credit Bureau)	OKC	OK		TINKER
Oklahoma City University (OCU)	OKC	OK		TINKER
Oklahoma City Urban League	OKC	OK		TINKER
Oklahoma County Chapter of American Red Cross	OKC	OK		TINKER
Oklahoma Electrical Supply (OESCO)	OKC	OK	7.78	TINKER
Oklahoma Envelope Manufacturing (Now Mail-Well Envelopes)	OKC	OK	7.78	TINKER
Oklahoma Farm Bureau Mutual Ins Co Emp (not on 92 list)	OKC	OK	7-21-81	TINKER
Oklahoma Housing Authority	OKC	OK		TINKER
Oklahoma Housing Finance Agency	OKC	OK	10.76	TINKER
Oklahoma Lining Service (NuWay)	OKC	OK	2.77	TINKER
Oklahoma Mortgage Company	OKC	OK	6-16-84	TINKER
Oklahoma Nitrogen Company (now Terra International 10-16-89)	OKC	OK	10-00-79	TINKER
Oklahoma Nurses Association	OKC	OK		TINKER
Oklahoma Pharmaceutical Association OKC	OKC	OK	8-29-86	TINKER
Oklahoma Rural Opportunities Development Corporation (ORO)	OKC	OK	2.77	TINKER
Oklahoma Social Security Recipients (who other C.U. services available)	OKC	OK		TINKER
Oklahoma Temporary Service, Inc. (d/b/a Express Services)	OKC	OK		TINKER
Orbach Financial Corporation	OKC	OK	9-16-84	TINKER
ORO (Oklahoma Rural Opportunities Development Corporation)	OKC	OK		TINKER
Oscar Rose Jr. College (Now Rose State)	OKC	OK		TINKER
Paddock Pools (Pascal P. Paddock)	OKC	OK	7.77	TINKER
Palm-Walk Limited (Fantastic Sam's) (Closed)	OKC	OK	9-16-84	TINKER
Parkway Office Park Partnership (Closed)	OKC	OK	3.76	TINKER
PEBSCO (Public Employees Benefits Service Corporation) (Closed)	OKC	OK	1.77	TINKER
Perry Filters (formerly Classic Filters) see Air Refiner	OKC	OK	10.76	TINKER
Petroleum Marketers & Petroleum Equipment	OKC	OK	9.78	TINKER
Pioneer Library Systems	Norman	OK		TINKER
Pit Stop U.S.A. (see United Concepts)	OKC	OK		TINKER
Planet Bowl, Inc.	OKC	OK	10.79	TINKER
Polar American (now American Trailers)	OKC	OK	3.76	TINKER
Pre-Paid Legal Administrators, Inc. (see Pre-Paid Legal Services, Inc)	OKC	OK	2-17-87	TINKER
Pre-Paid Legal Casualty, Inc. (see Pre-Paid Legal Services, Inc)	OKC	OK	2-17-87	TINKER
Pre-Paid Legal Services, Inc. of Florida (see Pre-Paid Legal Services, Inc)	OKC	OK	2-17-87	TINKER
Pre-Paid Legal Services, Inc. (Based in Ada, OK, w/7 subsidiaries & 22 States)	Ada	Florida	2-17-87	TINKER
Printer's Bindery Service	OKC	OK		TINKER
Professional Office Management, Inc	OKC	OK	10-15-85	TINKER
Public Supply Company	OKC	OK	1.78	TINKER
Quinn and Associates	Midwest City	OK	3.76	TINKER
Rainbo Baking Company	OKC	OK	4.78	TINKER
Rambo Color Press (now National Webb)	OKC	OK		TINKER
Ralston Purina (pet food plant employees, Edmond)	Edmond	OK	7-17-84	TINKER
Rather Foods (now Frontier Food Service)	OKC	OK		TINKER
Rockwell International (now Gulf Stream Aerospace)	OKC	OK	3.78	TINKER
Rollins Telecasting of Oklahoma	-----	OK		TINKER
Rose State College (formerly Oscar Rose Junior College)	OKC	OK		TINKER
Rotex Company (LSB Industries)	OKC	OK	3-24-81	TINKER
R. K. Black, Inc.	OKC	OK	11-15-83	TINKER
Schwab Meat Company	OKC	OK	1.78	TINKER
Semco Color Press	OKC	OK		TINKER
Simplex Time Recorder	OKC	OK	10-15-85	TINKER
Smith Fire Suppression (was Cosgrove-Smith)	OKC	OK	5.78	TINKER
Smith Industries, Inc	OKC	OK	11.79	TINKER
Smith Roberts and Associates	OKC	OK	10-16-84	TINKER
Snyder and Company	OKC	OK	6.80	TINKER
Social Security Recipients (OK, who other C.U. services available)	OKC	OK	11.79	TINKER
Soil Conservation Service - Hugo	Hugo	OK	4.80	TINKER
Southern Nazarene University (was Bethany Nazarene College)	OKC	OK		TINKER
Southeast Canvas Manufacturing, Inc	OKC	OK	10-21-80	TINKER
Southeast Ford, Inc.	OKC	OK	5-18-83	TINKER
Southeast Trailers & Equipment, L.L.C.	OKC	OK	11.79	TINKER
Spain Baldridge Company (Heating and Air Conditioning)	OKC	OK	4.76	TINKER
Sark, Dr. John, D.D.S., Inc	Midwest City	OK	4.78	TINKER
Statistical Computing Center (now Farm Bureau Mutual Ins./not on 92 list)	OKC	OK	4-00-76	TINKER
Steel Supply Company	OKC	OK	4.78	TINKER
Steele Brothers Machine and Welding	OKC	OK	12.77	TINKER
Stevens Ford (F.L.S. Inc.)	Enid	OK	8-17-80	TINKER
Stewart, W. H. Company	OKC	OK		TINKER
Stik/Strip	OKC	OK		TINKER
Strip Printer, Inc.	OKC	OK		TINKER
Summit Machine Tool Manufacturing Corp. (LSB Industries)	OKC	OK	3-24-81	TINKER
Taylor Oil Tools, Inc	OKC	OK	12-16-80	TINKER
TBC Fabrication, Inc. (was Boardman Co.)	OKC	OK	10.78	TINKER
Teamsters Local Union #800 (See attached for exclusions)	OKC	OK	2-20-80	TINKER
Temp-Sale, Inc. (inactive)	OKC	OK	7-00-77	TINKER
Terra Chemicals Int'l., Inc. (Bison Nitrogen)	OKC	OK		TINKER
Texas International Company	OKC	OK	10-00-79	TINKER
Texas International Petroleum Corporation	OKC	OK	8.79	TINKER
The Print Shop (now Massey Graphics & Marketing)	OKC	OK		TINKER
Thomas Concrete Products (see Core-Slab Structures of OKC	OKC	OK	5-15-84	TINKER
Times Journal Publishing Company	OKC	OK		TINKER
Tinker Automated Services Corp.	OKC	OK	11-16-80	TINKER

Tinker Financial Services	OKC	OK	TINKER
Tinker Financial Services, Inc.	OKC	OK	11-16-83 TINKER
Tinker Investment & Mortgage Corp	OKC	OK	11-16-80 TINKER
Tinker Services Corp	OKC	OK	11-16-83 TINKER
Trey Distributing Company	OKC	OK	8-19-80 TINKER
Tom Hoch Interior Design, Inc.	OKC	OK	6-17-86 TINKER
Total Petroleum (was Vickers Petroleum)	Shawnee	OK	12/79 TINKER
Tower Printing Company	Edmond	OK	TINKER
Townley's Dairy Company, Inc	OKC	OK	4/76 TINKER
Transcript Press	OKC	OK	TINKER
Tribonetics Company (LSB Industries)	OKC	OK	3-24-81 TINKER
Tri-City Warehouse, Inc. (Closed)	OKC	OK	11/76 TINKER
Tri-City Youth & Family Center	OKC	OK	7-15-80 TINKER
Trico Submersible Systems (formerly Baker Lift Systems)	Choctaw	OK	TINKER
Turner Printing Equipment (Closed)	OKC	OK	TINKER
Unarco Commercial Products	OKC	OK	7/78 TINKER
Union Equity Co-operative Exchange	Enid	OK	2-20-80 TINKER
Union Local #886, General Drivers, Chauffeurs & Helpers (not on 83 list)	OKC	OK	2-20-80 TINKER
Union Pacific Resources Co. (was Champlin)	OKC	OK	TINKER
Unit Parts Company	OKC	OK	11-00-76 TINKER
United Concepts, Inc. (PI Stop USA)	OKC	OK	11/78 TINKER
United Founders Life Insurance Company (now Protective Life Ins)	OKC	OK	10/76 TINKER
United Parcel Service (UPS)	OKC	OK	7-17-84 TINKER
University of Central Oklahoma	OKC	OK	TINKER
Urban League of Greater Oklahoma City, Inc	OKC	OK	8/77 TINKER
USA Language School (was ELS Language Center)	OKC	OK	12/77 TINKER
U.S. Army Garrison #4003	OKC	OK	TINKER
U.S. DataCorp (now ANACOMP)	OKC	OK	1/78 TINKER
U.S. Discount Machine Tool Exchange (LSB Industries)	OKC	OK	3-24-81 TINKER
Vickers Petroleum Corp. (now Total Petroleum)	Ardmore	OK	12/79 TINKER
Vox Printing	OKC	OK	TINKER
Wall Colmanoy Corporation	OKC	OK	1/78 TINKER
Wal-Tes, Inc.	OKC	OK	8-16-84 TINKER
Western Oaks Medical Center	Elk City	OK	11-18-85 TINKER
Western Paper Company	OKC	OK	TINKER
Willard G. Boone, CPA	OKC	OK	9-16-80 TINKER
William E. Davis and Sons	OKC	OK	3/80 TINKER
Winslow Associates, Inc	OKC	OK	2-17-87 TINKER
W. H. Stewart Company	OKC	OK	4/76 TINKER
Youth Services for Oklahoma County, Inc	OKC	OK	3/78 TINKER
Zelber/Bach (see Capital Paper Company)	OKC	OK	8/88 TINKER









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