



Written Testimony of H.C. "Hank" Klein

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On Behalf of The National Association of Federal Credit Unions

Subcommittee on Rural Enterprise, Agriculture & Technology

United States House of Representatives

Predatory Lending and Its Affect on the Military and Local Communities

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Introduction

The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of the nation’s federally chartered credit unions. NAFCU is comprised of approximately 800 federal credit unions—financial cooperatives from across the nation—that collectively hold approximately 66 percent of total federal credit union assets; NAFCU represents the interests of approximately 26 million individual credit union members. NAFCU also represents about 80 “defense” credit unions that serve our men and women in the armed services every day. NAFCU, and the entire credit union community, appreciates the opportunity to participate in the discussion regarding the impact predatory lending has on our nation’s military and local communities.

Nature of Credit Unions

Historically, credit unions have served a unique function since Congress first authorized the establishment of federal credit unions:

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

As members of not-for-profit, cooperative financial institutions, all credit union members have an equal say in the operation of their credit union—regardless of the amount they have on account at the credit union. These singular rights extend from basic operating decisions to electing the board of directors. Unlike banks and thrifts, federal credit union directors, motivated by an altruistic desire to be of service to others, serve without remuneration—a fact that epitomizes the true “volunteer spirit” which permeates the credit union community.

Credit unions play an important role in the financial lives of more than 85 million Americans from all walks of life that have chosen the convenient and low-cost financial services that only credit unions can provide. As the package of services offered by various types of financial institutions becomes more and more homogenized, the emphasis shifts from the type of service

offered to the quality and cost of service provided. Historically, credit unions have been second to none in providing their members with quality personalized service at the lowest possible cost. According to an annual survey conducted by the *American Banker* newspaper, credit unions have consistently rated higher than all other financial institutions in overall service quality and this trend shows no sign of change.

Credit Unions Combat Predatory Lending

Credit unions are second to none in terms of combating predatory lending, most notably by making alternative loans more feasible and through member education. Federal credit unions are also prohibited by law from engaging in some practices that have been associated with predatory lending. It must be noted that credit unions are the only financial institutions to have a “usury” rate defined by federal statute —federal credit unions cannot charge more than 15 percent per year on any loan (12 USC 1757(5)(A)(vi)), unless an alternative rate is established by federal regulation. Currently, the National Credit Union Administration Board has set that rate so that there are no loans above 18 percent. In addition, federal credit unions are prohibited from charging pre-payment penalties to their members (12 USC 1757(5)(A)(viii)).

Predatory lending in any form is unacceptable to the credit union community and NAFCU disapproves of any practices that take advantage of uninformed and unwary consumers by subjecting them to deception, misleading and incomplete information, falsifications, or outright fraud. In this regard, NAFCU strongly supports meaningful efforts to eliminate predatory lending practices in all sectors of the economy. As you are aware, credit unions are not-for-profit cooperative financial institutions. Credit unions return any earnings to their members typically as reduced fees, reduced interest rates on loans, as dividends on shares, or reinvest those earnings in the credit union as retained earnings for purposes of safety and soundness. Also, credit unions rely on unpaid, volunteer boards of directors elected by, and drawn from, each institution’s membership. This structure ensures the maximum responsiveness to members, thus resulting in outstanding service.

Predatory Lenders Target Our Troops

Information from the Federal Reserve suggests that most predatory lending involves non-depository institutions and other lenders that are not subject to routine regulatory compliance audits

and examination. In August 2004, Arkansas Federal Credit Union (which serves a number of military bases and reservists in Arkansas including Little Rock Air Force Base) released a study of the “payday” and “predatory” lenders that were operating in the same cities and towns as where the credit union had a presence. Many of the payday and predatory lenders that they found operating were unlicensed and unregulated by either state or federal authorities. There were even some cities that had more payday lender outlets than McDonald’s restaurants. Furthermore, a disturbing trend emerged—the lower the median income level of the city, the higher the number of predatory lenders in the city, reaffirming what many studies have found—payday lenders prey on the military and lower income consumers who can least afford the service. This is also evidenced by looking outside the gates of Little Rock Air Force Base and at almost any military base in this country and seeing all of the payday loan and check cashing businesses that have clustered around them.

A 2003 study by the National Consumer Law Center entitled “In Harm’s Way – At Home: Consumer Scams and the Direct Targeting of America’s Military and Veterans” found that military personnel are a particularly attractive group of low-income targets for predatory lenders, as deployment overseas can make families vulnerable, and that military conduct codes stressing orderly finances may inadvertently be driving some toward the quick fixes predatory lenders offer. The study also noted that some military leaders are concerned that financial stress from scams and predatory practices could have an impact on readiness. The truth be told, when our troops get into financial trouble, their focus shifts from wartime readiness to personal readiness. That just shouldn’t be.

Credit Unions Fighting for Our Troops

NAFCU is pleased to report to the Subcommittee that credit unions are leading the fight against predatory lenders who are targeting our men and women in the armed services. One of the big ways that credit unions are trying to do this is through education. Many young men and women who join our nation’s armed services have not had much, if any, financial education. Many may not even have ever had a relationship (account) with a financial institution before. Defense credit unions have made financial education and literacy of those in the military an urgent priority. It is through education that we can best combat the predatory lenders that prey on our nation’s troops.

Credit unions have a presence on almost every military installation in the United States and take their role in serving our troops seriously. The largest credit union in the world, Navy Federal Credit Union, operates branches overseas and provides service over the phone and internet, oftentimes with extended hours or 24 hour access. A number of these branches and services do not make money for the credit union, but they are there nonetheless to provide the best possible service. Navy FCU has also conducted focus groups with enlisted personnel to design educational materials that best appeal to the young men and women who are entering the service to try to better reach them on financial matters.

Pentagon Federal Credit Union has started a foundation with a special emphasis on educating at-risk service personnel and combating payday lenders. The foundation offers a special short term loan to members that charges only nominal interest but requires financial counseling and education as part of the loan.

Arkansas Federal Credit Union has been a leader in the State of Arkansas in combating predatory lenders in that state, offering a number of services to our members, from small, unsecured loans, to fee free checking accounts, along with a focus on financial education.

These are just a few examples, but there are many more credit unions all across our nation who are seeking to better educate those in the armed services about their financial matters.

NAFCU has been a leader in trying to get the good word out about the services that credit unions can provide to help the financial needs of those in service to our country. Just earlier this spring, NAFCU President and CEO Fred R. Becker, Jr. penned an article for *Military Money* magazine (Spring 2005 issue, page 20 - published by the National Military Family Association) stressing "Ten Reasons To Join Your Credit Union". This article gives a good, quick summary of the reasons to join the credit union on base and the benefits that servicemen and women can get from establishing this relationship. A copy of the text of the article is attached to this statement.

NAFCU has also sought to get legislation enacted that would allow credit unions to better serve their members, and thus be better equipped to help fight predatory lending. The *Expanded Access to Financial Services Act of 2005*, H.R. 749, introduced by Representative Jim Gerlach and

reported by the House Financial Services Committee, would allow credit unions to provide check cashing, money orders and wire transfer services to anyone in their field of membership. This legislation would allow those men and women on the base who don't belong to the credit union to at least get those services from the credit union on the base instead of using a predatory lender off of the base. We have worked with a number of members of the Subcommittee in efforts to provide more regulatory relief to credit unions and other financial institutions, and we thank you for your support in these efforts.

We must also note that Congressmen Ed Royce and Paul Kanjorski are currently crafting the *Credit Union Regulatory Improvements Act* to be introduced in the 109th Congress. This legislation would provide credit unions with needed regulatory relief in many areas. For example, one provision in the legislation would allow credit unions that convert from a "Select Employee Group" (i.e. a military base, or series of bases) field of membership to a "community" field of membership to continue serving and adding new members from their previous employee groups. This issue has arisen when a credit union serving multiple bases (sometimes stateside, sometimes overseas) faces a BRAC of one of the bases in their field of membership. Current law could create a situation where a credit union may have to divest itself of serving a base, if it were to convert to a community charter. NAFCU does not believe that this is the best solution for the credit union, nor the men and women in uniform that the credit union is trying to serve. NAFCU thanks Subcommittee Members Representatives Case and Michaud for co-sponsoring this legislation when it was introduced as H.R. 3579 in the 108th Congress, and we urge the Subcommittee members to sign on as co-sponsors when this bill is reintroduced in the 109th Congress.

Conclusion

NAFCU applauds efforts to combat predatory lending, especially those predatory practices that are aimed at our men and women in service to our country. Many defense credit unions are taking on those predatory lenders on the front-line every day and attempting to arm our servicemen and women with the best weapon we can give them to fight those who would prey on them—financial education. We look forward to working with Chairman Graves and the Subcommittee and the Congress on this important effort.

Appendix A

(Copy of *Military Money* article published in the Spring 2005 issue on page 20)

Ten Reasons To Join Your Credit Union

By Fred R. Becker, Jr.

Arkansas Federal Credit Union CEO Hank Klein made a troubling discovery recently. When his credit union undertook a study of payday lenders in his area, it found many of them were located just outside of Little Rock Air Force Base, one of the facilities his credit union serves.

“It’s not a good sign when you see six payday lenders in one city that has only three McDonalds,” Klein says.

“People have asked us where they will go if there are no more payday lenders,” he says. “The truth is, some people can’t afford to take on any more debt and shouldn’t be borrowing at all. But for those who can, a credit union is a good place to start.”

Arkansas Federal Credit Union is but one of thousands of credit unions that provide low-cost alternatives to those who may need a small loan, a free checking account or a chance to rebuild their credit.

“We serve military personnel and a lot of government workers,” according to Klein. “They often have to stretch their budgets, or they need help getting over a tough financial patch. So we have a lot of options for them, from small, unsecured loans to fee-free checking accounts that can be opened with as little as \$25.”

Credit unions are not-for-profit financial cooperatives owned and governed by their members, making them different from commercial businesses in their operation and their philosophy of placing members’ needs first. This “member-first” approach translates into better rates on savings accounts and loans, lower fees and higher levels of service.

No matter where you are stationed, chances are there is a credit union to meet your needs, whether it serves a single base or a particular branch of service. Consider these distinct advantages to becoming a member:

- 1. Low minimum balances.** Credit unions generally require a very modest minimum balance to open an account. As little as \$5 may be all it takes to join a credit union and to start accessing its services.
- 2. Better rates of return on savings.** Credit unions provide higher interest rates on basic savings (share) accounts, interest-bearing checking accounts and CDs. Many credit unions also pay “bonus” dividends if the credit union has a good year.

3. No- or low-fee checking accounts and ATMs. Many Americans spend hundreds of dollars a year on checking account fees, often because they can't meet minimum balance requirements. Credit unions give their members a break by assessing no fee or a much more modest fee than typically charged by large banks. Credit unions also have lower ATM charges and sometimes are connected to surcharge-free networks.

4. Lower interest rates on credit cards and loans. This may be the biggest advantage to young military families who are just getting started and need to stretch their dollars as much as possible. From credit cards to car loans, credit unions consistently offer lower rates, better terms and lower fees. DataTrac, a national interest rate-tracking service, finds that rates on car loans offered by credit unions average 1.5 to 2.0 percent lower than banks.

5. Accounts insured by the U.S. government. Credit union accounts are insured up to \$100,000 by the National Credit Union Share Insurance Fund, just as the FDIC insures bank and thrift deposits of up to \$100,000. Some credit unions also offer additional private, supplemental coverage up to \$250,000 per account.

6. Competitive mortgage rates and equity loans. More credit unions are offering extremely competitive interest rates on home mortgages, equity loans and lines of credit. Not only are the rates low, but closing costs generally are much lower than those paid through a conventional lender.

7. Credit counseling. Credit unions know that it is sometimes difficult for military families to meet their obligations, so they have established extensive programs to help their members get back on their feet.

8. A voice in your credit union's operations. As a member-owner of your credit union, you are entitled to vote on credit union business and elect new board members. You can also serve on your credit union's volunteer board or one of its committees.

9. Once a member, always a member. As long as you maintain an account, you will always be a member of your credit union, even if you move or are discharged from the service. Most credit unions today offer any number of services online or by telephone, so convenience is maintained.

10. Community outreach and service. Among the many special services credit unions provide are financial counseling, first-time loans to members with credit problems, low-cost alternatives to check cashers and payday lenders, and outreach to underserved neighborhoods.

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