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National Association of Federally-Insured Credit Unions

January 28, 2022

The Honorable Marcia L. Fudge
Secretary
U.S. Department of Housing and Urban Development
451 7th Street SW
Washington, D.C. 20410

RE: FY22-26 Strategic Goals

Dear Secretary Fudge:

On behalf of Inclusiv and the National Association of Federally-Insured Credit Unions (NAFCU) (the Associations), we are writing to you regarding the U.S. Department of Housing and Urban Development's (HUD) draft 2022–2026 Strategic Plan. Inclusiv is a national association for Community Development Financial Institution (CDFI), minority designated and low-income credit unions (LICUs). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products.

The Associations urge HUD to create specific goals and objectives that will assist financial institutions that specialize in serving low- and moderate-income borrowers with otherwise limited access to personal, business and home financing. Specifically, the Associations request that HUD work to offer tailored training and other resources for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to become Federal Housing Administration (FHA) lenders. As part of its mission statement, HUD seeks to "create strong, sustainable, inclusive communities"[1] and so the Associations also ask that HUD publicly support changes to the *Federal Credit Union Act* (FCU Act), which would allow all federal credit unions to provide financial services to underserved areas.

FHA Lending

Credit unions in general, and especially credit unions designated as CDFIs and MDIs, play a vital role in supporting underserved communities. As the economy continues to recover from the COVID-19 pandemic, CDFIs have proven to be an invaluable instrument for providing financial services to underserved areas.

> "[B]usiness lending CDFIs are making start-up loans, micro-enterprise loans, and providing gap financing, or focusing their lending on minority and/or low-income borrowers in distressed areas. CDFIs that focus on mortgages and other housing-

[1] Mission/U.S. Department of Housing and Urban Development (HUD) | HUD.gov / U.S. Department of Housing and Urban Development (HUD)

> related loans are focusing their products on traditionally underserved populations such as low-income and minority households, and providing low-cost products including home purchase loans, foreclosure prevention loans, emergency loans for seniors, and energy efficiency loans. Real estate development CDFIs are lending to developers serving low- and very-low-income populations, not only for development of affordable housing but also for community facilities, retail outlets and charter schools, among other projects."[2]

To obtain and maintain their certification, CDFIs must demonstrate that at least 60 percent of their lending activity is directed to one or a combination of target markets: economically distressed geographies (Investment Areas); low-income targeted populations (LITP) and minority communities, specifically African Americans, Hispanics, and Native Americans (other targeted populations -OTP). One of CDFIs' most important values to these communities is their ability to provide responsible and affordable mortgage lending for first-time home buyers and provide flexible underwriting for community facilities. The financial products offered by CDFIs are designed to support the specific needs of the borrower, particularly low- and moderate-income, as well as minority borrowers, as most are fixed-rate and self-amortizing with lower origination fees. This keeps payments affordable and allows borrowers to decrease the principal, so the loan is actually paid off at the end of the term. Although these products provide much-needed credit in their respective communities, their specialized nature may set them apart from conventional mortgage products. The FHA should introduce additional programs that provide insurance for CDFI loans and that make it easier for these communities to have access to FHA-backed mortgage products.

Additionally, CDFIs provide specialized development services to their target markets, such as credit counseling and homebuyer classes to help borrowers use credit effectively and ensure they are able to keep up with their loan obligations. Since CDFIs are deeply committed to their communities, they have a stronger interest to modify lending terms to accommodate the needs of their borrowers when they're facing financial challenges than traditional financial institutions. This may include deferment, forbearance, and loan modifications. CDFIs recognize that by making amendments to loan terms, they are increasing the probability that a borrower can successfully recover from the hardship and repay the loan in full. From 1996-2015, CDFIs experienced lower net charge-off rates than all depository institutions, illustrating that CDFIs' missions compel them to manage delinquencies rather than charge-off late loans.[3] This mission-driven focus and dedication to relationship-oriented banking help to make CDFI loans less likely to default and make CDFI lenders appealing candidates for designation as FHA insured lenders.

The number of CDFI credit unions has grown over the last two years, reaching a historic high of 433, representing one-third of all CDFIs. They collectively serve nearly 17 million predominately low-income consumers and communities of color and have combined assets of over $230 billion. A growing number of credit unions are pursuing CDFI certification in order to better meet the

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[2] Swack, M., Northrup, J., & Hangen E. (2012) "CDFI Industry Analysis: Summary Report." Carsey Institute: University of New Hampshire.

[3] Opportunity Finance Network. (2017) "20 Years of CDFI Banks and Credit Unions 1996-2015: An Analysis of Trends and Growth."

needs of their members. Despite this outstanding growth, there is more work to be done to increase CDFI approval as FHA lenders. As we transition into 2022 and as HUD contemplates its goals and objectives for the next four years, it is crucial to build upon the growth of CDFIs and ensure that these institutions that have demonstrated their vital role to serve low-income consumers and communities of color, have the resources and programs they need to best serve their members. We recommend that HUD conducts a study to determine the level of participation of CDFIs in FHA loan insurance programs and offer targeted training and resources to grow the number of CDFIs that are FHA approved lenders.

We urge HUD to be accommodating to small CDFI credit unions that often rely on staff who are not experts in federal programs. 83 percent of all MDI credit unions have assets under $100M! A bias against small institutions will disproportionately impact minority communities. To the extent that FHA lender approval is unnecessarily burdensome for CDFI originators, we urge HUD to work collaboratively with CDFIs to streamline the process. A 2019 study by the Federal Reserve Bank of Richmond found that the two most impactful factors preventing CDFIs from performing aspirational activities were limited staffing and lack of necessary skills.[4] HUD can begin to remedy these obstacles by offering training, resources, and the creation of a pilot program for FHA lending focused on CDFIs and MDIs. This would allow FHA to better understand the unique challenges that these institutions face in terms of staff and resources and to tailor loan insurance that allows CDFIs to offer credit to more members of underserved communities.

Alternatively, HUD could allow the use of *contract underwriters for the FHA loans.* The reality is that small/rural markets likely don't have experienced FHA underwriters in market and becoming an FHA approved underwriter is a lengthy process. Additionally, FHA approved underwriters are expensive, and given the low loan volume that small and mid-sized CDFI's will produce, employing a full-time FHA underwriter is not cost effective. The challenge of paying for the FHA underwriter is compounded by the fact that rural and underserved areas typically need smaller loans, which will push down what the CDFI can earn on the loan (assuming the loan is sold) and increase inefficiencies in the program. Having the option to use approved contract underwriters for FHA loans will open up the product to smaller and more rural lenders and help mitigate credit risk as the most experienced underwriters will be used.

The Associations would appreciate the opportunity to discuss with you and HUD staff the potential room for improvement in the interplay between CDFI credit unions and the FHA.

Underserved Communities

Serving underserved populations, whether through affordable housing or financial services, is inherently aligned with both the HUD and credit union mission. Therefore, all credit unions that wish to add underserved areas to their field of membership should be permitted to do so. However, the FCU Act currently permits only multiple common bond federal credit unions to add underserved areas to their fields of membership. An underserved area must meet three statutory requirements: (1) be a local community, neighborhood or rural district; (2) qualify as an

[4] Regional & Community Analysis, Federal Reserve Bank of Richmond. (2019) "Community Development Financial Institutions (CDFIs) by the Numbers"

"Investment Area" as defined in the Community Development Banking and Financial Institution Act of 1994 (CDFI Act); and, (3) be underserved by other depository institutions, based on data from the NCUA and federal banking agencies.[5]

Credit unions are ready and able to address the credit needs of underserved areas as banks retreat from these areas. Extending research from a recent report by the Federal Reserve, between 2012-2019 community banks decreased rural branches by 5 percent and large banks decreased rural branches by 19 percent; credit unions grew their branch presence in rural areas by 2 percent over that span.[6] However, the void left by departing banks in rural and underserved communities can be mitigated if more credit unions are permitted to replace lost services through underserved area expansions. Credit unions stand ready and willing to help eliminate banking deserts, but outdated statutory limitations impede this effort.

A December 2021 NAFCU survey also reveals that interest among currently ineligible federal credit unions in serving underserved communities is substantial. Approximately 70 percent of federal, non-multiple common bond credit union respondents said they would be interested in adding an underserved area to their fields of membership if Congress were to pass legislation granting all types of federal credit unions (i.e., community, single-common bond, etc.) the ability. With the appropriate legislative reforms, this latent capacity could easily be put to work to help improve access to financial services for millions of Americans.

The Associations support the discussion draft of the "Expanding Financial Access for Underserved Communities Act" which would expand the ability of federal credit unions to add underserved areas to their fields of membership.[7] The proposed bill would also specify that an underserved area includes an area that is more than ten miles from the nearest branch of an insured depository institution. In the spirit of "creat[ing] strong, sustainable, inclusive communities," NAFCU urges HUD to support legislative changes to allow all credit unions to serve underserved areas, and thereby providing credit to more Americans and enabling them to "utilize housing as a platform for improving quality of life."[8] The NCUA Board supports these changes, and the addition of your support would be invaluable to helping underserved communities. Modernization of field of membership is necessary so that all federal credit unions can address the needs of underserved communities, particularly as banks close rural branches and access to financial products and services diminishes.

Conclusion

The Associations would like to thank HUD for its focus on underserved communities and urge HUD to provide CDFI credit unions with the resources, programs, and accommodation to facilitate

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[5] 12 U.S.C. 1759(c)(2)(A) (emphasis added)
[6] Board of Governors of the Federal Reserve, "Perspectives from Main Street: Bank Branch Access in Rural Communities," (November 2019), available at https://www.federalreserve.gov/publications/november-2019-bank-branch-access-in-rural-communities.htm.
[7] *See* "Expanding Financial Access for Underserved Communities Act" (available at https://financialservices.house.gov/uploadedfiles/bills-117pih-theexpandingfinancialaccessforunderservedcommunitiesact.pdf
[8] Mission/U.S. Department of Housing and Urban Development (HUD) | HUD.gov / U.S. Department of Housing and Urban Development (HUD)

access to affordable mortgage credit for low- and moderate-income and first-time homebuyers. NAFCU also requests your support for changes to the FCU Act that would allow all credit unions to serve underserved areas. We would welcome the opportunity to meet with you to discuss issues related to credit union CDFIs and other credit union priorities.

Thank you for your consideration and we look forward to working with you to ensure that all Americans have the ability to improve their quality of life through homeownership. If you have any questions, please don't hesitate to contact James Akin, Regulatory Affairs Counsel, at jakin@nafcu.org, or Jules Epstein-Hebert, Director of Membership at jhebert@inclusiv.org
Sincerely,

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