3138 10th Street North
Arlington, VA 22201-2149
703.842.2234 | 800.336.4644
gmesack@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

Greg Mesack
Senior Vice President, Government Affairs

December 5, 2022

The Honorable Joyce Beatty
Chairwoman
Committee on Financial Services
Subcommittee on Diversity and Inclusion
U.S. House of Representatives
Washington, DC 20515

The Honorable Ann Wagner
Ranking Member
Committee on Financial Services
Subcommittee on Diversity and Inclusion
U.S. House of Representatives
Washington, DC 20515

Re: The Subcommittee on Diversity and Inclusion's Hearing, "Unfinished Business: A Review of Progress Made and a Plan to Achieve Full Economic Inclusion for Every American"

Dear Chairwoman Beatty and Ranking Member Wagner:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to share NAFCU's perspective on the issues before the Subcommittee as part of tomorrow's hearing, "Unfinished Business: A Review of Progress Made and a Plan to Achieve Full Economic Inclusion for Every American." We thank you for your continued focus on diversity and inclusion, as well as the Financial Services Committee's advancement and consideration of policies that allow for credit unions to act as a catalyst for economic inclusion. As the Subcommittee reviews the progress towards full economic inclusion for all in the financial services industry and capital markets, we urge you to keep our concerns on these critical issues in mind.

<u>The Vital Role of Credit Unions in Expanding Financial Access to Underserved Areas</u>

First and foremost, NAFCU is strongly supportive of H.R. 7003, the Expanding Financial Access for Underserved Communities Act (which is also included in Title V, Subtitle B of H.R. 2543). This legislation, offered by House Financial Services Committee Chairwoman Maxine Waters and Consumer Protection and Financial Institutions Subcommittee Chairman Ed Perlmutter, takes important steps to help credit unions help those other financial service providers have left behind. Credit unions have long been a critical provider of financial services to rural and underserved areas. As large and community banks have been shutting down branches and moving out of these areas, credit unions have been stepping up. It is unfortunate that banking groups continue to actively oppose this effort, attacking efforts by credit unions to do more to help the underserved, rather than focusing on ensuring people who live in banking deserts – areas that banks have abandoned – have access to basic financial services. Many credit unions want to do more to help underserved areas as banks abandon them and passing this provision to help credit unions fill the void would be a commonsense first step. It is important to note that this legislation does not directly grant underserved areas to credit unions, rather it allows them to apply to the National Credit Union Administration (NCUA) to add these areas should they meet the necessary criteria.

Banks have closed more than 4,000 branches since March 2020, according to an independent National Community Reinvestment Coalition (NCRC) study. ***This is a pace of over 100 bank branch closures a month in the last two years.*** The number of bank branches in rural and underserved areas has declined by 10.8 percent since 2012 while the number of credit union branches in those areas has grown by 2.4 percent. Currently, only credit unions that are chartered as multiple common bond credit unions can add underserved areas. This legislation will knock down this harmful barrier, by allowing all types of federal credit unions to add underserved areas to their field of membership.

The Expanding Financial Access for Underserved Communities Act will also build on the support provided by credit unions to small businesses during the pandemic and exempt business loans made by credit unions in low-income areas from the credit union member business lending (MBL) cap. The MBL cap serves as a disincentive for many credit unions to focus on small business programs, as successful small business efforts could reach the cap and run into limitations. If banks were serious about helping small businesses and underserved areas, they would not have turned so many customers away during the pandemic that then went to credit unions for help. It was credit unions that stepped up to ensure small businesses in their communities were taken care of during the initial days of the pandemic, and their response through the Paycheck Protection Program (PPP) was tremendous. According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by banks and came to their credit union to apply for a PPP loan. Furthermore, according to NAFCU's analysis of the Small Business Administration's PPP data, a full 75 percent of credit union PPP loans went to businesses with fewer than five employees. Many of these are the same businesses that have been underserved by banking institutions and would benefit from the legislation's provision providing relief from the arbitrary credit union MBL cap for loans in underserved areas.

The numbers show that credit unions stand ready to do more and help those who have been left behind by banks.

<u>Important Provisions Supporting Community Development Financial Institutions (CDFIs)</u>

NAFCU also supports H.R. 7733, the CDFI Bond Guarantee Program Improvement Act of 2022, introduced by Housing, Community Development, and Insurance Subcommittee Chairman Emanuel Cleaver (the text of which is also included in Title V, Subtitle A of H.R. 2543). The CDFI Bond Guarantee Program provides a valuable line of long-term capital to CDFIs through the Federal Financing Bank. The CDFI Bond Guarantee Program was enacted in 2010 to provide long-term, low-cost capital to CDFIs, which use the funding for economic development activities in underserved communities. The program's authorization lapsed in 2014, but it has been extended on a year-by-year basis in annual appropriations bills. It would be a huge improvement and provide certainty to make this program permanent.

We are also supportive of provisions found in Title III, Subtitle C of H.R. 2543—Promoting and Advancing Communities of Color Through Inclusive Lending. This includes the establishment of an Office of Diverse and Mission-Driven Community Financial Institutions at the Treasury Department (Section 331) to aid CDFIs and Minority Depository Institutions (MDIs) in gaining access to programs, including the CDFI Fund. Credit unions have seen challenges with the CDFI Fund in the last year, including a backlog of applications, poor communication, a lack of a "cure period" to resolve issues, and changes to the certification process making it more cumbersome. In addition to supporting Sections 332, 333, and 334, we also support Section 336 of H.R. 2543, which would have the CDFI Fund work with functional regulators in an attempt to lower burdens on CDFIs.

We thank you for the opportunity to share our thoughts on these proposals and the important issue of diversity and inclusion and additional steps that Congress can take to help foster access for credit unions. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at jplevelich@nafcu.org.

Sincerely,

Greg Mesack

cc: Members of the House Financial Services Subcommittee on Diversity and Inclusion