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National Association of Federally-Insured Credit Unions

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April 5, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman McHenry and Ranking Member Waters:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in response to a recent letter sent to you by the Independent Community Bankers of America (ICBA) and a group of state community banking trade associations requesting that the Financial Services Committee hold an oversight hearing on the National Credit Union Administration (NCUA). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial service products.

Let me make it clear that NAFCU supports oversight of all federal financial regulators, including the NCUA. The Committee has a critical role in ensuring that our regulators are carrying out their Congressionally mandated duty to ensure the safety and soundness of the financial system and to protect consumers. This is one of Congress's most critical roles. However, the April 4, 2023, letter from the ICBA is a thinly veiled attack on credit unions, filled with inaccuracies and misstatements, dressed up as a request for oversight.

I want to set the record straight on several points the ICBA makes in its letter regarding credit unions.

The NCUA Is No Industry Cheerleader and Remains a Strong, Transparent, and Accountable Regulator

The ICBA's letter starts out by asserting that the NCUA "acts as an industry advocate and promoter, without regard to the broader financial ecosystem." Furthermore, they argue that the agency "routinely oversteps statutory authority, circumvents the will of Congress, and fails to hold the industry accountable…." These are baseless accusations against an agency that has overseen an incredibly safe and sound credit union industry.

First, in regard to the overall financial ecosystem, it is important to point out that credit unions are a critical part of the consumer finance ecosystem. As not-for-profit financial cooperatives, credit unions provide safe, affordable financial products for Americans of all incomes. Our focus on our members, rather than profits to line the pockets of executives and investors, allows us to offer low-cost alternatives to banks. Data consistently shows that credit unions consistently have lower fees and lower rates than banks. The bankers' baseless attacks make clear they want to limit this competition, but the competition credit unions provide keeps financial services affordable for all consumers. A recent study found that "the total combined benefit to U.S. consumers—both credit union members and bank customers—from the presence of credit unions in financial markets was $153 billion over the ten-year period."[1] Bankers would like to keep that $153 billion for executive bonuses and stock buybacks, but credit unions believe it belongs in the pockets of hard-working Americans who clearly benefit from our participation in the financial ecosystem.

Also, when talking about the quality of the NCUA and the financial system, it is important to note that during the during the Great Recession, over 300 banks failed, five times the number of credit unions that failed. Those banks failed because their institutions chose to chase risky investments to generate quick profits, rather than focus on providing high-quality, affordable financial products to their customers. It is quite hypocritical of bankers to talk about the financial ecosystem and call out credit unions when their reckless chase for profits almost destroyed the entire global financial system.

Credit Unions' Commitment to Underserved Areas

In perhaps what is the height of cynicism and hypocrisy, the community bankers spent significant time in their letter opposing credit unions' ability to enter into underserved communities to provide for those without access to basic financial services. Bankers are abandoning markets by the hundreds, and they would rather these Main Streets have no financial services provider at all than be served by a credit union.

Banks have averaged closing almost 200 branches per month since the beginning of 2020, according to a study by the National Community Reinvestment Coalition. In 2022 alone, banks closed over 1,500 branches while during the same time credit unions actually *added* branches. Bankers have no problem abandoning Main Street America but will fight tooth and nail to keep credit unions from filling the void left by the banks. This letter shows that they clearly care more about profits than consumers.

Credit unions take their duty to serve seriously, and our request for the ability to allow more credit unions to add underserved areas to fields of membership is a response to the banks walking away from these areas to focus on high net-worth consumers in big cities. That the ICBA would rather see rural Americans be served by an ATM on a corner rather than a credit union speaks volumes about the real concerns of community bankers.

Credit Unions' Unwavering Service to Low- and Moderate-Income Communities

The community bankers highlight the Community Reinvestment Act (CRA). I would like to remind the Committee why the CRA was passed in the first place. For decades bankers were redlining minority communities, depriving them of the capital they needed to grow and prosper. In response, Congress

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[1] Robert M. Feinberg & Douglas Meade, "Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy", NAFCU (September 2021), https://www.nafcu.org/system/files/files/NAFCU%202021%20CU%20Tax%20Study-FULL-Web.pdf.

passed the CRA to ensure that bankers could no longer ignore minority and low-income communities. The CRA was not needed for credit unions because we did not engage in such inexcusable practices.

The data above makes it clear bankers cannot flee low- and moderate-income (LMI) communities fast enough. However, credit unions remain in those communities, working hard every day to serve their members. Our common bond requires us to serve only in our communities; we can't abandon our members to chase profits elsewhere because our charter does not allow us to do that. Credit unions recognize the need in these areas abandoned by banks and want to ensure all Americans have access to safe, affordable financial services. But apparently, if the bankers can't make money off of these communities, no one should serve them.

Finally, it is stunningly contradictory for the bankers on one page of their letter to adamantly oppose credit unions being able to serve more underserved areas, and then on the very next page say that credit unions are not doing enough to serve LMI communities. Again, it seems that they want every piece of the pie and are not interested in sharing, even if that hurts American consumers.

Bank Mergers Benefit Communities

Community bankers have been complaining for years about bank-credit union mergers. They try to make 16 mergers in 2022 sound like a scary number that is the end of community banking. It is important to look at these transactions both in perspective and in their benefit to communities.

First, the perspective. The community bankers point out that in 2021 there were 13 bank-credit union mergers and in 2022 there were 16. In 2021 there were 206 bank mergers, and in 2022 there were 163. The bank-credit union mergers accounted for less than 8 percent of all mergers over the past two years. This is a far cry from a crisis warranting Congressional intervention. If community bankers want to be honest about the threat to community banking, it is bigger banks buying smaller banks. Bank-credit union mergers account for a fraction of the banking consolidation over the past few years.

Second, it is important to note that these are voluntary transactions, and that they do not allow credit unions to grow outside of their common bond. Anytime a bank merges with a credit union it must be approved by both the bank's and the credit union's boards of directors. Furthermore, if a credit union merges with a bank, it must divest itself of any customers from the bank that do not fit into the credit union's existing field of membership. Once you look past the community bankers' hysteria, you will see that in almost all cases the merger allows a community to keep a trusted financial institution from closing its doors. Consolidation is happening in both the bank and credit union industries, and we urge the Committee to examine the growing regulatory burdens that are forcing these changes. The crushing burden of increasingly complex regulations is forcing small institutions to either close or merge because they cannot afford the costs associated with compliance. This harms the financial system by decreasing choice and competition. However, bank-credit union mergers are not the problem, but merely a symptom of it.

A Fundamental Misunderstanding of the Interest Rate Ceiling

The NCUA voted at its January 2023 Board meeting to set the interest rate ceiling at 18 percent for the next 18 months. It is important to note that were the credit union rate cap to be set at 21 percent it would still be lower than the average credit card rate for banks, which currently sits around 24.16 percent.[2] This just demonstrates, again, the hypocrisy of community banks in calling for credit unions to have their rates capped at 18 percent when the average rate on a credit card is 33 percent above the credit union rate cap. The bankers are trying to distract from their own rising rates. Credit unions will only be able to serve more members of their communities with the flexibility to adjust their rates slightly higher, if necessary. Offering affordable, safe credit options for consumers, even at an interest rate of 3 percentage points higher, will prevent some consumers with limited access to financial services (especially in rural areas where banks have closed their branches while credit unions have opened branches) from turning to predatory lenders.

In closing, NAFCU supports strong oversight of the NCUA and all financial regulators. This is an essential function of Congress, and we stand ready to assist the Committee as it carries out this important duty. However, do not be distracted by the misstatements and hypocrisy of the community banks. The simple data shows that credit unions remain the best source of affordable and safe financial products for Main Street America.

Sincerely,

Greg Mesack

cc: Members of the House Financial Services Committee

[2] Michelle Black & Robin Saks Frankel, *What is the Average Credit Card Interest Rate This Week? April 3, 2023*, Forbes Advisor (March 28, 2023), https://www.forbes.com/advisor/credit-cards/average-credit-card-interest-rate/.