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National Association of Federally-Insured Credit Unions

Greg Mesack
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The Honorable Jim McGovern
Chairman
Committee on Rules
U.S. House of Representatives
Washington, DC 20515

The Honorable Tom Cole
Ranking Member
Committee on Rules
U.S. House of Representatives
Washington, DC 20515

Re: Rules Committee Consideration of H.R. 2543, the Financial Services Racial Equity, Inclusion, and Economic Justice Act

Dear Chairman McGovern and Ranking Member Cole:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts on amendments before the Committee as you consider H.R. 2543, the *Financial Services Racial Equity, Inclusion, and Economic Justice Act*. We would also like to take the opportunity to respond to the recent efforts from banking trade associations opposing H.R. 7003, the *Expanding Access for Underserved Communities Act*. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 130 million consumers with personal and small business financial service products.

First, we urge your support for Amendment #15 from Representative Ritchie Torres that would expand the definition of Community Financial Institutions (CFIs) in the *Federal Home Loan Bank Act* (FHLB Act) to include credit unions and Treasury-certified non-depository community development financial institutions. CFI status would enable credit unions to pledge small business, small agriculture, and community development loans, not just housing loans, as collateral with the FHLBs. This would help credit unions maintain funds to make more loans.

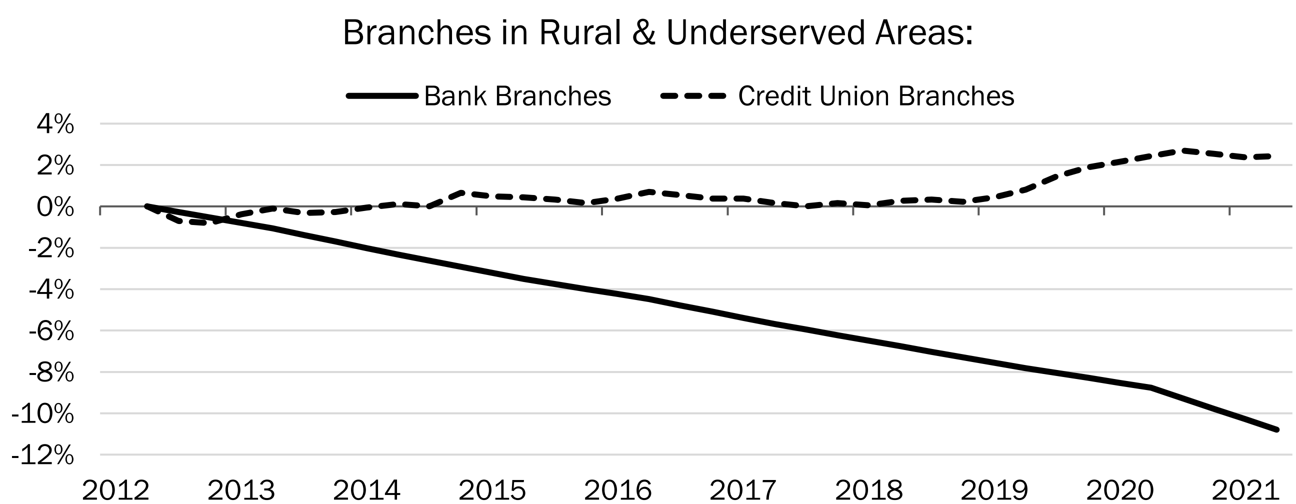
Second, we strongly urge you to oppose any amendment, including Amendments #4 and #10, that would strike the *Expanding Access for Underserved Communities Act* from H.R. 2543.

We also feel that we need to respond to the recent letter by banking groups to the Committee focusing their opposition on efforts by credit unions to do more to help the underserved, rather than focusing on ensuring that people who live in banking deserts – areas that banks have abandoned – have access to basic financial services. Their letter is incredibly disappointing and stunningly hypocritical. The *Expanding Access for Underserved Communities Act* would make more credit unions eligible to offer basic banking services to areas that are underserved or banking deserts. It is the height of cynicism that the banking trade associations signing the letter are essentially saying that even though their members have left these communities, they do not want credit unions to step in to fill the void as banks pull out. It seems that they would rather underserved communities have no financial institutions than have a credit union to serve them.

Meanwhile, credit unions have continued to provide financial services to rural and underserved areas, before, during, and as we emerge from the pandemic. As large and community banks have been shutting down branches and moving out of these areas (a trend that *accelerated* during the pandemic), credit unions have been stepping up and expanding their presence in these communities that need their guidance most. In 2019, the Federal Reserve published a study detailing the dramatic decline in bank branches in rural areas. The study showed that 7 percent of rural bank branches were closed between the years 2012 and 2017, and that number grew to 11 percent through 2019. Losses are not only concentrated among large banks, which shuttered 19 percent of their total rural branches, but also among community banks, which lost 5 percent. Credit unions, on the other hand, were the only financial institution type to add branches in both rural and underserved areas, demonstrating credit unions' commitment to serving underserved communities.

Even more staggering is that according to an independent National Community Reinvestment Coalition (NCRC) study, banks have closed more than 4,000 branches since March 2020. **This is a pace of over 200 bank branch closures a month over the last two years of the pandemic.** Recent data from the Consumer Financial Protection Bureau indicates that rural communities are experiencing a fast-paced exodus of in-person banking services, with rural communities 10 times more likely than urban communities to be located in banking deserts.

As the chart below shows, 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 has grown by 2.4 percent.



Note: Bank data based on FDIC Summary of Deposits branch types 11 & 12
Sources: FDIC, NCUA, NAFCU calculations

While the banking trades might say that credit unions already have the ability to add underserved areas to their fields of membership, they do not mention that not all have that ability, as only multiple common bond credit unions can add underserved areas. Many credit unions want to do more to help underserved areas as banks abandon them and passing the *Expanding Access for Underserved Communities Act* would be a commonsense first step.

Banking trades are also keen to attack credit unions seeking relief from the arbitrary member business loan (MBL) cap, however, they gloss over the underlying cause for seeking relief. 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. The hypocritical nature of banks turning their backs on small businesses while opposing legislation that would allow credit unions to serve them is baffling, yet unsurprising.

Perhaps the reason banks are attacking credit union small business lending is to mask the fact that one of the most devastating side effects of banks abandoning rural and underserved communities with branch closures is the noticeable decline in small business lending and the resulting reduction in economic activity. Two recent studies noted that when bank branches close in communities there is a noticeable and relevant decline in small business lending. One study determined that losing bank branches results in "a persistent decline in local small business lending," and a 2 percentage point reduction in employment growth rates.[1] Another study found that bank branch closure can result in a decline in small business lending in underserved neighborhoods for up to three years.[2] According to the previously mentioned CFPB study, in rural areas 42 percent of people are employed by small businesses, a much higher proportion than urban areas with 28 percent.

Credit unions want to enter banking deserts to help prevent these negative impacts, but bankers would rather let communities suffer negative economic consequences like reduced small business lending and depressed employment growth than allow credit unions to fill the void they created. This selfish attitude is disappointing, and to the detriment of the very people they claim to serve.

Finally, it is disappointing that the bankers continue to reiterate their tired call for credit unions to be subject to the *Community Reinvestment Act* (CRA) while advocating for reducing CRA burdens on banks. The banking groups seem to forget that credit unions were not included under the CRA because they did not engage in the abhorrent, illegal, and discriminatory activities that their member banks did. Credit unions are inherently invested in their communities, uniquely operating with a not-for-profit cooperative structure and a common bond membership. Credit unions embrace the critical role they play in providing important financial services to underserved individuals. By law, credit unions can only take deposits from and make loans to their membership, which ultimately ensures that deposits are reinvested for the benefit of all members. As many in Congress have wisely noted, if all financial institutions acted like credit unions, there would be no need for the CRA. Perhaps the banking groups should take notice.

[1] Hoai-Luu Q. Nguyen. "Are Credit Markets Still Local? Evidence from Bank Branch Closings." American Economic Journal: Applied Economics. VOL. 11, NO. 1, JAN. 2019 https://www.aeaweb.org/articles?id=10.1257/app.20170543.
[2] Maude Toussaint-Comeau, Yi David Wang, and Robin Newberger. "Impact of Bank Closings on Credit Extension to Businesses in Low-Income and Minority Neighborhoods." The Review of Black Political Economy. Nov. 2019 https://journals.sagepub.com/doi/full/10.1177/0034644619885343.

It is with these facts in mind that we urge you to reject this recent round of banker rhetoric and amendments striking this vital lifeline for underserved areas. Please support H.R. 7003, the *Expanding Access for Underserved Communities Act*, and its inclusion in H.R. 2543, the *Financial Services Racial Equity, Inclusion, and Economic Justice Act.*

We thank you for the opportunity to share our thoughts on this important issue. 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
Senior Vice President, Government Affairs

cc: Members of the House Committee on Rules