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B. Dan Berger
President & Chief Executive Officer

National Association of Federally-Insured Credit Unions

September 29, 2022

The Honorable Michelle W. Bowman
Governor
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Governor Bowman:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to you regarding your recent speech at the 2022 Community Banking Research Conference.¹ NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 133 million consumers with personal and small business financial services products. NAFCU has always appreciated the open dialogue with the Federal Reserve Board regarding credit unions' place within the broader financial services industry and looks forward to continuing to share our member credit unions' perspectives on market trends and regulatory issues.

Regarding your comments on credit union competition, NAFCU wholeheartedly agrees that credit unions play a unique and competitive role in the marketplace. As cooperatively owned institutions with defined fields of membership, credit unions are intimately bound to the communities they serve. That role is one that benefits local communities in several ways. As you know, banks have made a significant retreat from rural communities in recent years. A recent analysis by NAFCU found that large banks closed 19 percent of their branches in rural areas between 2012 and 2019, while community banks closed 5 percent of their branches. In contrast, over that same period, credit unions opened more rural branches.²

Another recent study finds that the competitive role of credit unions serves to benefit U.S. households since credit unions tend to extend better rates to their members.³ The fact that credit unions compete with banks means that bank customers benefit as well. The benefit to bank

¹ Speech by Ms. Michelle Bowman, Member of the Board of Governors of the Federal Reserve System, "The New Landscape for Banking Competition" at the 2022 Community Banking Research Conference, sponsored by the Federal Reserve, the Conference of State Bank Supervisors, and the Federal Deposit Insurance Corporation, St. Louis, Missouri (September 28, 2022), available at:

<https://www.federalreserve.gov/newsevents/speech/bowman20220928a.htm>.

² NAFCU 2020 *Annual Report on Credit Unions*.

³ Feinberg, Robert and Douglas Meade, "Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy," (September 2021), available at: <https://www.nafcu.org/data-tools/credit-union-federal-tax-exemption-study>.

customers derived from the presence of credit unions was estimated at \$8.7 billion annually over the decade ending 2020. The study concludes that credit unions' role in the overall economy adds up to \$12 billion in GDP annually. NAFCU notes that federal credit unions are subject to a unique statutory rate ceiling⁴ and that recent industry reports focusing on customer satisfaction have noted the strong performance of credit unions.⁵

While NAFCU agrees that credit unions play a competitive—and positive—role in the marketplace, credit unions are also highly regulated institutions. In important ways, credit unions face far greater regulatory and legislative limitations on their ability to truly compete with community banks. Your speech notes the rise in credit unions offering commercial lending products, but credit unions are generally limited to holding no more than 12.25 percent of their assets as business loans.⁶ As of June 30, 2022, commercial loans represented 5.9 percent of credit union industry assets compared to 15.4 percent of community bank assets.⁷

Although the NCUA has promulgated several long overdue enhancements to credit union field of membership regulations, credit unions still face significant hurdles in expanding to other areas.⁸ This is true even of underserved areas. While banks have largely vacated these areas, leaving behind banking deserts, they have waged a concerted campaign to prevent credit unions from gaining authorities that would enable them to move into those areas and provide affordable financial services to communities in need.⁹ The banking trades have [expressly opposed](#) legislation that would allow all credit unions the opportunity to do more to help these underserved communities. H.R. 7003, the Expanding Financial Access for Underserved Communities Act, was introduced by House Financial Services Committee Chairwoman Maxine Waters and passed the House earlier this year as part of a larger package despite banker opposition. A Senate version of the legislation, S. 4879, was recently offered by Senator Alex Padilla.

Credit unions are further constrained in their ability to raise capital. Credit unions are generally prevented from raising funds from capital markets in ways that banks do on a regular basis. Yet any attempts to achieve closer parity by reducing such restrictions on credit unions is met with fierce opposition from banks.

⁴ 12 U.S.C. § 1757(5)(A)(vi).

⁵ See NAFCU, Letter to CFPB re: Request for Information Regarding Relationship Banking and Customer Service; Docket No. CFPB-2022-0040, 2 (August 22, 2022); see also Stewart Bowling, "Humanizing the bank customer experience: who does it best?" *American Banker* (Aug. 15, 2022), available at <https://www.americanbanker.com/list/humanizing-the-bank-customer-experience-who-does-itbest>.

⁶ 12 CFR 723.8a.

⁷ See NCUA, *Aggregate Financial Performance Reports*, and FDIC, *Quarterly Banking Profile*.

⁸ See Chapter 4 of NAFCU *2021 Annual Report on Credit Unions* for a review of field of membership constraints, available at <https://www.nafcu.org/data-tools/nafcu-report-credit-unions>.

⁹ See NAFCU *Issue Brief: Underserved Areas – Banking Deserts* (September 2022), available at: <https://www.nafcu.org/system/files/files/Underserved%20Areas%20%20Banking%20Deserts%202022.pdf>.

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NAFCU reiterates its appreciation to the Board of Governors for its fair and attentive interest in the credit union industry. We are confident that our members' consistent and substantial efforts to support the communities they serve will be evident in any fair-minded analysis. We look forward to continuing this dialogue later this year during the association's annual meeting with the Board of Governors.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dan Berger". The signature is fluid and cursive, with a large initial "B" and a long, sweeping underline.

B. Dan Berger