NAFCU
National Association of Federally-Insured Credit Unions

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B. Dan Berger
President & Chief Executive Officer

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The Honorable Steven T. Mnuchin
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

RE: Credit Union and Bank Mergers

Dear Secretary Mnuchin:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to your recent statement during testimony before the House Financial Services Committee regarding mergers between community banks and credit unions. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 119 million consumers with personal and small business financial service products. The mergers in question are voluntary, market-based transactions and the community banks' board of directors are voting to sell to credit unions as the best option available for consumers.

The National Credit Union Administration (NCUA) and the Federal Deposit Insurance Corporation (FDIC) must both independently and transparently approve a merger before it becomes final. In fact, NCUA Chairman Hood recently testified before the Senate Committee on Banking, Housing, and Urban Affairs that these mergers are not occurring "arbitrarily or capriciously." Moreover, a credit union merger with a bank is closely scrutinized by the NCUA because credit unions are subject to strict field of membership rules dictating who may and may not become a member. Credit unions are also subject to other statutory limitations, including a prohibition on holding capital other than as retained earnings, so a merged-bank's stock must be divested. Business lending is also capped at 12.25 percent of assets, thus there may be instances where a bank's loan portfolio cannot be assimilated into the credit union.

During your testimony, you acknowledged that these mergers are small scale and, although not currently a concern for the U.S. Department of Treasury, said you would monitor the matter. In 2019, there has been final approval for nine mergers between banks and credit unions. Historically, over the past decade, the average number has been three mergers per year. Despite the modest increase this past year, these mergers are certainly not occurring at an "alarming rate" and credit unions are not on a "buying spree," as some have suggested.

Conversely, the total number of banks merging with other banks, and credit unions merging with other credit unions has decreased in the last five years. In 2018, 235 mergers occurred between banks, while only 197 mergers occurred between credit unions. Bank-credit union mergers represent a small percentage of the overall mergers that take place in the financial services sector, representing only three percent of total annual mergers in 2018. Additionally, the first purchase of a credit union by a bank, since the financial crisis, occurred this year, potentially signaling a reverse course.

In the current phase of financial institution consolidation, there are instances where banks, who answer to shareholders, are unable to remain economically viable. In order to avoid a bank failure, a merger with a credit union can ensure financial services continue for an established consumer base. If a merger with a credit union can avoid a banking desert, or continue to serve an underserved market, then consumers are better off. Earlier this year, Federal Reserve Governor Michelle Bowman, noted that the loss of a local banking presence has an adverse economic impact on smaller communities. There is no financial institution better suited to merge with a community bank than a credit union that understands and will continue to serve community interests.

It is also important to note the disparity in asset sizes when compared to recent mergers between banks. To illustrate this point, the approval for the merger of BB&T Corp. and SunTrust Bank will create the sixth largest retail lender in the country, with more than $435 billion in assets and roughly 2.6 percent of all U.S. deposits. Even considering recent mergers with banks, credit unions still comprise a relatively small portion of the financial services market. The biggest difference is that credit unions put their members and their communities first. The credit union industry is more committed to diversity and inclusion than banks as over 51 percent of credit union CEOs are female compared to merely 5 percent at banks. Additionally, consumers consistently rank their satisfaction with credit unions higher than that of community banks, regional banks, and national banks. The credit union difference is clear.

Thank you for your continued support of a vibrant, diverse economic system that allows institutions of all sizes to thrive. If I may be of assistance to you in any way, please do not hesitate to contact me directly or Carrie Hunt, NAFCU's Executive Vice President of Government Affairs and General Counsel at (703) 842-2234 or chunt@nafcu.org.

Sincerely,

B. Dan Berger
President and CEO