

MESSAGES

Credit union service to members of modest means

Main messages

- The *data clearly show that credit unions are serving those whom Congress has always intended they serve: Middle income, working Americans seeking to improve their lives but who live largely from paycheck to paycheck.*
 - Credit unions *could serve even more Americans of modest means if Congress drops or lowers key barriers that hinder credit union reach to these consumers.*
 - The *banking industry's staunch opposition, in the courts and on Capitol Hill, to credit union efforts to serve lower-income Americans is in stark contrast to their complaints credit unions are not doing enough.*
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SUPPORTING POINTS FOR MAIN MESSAGES ...

Who Congress intended credit unions to serve ...

- According to a U.S. Treasury study (2001), credit unions share five characteristics that make them “clearly distinguishable” from other financials (including banks and thrifts). Those characteristics are: 1. Member ownership with “one member, one vote” democratic control; 2. Net worth built by retaining earnings (no capital stock issued); 3. Volunteer, unpaid board elected from and by the membership; 4. Operated as not-for-profit institutions, with earnings returned to members in higher savings return, lower loan interest rates, member products and services, or retained as capital; 5. Membership limited to individuals identified in the credit union’s “field of membership.”
- There are numerous references in the legislative history in the U.S. Congress about whom Congress intended credit unions to serve, spanning the time frame from 1934 (the original Federal Credit Union Act) to as recently as 1998 (the Credit Union Membership Access Act, HR 1151).
- These references include repeated mention of credit union members in such terms as “average city workers and farmers,” “masses of the people,” “average people,” “groups of wageworkers or farmers,” “wage earners,” and “working families.”
- These references make it clear that Congress has intended credit unions to have a special mission of serving the broad working class of America (and had no intention of limiting credit union service to only the poorest).

Who credit unions do serve

- The vast majority of credit union members have family incomes that place them in the working middle class and below, living largely from paycheck to paycheck. Sixty-five percent of Americans

are dependent on their next paycheck to meet current living expenses, according to the American Payroll Association.

- Sixty percent of credit union members have annual family incomes below \$60,000; 82 percent of credit union members have family incomes below \$75,000.
- Credit unions are restricted to serving those who fall within the credit union's specific "field of membership." There are more than 40 provisions in federal law which address, define and/or limit who credit unions may serve and the process those credit unions must follow to make changes in their membership eligibility.
- The experience of the last 100+ years demonstrates Congress' intention that credit unions should serve working Americans. From the turn of the last century (1900) until recently, traditional membership restrictions obliged credit unions to organize memberships primarily around occupations, in which eligibility for membership was restricted to those who worked for an employer or group of employers, or family members of those so eligible. At the end of 2005, 69.4 percent of credit unions operated under occupational fields of membership, 9.8 percent under associational fields, and 20.8 percent had community charters.
- Credit union membership rates are highest for Americans in their working years. The overall credit union membership rate for adults is 32 percent. Membership is highest in those age groups where adults are established in their working careers: 35 to 44 years (33 percent), 45 to 54 years (41 percent), and 55 to 64 years (41 percent). The data show: Access to credit unions for Americans is *greatest* when Americans are in their prime earning years.
- Younger adults (18 to 34 years), less established in the work force, have the lowest membership rate of 23 percent. Adults of retirement age (over 65 years) have a similarly low membership rate of 28 percent. The data show: Access to credit unions is *least* during Americans' lowest earning years.
- Community credit unions tend to serve more of the underserved with the passage of time. According to NCUA's figures, 20 percent of federal credit unions now have community charters, but only 9 percent of the credit unions that have converted to community charters have had those charters for more than 5 years

Barriers that hinder ...

- Lawsuits brought by the banking industry in 2006 have forced the National Credit Union Administration to curb the ability to add underserved areas to the fields of memberships of federal credit unions to only a selected sub-group of credit unions. (That is, only credit unions that serve multiple groups can add underserved areas; single occupational groups and community credit unions -- more than half of all federal credit unions -- may no longer extend services to underserved areas.)
- The entire structure of credit union membership restrictions (in effect since credit unions were first chartered) limits credit union access to people who fall within a defined group. By its very nature, this fact makes it more cumbersome for lower income Americans to find a credit union to join, and vice versa.

- All credit unions should be able to add underserved areas to their fields of membership.

Banking industry opposition/stark contrast ...

- In numerous documents and congressional testimony, banking industry representatives criticize credit unions for failing to adhere to the “principle” to serve ‘people of small means’ that is specifically enunciated in the preamble to the Federal Credit Union Act of 1934.” Bankers further define “people of small means” as “serving moderate and lower income people.”
- For example: In testimony before the House Ways and Means Committee Nov. 3, 2005, Jeff L. Plagge, President and Chief Executive Officer, First National Bank of Waverly, Waverly, Iowa, on behalf of the American Bankers Association, testified that “a new breed of credit union has abandoned its mission to serve those of small means.”
- However, just three days earlier (Monday, Oct. 31), lawyers from the American Bankers Association were filing lawsuits in federal court to block credit unions from further extending service to persons of modest means in low- and moderate income areas in the state of Utah.
- The bankers ultimately prevailed in their lawsuit, forcing the federal government (National Credit Union Administration) to block a significant number of credit unions from legally reaching out to underserved areas of low- and moderate-income individuals.