Testimony

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House of Representatives

Subcommittee on Financial Institutions and Consumer Credit

An Examination of Potential Private Sector Solutions to Mitigate Foreclosures in Nevada

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Chairman Capito, Representative Heck, and committee members, thank you for inviting me to provide testimony at this very important field hearing.

As you are aware, Nevada, and more specifically the greater Las Vegas area, has been ground zero for the unemployment and housing crisis that has plagued our nation for these past years. Even today, as many other states are beginning to see signs of recovery, Nevada is still in deep troubled times.

My name is Susanne Longson. I am Vice President of Business Development and Community Relations for SCE Federal Credit Union, a $560 million financial institution located in Irwindale, California. I am formerly President of SONEPCO Federal Credit Union, a $55 million credit union located in Las Vegas, which served the employees of Nevada Energy and their family members. I served as Presidentand CEO for over 16 years until the credit unions merged with SCE FCU at the end of 2011. My grandfather organized the first credit union in Nevada in the late 1930s, along with over 400 other credit unions in the western United States. My parents also worked in credit unions throughout their careers. I am proud to be the third generation serving in the credit union movement.

I am pleased to come before the committee on behalf of not-for-profit credit unions that provide financial services to over 500,000 Nevadans and nearly 94 million Americans nationwide. The recession and the housing crisis have left credit unions battered and bruised, especially those here in the Silver State. Credit unions are not-for-profit financial cooperatives, owned by our members who democratically elect our volunteer board of directors. We do not have stock, are not publically traded, and return all profits to our members in various forms. The credit union model of operation is different from others in the financial services marketplace, as we focus on what is best for our members. To date, no credit unions have taken a dime of taxpayer money, nor received a government bailout.

Today, I would like to focus my testimony on the impact of the housing crisis on the credit union as a financial institution, its impact on our members, and how going forward Congress and our regulatory bodies can improve conditions for both.

Overview

Prior to this crisis, credit unions rarely used the terms we frequently hear today. Most credit unions had never processed a foreclosure, short-sale, or loan modification. In truth when the great recession hit Las Vegas, credit unions were helping one another through these processes, as many of us had never dealt with them in the fifty-plus years that we have been in existence. As I will get into details later, SONEPCO never foreclosed on a member during this financial crisis. Credit unions are about people helping people. Here in Nevada, we stick to this mantra.

Credit unions were not responsible for the types of loans that brought on the housing crisis. Per our cooperative model, we provide loans that a member can feasibly repay for the betterment of the collective membership. If one member cannot repay their loan, the remainder of the membership suffers. Thus, our loans were and continue to be strongly underwritten, and our loan products are designed to best serve the members' needs. In fact, during the period leading up to the crisis, several credit unions were rejecting member requests for exotic mortgage products. By avoiding exotic and predatory lending practices,credit unions were largely able to avoid the housing bubble. However, as property values rapidly declined and unemployment skyrocketed, credit unions began to feel the impact of this crisis. In SONPECO's first 52 years of operation, our total loan losses were $1.3 million. In the last 4 years, the loan losses were over $4.8 million, almost more EACH year than the previous 52 years combined. In a credit union, losses are taken directly from capital, since we have no other way to obtain capital than through our net of operating efficiencies. As a result, we had to focus strongly on expense control, which resulted in a staff reduction of almost 30%. I am proud to say that we did not lay off anyone, but instead did not replace positions when employees relocated. We further cut expenses by reducing benefits and not providing any raises to credit union employees, and we re-opened all of our corporate contracts to enact savings. We actively worked to shrink the asset size of the credit union to bring our Capital Ratio up by decreasing dividends. We succeeded in this endeavor by bringing about a $7 million decline in total assets to the credit union. In the last three years, SONEPCO went from $61 million to $54 million in assets. That might not seem like a lot in government dollars, but to a local community-owned financial institution, it was devastating.

As I mentioned earlier, credit unions do not have stock or bonds. Credit unions can only improve their capital levels through growth in retained earnings. During the economic crisis, when our members could not afford their loans and obligations, credit unions found themselves bleeding capital at lightning speed. Over the course of the last few years, SONEPCO's Capital declined from 12.86% to 5.90%, classifying us as undercapitalized. Furthermore, regulatory burdens from the outdated laws "tied the hands" of credit unions and our ability to modify loans, provide troubled debt restructures, and keep our members in their homes.

The Impact

As financial institutions evolved into the realization of the financial crisis, each credit union had to respond proportionally. Since our mission is to serve the needs of our members, we adapted. Unfortunately, as a result of regulatory constrictions, several credit unions were not successful in adaptation. In 2007, there were 28 credit unions serving Nevada, almost all of them locally grown credit unions—owned and operated by Nevadans. As of today, 6 have been merged with out-of-state credit unions, including the credit union SONEPCO, and one credit union merged with an in-state credit union. SONEPCO had sought a merger partner, as it was evident to the Board of Directors that the Great Recession was truly a Depression in Las Vegas, and it would be years before we could once again provide the level of service and number of services to our members that we once had. As the number of home-grown financial institutions has dwindled in both the credit union and for-profit sectors, Nevada faced another crisis: who was actually serving the needs of Nevada consumers—and more importantly, who understood those needs. Because of the uniqueness of the crisis in Nevada, large home lenders operating outside of Nevada face the difficultly of understanding the crisis and the impact on daily life.

However, with these losses, credit unions still continued to serve the needs of our members. At SONPECO/SCE, we've gone to extraordinary measures to keep our members in their homes. As early as December 2007, we began analyzing our loan portfolio to see which loans were "underwater" and which members might need assistance. We began reducing or cancelling our Home Equity Lines of Credit, as they were the first to be impacted by negative equity. We also started an outreach program, calling those members who had reduced equity and declining credit scores to see if we could help. We were able to help many members. For example:

One of our members who was on permanent disability fell behind on his payments. We were able to reduce his payments to keep him in the home, which is where he wanted to stay. Through a loan modification, we were able to reduce his payments from $1,158 to $446 per month. We adjusted his interest from 5.75% to .0001% and doubled the term of his loan from 20 to 40 years.

Another member's wife fell seriously ill with multiple sclerosis. As a result, our member was no longer able to work. The couple lived in two-story home and wanted to stay there. Through reduced payments, we were able to not only help them stay, but convert the bottom floor to livable space. We took their payments from $1,688 to $1,203 and dropped their interest rate from 6.5% to 5.5%, for a term of 40 years.

Lastly, one of our longest existing members who is a retiree living on an income fell ill. The severity was serious, enough that prescription costs ate up almost their entire income. Again, through modification, we reduced their mortgage payments to keep the member in his home. We took payments from $455 to $334, and extended his 30-year term to 40 years.

ALL of these were items of contention with our regulator. The regulators insisted that we should foreclose on these homes and place our members on the street. We refused. *This is the credit union difference.*

Unfortunately, we had some members who chose to not repay, which caused losses, and those who were just unable to repay because of loss of employment, or “life happened” – a death, divorce, or severe illness. Every credit union in Nevada and nationwide has stories like these. We take necessary steps to put our members first. However, regulatory burdens and unnecessary restrictions alter the abilities of credit unions to do more – not just in the arena of home ownership, but in serving our communities.

Recommendations

In order for credit unions to continue to push forward with our responsible practices, we need Congress and our regulators to take a common-sense approach to addressing this crisis. Below are several recommendations endorsed by credit unions, our state trade associations, and our national trade organization. We hope Congress will take them seriously to ensure the survivability of credit unions and the cooperative financial institution.

- *Pass and enact H.R. 3461 (Capito), with regards to the oversight and appeal of financial institutions examinations.* Credit unions have great appreciation for our regulators and the job they have to do. However, a lesson from this crisis is that our regulators need to adapt to circumstance. Evaluating a credit union in 2006 is different from evaluating a credit union today. Credit unions need a voice to appeal examinations when practices do not apply uniformly across all 50 states.
- *As legislation advances regarding the Government Sponsored Enterprises (GSE), Fannie Mae and Freddie Mac—ensure that credit unions have access to the secondary market.* Credit unions did not create this financial crisis. However, to address liquidity concerns as currently pending in a rule by the National Credit Union Administration, credit unions need access to multiple sources of liquidity. Ensuring credit union participation in the GSEs allows credit unions the sources of liquidity to continue to issue safe and sound loans.
- *Pass and enact H.R. 3993 (King), authorizing the National Credit Union Administration to issue forms of supplemental capital to credit unions – further increasing reserve capital levels.* As mentioned above, when SONPECO's capital levels dropped as a result of economic conditions, we had two options –cut jobs or cut expenses, which affect jobs within the community. The current credit union capital structure is outdated. Under today's system, credit unions are penalized for issuing responsible loans and helping consumers who want to bank at a locally owned financial institution. Had H.R. 3993 been law during the start of this crisis,

it is very likely it would have saved half of the credit unions that were eventually merged, ceased, or liquidated.

- *Pass and enact H.R. 1418 (Royce), raising the credit union business lending cap to free new tax-payer free capital for small business lending.* While the topic of this hearing is related to the housing crisis, home ownership does not exist without jobs. Credit unions across the nation have the ability to lend $13 billion in new capital and create 140,000 new jobs without costing the taxpayer a dime. Credit unions live under an arbitrary cap on the creation of business loans. Extending this cap, which the NCUA and Treasury Department have endorsed, frees up capital for new small businesses. For Nevada, this means new credit unions entering the business loan market and new jobs, not only in the public, but at those credit unions too.
- *Request that the NCUA consider the impact of Nevada's economic climate in their pending regulations on loan participations, troubled debt restructures, credit union service organizations, liquidity, and derivatives*. As mentioned above, the NCUA currently has several pending regulations to enact. While their mission is to examine credit unions as a whole, circumstances are different in the Silver State. The survivability of any home-grown financial institution lies solely in the way in which it is forced to comply with regulation. While a regulation might work well for Midwest and southern credit unions, in Nevada it is simply not the case. As Members of Congress, and as the subcommittee with examination authority, I strongly encourage you to review the pending regulations and ensure that they contain flexibility for remaining credit unions in Nevada.

Nevada’s 2.7 million consumers need choices in the financial services market place. The lessons of the last 5 years have shown us that banking is done best when it is done local. Credit unions serve our members locally. Our ways are not set by shareholders on Wall Street, but owners here—locally, in our home towns. As you take the testimony of others here in the Silver State, I hope you have come to the same realization that credit unions are the last line of defense for our communities. Helping credit unions thrive means helping the American public thrive.

Thank you again for the opportunity to be here today. If I can be of any service to the committee, please feel free to contact me at 702.940.2490.

Submitted

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SCE Federal Credit Union