Credit Union National Association
CUNA

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The Honorable Gregory W. Meeks
Chairman
House Financial Services Committee
Subcommittee on Consumer Protection and
Financial Institutions
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
House Financial Services Committee
Subcommittee on Consumer Protection and
Financial Institutions
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Meeks and Ranking Member Luetkemeyer,

On behalf of the Credit Union National Association (CUNA), I am writing to express our views ahead of the Subcommittee's hearing entitled, "An Examination of the Decline of Minority Depository Institutions and the Impact on Underserved Communities." CUNA represents America's credit unions and their 115 million members.

Credit unions value and embrace diversity, equity, and inclusion (DEI). Advancing DEI is an explicit priority of credit union leadership as is evidenced by the recent CUNA Board resolution to clearly and prominently establish diversity, equity, and inclusion as a shared cooperative principle of America's credit unions.

Together, CUNA, the state credit union leagues and associations, credit union service organizations, partners focused exclusively on DEI for specific minority groups, and credit unions are working to support and deepen DEI in the credit union industry.

Credit unions are unique within the financial services industry because we have a values case for DEI that is rooted in our cooperative principles of "democratic member control and open and voluntary membership without discrimination"; philosophy of "people helping people"; nonprofit, member-owned cooperative structure which drives us to put our members' interests first; and our mission of promoting thrift and providing access to credit for provident purposes, especially for those of modest means. Significantly, credit unions' genesis story is about providing financial access to those who were previously excluded from the traditional financial sector.

Minority Depository Institutions and Financial Inclusion

Minorities account for approximately 41 million households (32% of total) in the U.S.[1] A recent U.S. Census Bureau report shows that in 2018 U.S. median household income reached an all-time high of $63,179. Not all groups did equally well though. The median household income was $70,642 for White households; $51,450 for Hispanic/Latinx households; $41,361 for Black households; and $87,194 for Asian households.[2] The Census Bureau report shows that the sizable disparity in median income for Black and Hispanic/Latinx households as compared to White households has persisted since the late 1960s.[3] These same groups also face significant wealth

[1] U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplements, Accessed 10/16/2019;
[2] U.S. Census Bureau, Income and Poverty in the United States: 2018.
[3] Ibid.

disparities. For example, Black and Hispanic/Latinx households account for a mere 14% of U.S. household wealth yet represent approximately 32% of U.S. households.[4]

In general, Black and Hispanic/Latinx households are far more likely to experience financial disparities than White and Asian households. These disparities increase the likelihood of their financial exclusion.[5] In this context, millions of minorities choose minority depository institutions (MDIs), which are organized to serve the financial needs of specific minority groups. Indeed, the majority (over 50%) of MDI credit union boards and member-owners must come from a specific minority group. Since directors of MDIs reflect the community they serve, these institutions are better positioned to understand their communities' challenges, build trust with communities who often distrust financial institutions, and ultimately, provide tailored products and services (e.g., financial education and counseling, small dollar loans for borrowers with poor or no credit as alternatives to payday loans, bilingual services, etc.) that help their members and their communities prosper.[6] Further, MDIs are more likely to have branches in minority neighborhoods and lend more in these communities, which often lack access to the capital needed to prosper and build wealth.

MDI Credit Unions and Their Impact on Their Communities

Minority depository institution credit unions represent an important way in which credit unions are fulfilling their mission by advancing financial inclusion and well-being for minority and underserved communities.

Today, MDI credit unions represent approximately 10% of all credit unions and serve approximately 3.9 million memberships (representing 3% of all credit union memberships).[7] As of March 30, 2019 there were over three times as many MDI credit unions (535)[8] as MDI banks (148), representing 10% of the total number of credit unions compared to 3% of banks. These MDI credit unions held 3% of loans and 3% of total credit union assets compared to MDI banks, which held 1% of total bank assets. Nearly 80% of MDI credit unions hold the low-income credit union designation.[9]

Most MDI credit unions (87%) are small institutions with assets of $100 million or less.[10, 11] While MDI credit unions are well capitalized with 95.1% reporting a net worth ratio of at least 7%,[12] in 2018 they underperformed

[4] Federal Reserve, Survey of Consumer Households, 2016; U.S. Census Quick Facts, accessed on 10/18/2019. https://www.census.gov/quickfacts/fact/table/US/PST045218

[5] Dopico, Luis G., "Reaching Minority Households: Learning from Minority Credit Unions," Filene Research Institute, 2016; and Nembhard, Jessica Gordon. "Community Development Credit Unions: Securing and Protecting Assets in Black Communities," *Review of Black Political Economy*, 2013.

[6] Dopico, 2016.

[7] National Credit Union Administration (NCUA), Credit Union Call Report, first quarter 2019, CUNA calculations and FDIC. Following the NCUA's definition, we use the term "Minority Depository Institution" for credit unions that have reported that over 50% of their current membership, potential membership, and board members are Hispanic American, Black American, Asian American, Native American, or a combination of multiple groups. We include both federally-chartered and state-chartered credit unions. Note the definition of an MDI has changed over time. The change in definition of what qualifies as an MDI has contributed to the decrease in MDI credit unions.

[8] The following is the breakdown of the number of MDI credit unions serving distinct racial and ethnic groups. As of March 30, 2019, there were 272 MDI credit unions serving Black American members; 93 serving Hispanic/Latinx American members; 49 serving Asian American members; 12 serving Native American members; and 102 serving two or more races. NCUA, Credit Union Call Report, first quarter 2019, CUNA calculations.

[9] NCUA, "2018 Annual Congressional Report on Minority Depository Institutions."

[10] NCUA, Credit Union Call Report, first quarter 2019, CUNA calculations.

[11] To put a finer point on the small size of MDI credit unions, as of March 30, 2019, 67% of MDI credit unions held assets of $20 million or less.

[12] NCUA, Credit Union Call Report, first quarter 2019, CUNA calculations.

compared to low-income credit unions, small credit unions, and federally insured credit unions in the following growth categories: assets, memberships, shares, loans, and net worth.[13]

CUNA estimates that during the twelve months ending March 30, 2019 MDI credit unions provided approximately $324 million in direct financial benefits to their members as a result of lower rates on loans, lower fees, and higher rates on deposits compared to banks. These benefits are equivalent to $85 per member or $179 per member household.[14]

While significant, these figures underestimate the benefits provided by MDI credit unions to members and their communities. For example, these figures don't consider the benefits of tailored products and services offered by MDI credit unions to their members such as financial education and counseling; small dollar loans for borrowers with poor or no credit as alternatives to payday loans; lending to borrowers with poor or no credit if they participate in direct deposit; and bilingual services.[15] Together, these benefits increase MDI credit union members' financial security and wellbeing and that of their communities.

MDI Credit Union Consolidation Trends and Opportunities

CUNA's analysis of MDI credit union consolidation since 2011 finds that MDIs have merged or liquidated at a slightly higher rate compared (32%) to all credit unions (25%).[16] While the number of MDI credit unions has decreased from 912 in 2011 to 532 as of March 30, 2019, approximately 14% of that decline was a result of changes in the MDI definition.[17] Of those credit unions that were not affected by the change in MDI definition (786), 32% were merged or liquidated since 2011.[18] Of those MDI credit unions that were merged 28% of these mergers were to other MDI credit unions, allowing the institutions to maintain their focus on a minority population and in some cases, to expand services.[19]

Nearly all the consolidation in the credit union industry over the last decade has been due to larger credit unions merging with smaller credit unions.[20] This is generally true for MDI credit unions, the majority of which are small.[21]

Small MDI credit unions face several challenges that are typical for small credit unions, including higher operating expense ratios than larger credit unions, which have the benefit of economies of scale; and small staff (approximately 40% of all small credit unions have five or fewer staff).[22]

These small credit unions face the same regulatory requirements as larger credit unions. Indeed, CUNA estimates that the cost of compliance for small credit unions under $115 million in assets is 0.69% of assets compared to large credit unions with over $1 billion in assets where the cost is estimated to be 0.43% of assets.[23] The dramatic

[13] NCUA, "2018 Annual Congressional Report on Minority Depository Institutions."
[14] CUNA, "First Quarter 2019 Member Benefits Report: MDI Credit Unions." Estimated total benefits of credit union membership are calculated by accounting for differences in credit union and bank pricing. Specifically, average credit union savings account yields, loan interest rates and fees are compared to average bank savings account yields, loan interest rates and fees. The interest rate differences are then applied to respective average credit union loan and savings balances. Fee differences are weighted and applied to credit union non-interest income to obtain the total estimated benefits arising from fees. Note that these benefits represent averages.
[15] Dopico, Luis G., "Reaching Minority Households: Learning from Minority Credit Unions," Filene Research Institute, 2016
[16] We start with the year 2011 because that is the first time that some form of questions related to minority status of membership and credit union leadership were included in the Call Report.
[17] NCUA, Credit Union Call Report, 2011-first quarter 2019. CUNA calculations and analysis.
[18] Ibid.
[19] NCUA, "Minority Depository Institutions Annual Report to Congress," 2018. https://www.ncua.gov/files/publications/2018-mdi-congressional-report.pdf
[20] CUNA analysis of NCUA Call Report data, 2009-2019.
[21] Ibid.
[22] NCUA, Call Report, second quarter 2019.
[23] CUNA and Cornerstone, "2017 Regulatory Burden Financial Impact Study: An Elevated New Normal."

difference in cost is explained in part by the ability of larger credit unions to spread the fixed costs associated with compliance over a larger asset base.[24] Further, nearly one-third of total staff (32%) at small credit unions are devoted to regulatory activities while that figure is 21% for medium-size credit unions ($115 million to $1 billion) and 19% for large credit unions (over $1 billion).[25] Finally, credit unions of all sizes, but especially small credit unions face challenges from fintech and the costs related to ensuring data security.

The National Credit Union Administration's (NCUA's) MDI Preservation Program, which was approved in 2015 and is managed by the NCUA's Office of Credit Union Resources and Expansion (CURE), aims to encourage the preservation of MDI credit unions via technical assistance, educational opportunities, grants, outreach to understand the particular challenges MDI credit unions face and provide MDIs considering mergers support in identifying appropriate merger partners. This program represents a valuable resource for MDI credit unions because it offers an opportunity to bolster their sustainability.

MDI credit unions play a critical role in advancing financial inclusion and the economic wellbeing of minorities and underserved communities. MDI credit unions form an integral part of the credit union movement and despite field of membership restrictions, the relatively large number of MDI credit unions compared to banks highlights our commitment to financial inclusion and DEI more generally.

At the same time, we recognize that given the preponderance of small MDI credit unions, they are more vulnerable to consolidation. If consolidation takes the form of merging with other MDIs, allowing them to maintain their focus on a minority population and expand services, then members and their community stand to benefit. CUNA supports NCUA's MDI Preservation Program, which we believe is well placed to support MDI credit unions' resiliency in the face of industry challenges and bolster the chances that minority and underserved communities continue to benefit from financial opportunities that MDIs provide.

On behalf of America's credit unions and their 115 million members, thank you for considering our views.

Sincerely,

Jim Nussle
President & CEO

[24] Ibid.
[25] Ibid.