Credit Union National Association
CUNA

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

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

Dear Chairman Meeks and Ranking Member Luetkemeyer:

On behalf of America's credit unions, I am writing regarding the hearing entitled, "Promoting Inclusive Lending During the Pandemic: Community Development Financial Institutions (CDFI) and Minority Depository Institutions (MDI)." The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

Anytime there is a crisis, minority and low-income individuals and communities tend to be hit the hardest. That is certainly proving to be the case with the COVID-19 pandemic. From the outset of the crisis, credit unions have worked to ensure that their members, employees and volunteers remain safe and healthy, and that they continue to be able to provide access to financial services to their members. During this time, the credit union commitment to advancing diversity, equity, and inclusion (DEI) has not wavered. In fact, the COVID-19 pandemic reinforces the urgency of addressing financial well-being by ensuring access to financial services are inclusive and financial solutions are equitable.

Credit unions are well-purposed and well-positioned to address inequity in the financial services sector.

Credit unions were established at the federal level during the Great Depression – conceived as the average working person's access to loanable funds during a period when banks would not lend. Since those early days – and in each economic and financial crisis since – credit unions have stood out for their focus on their mission to promote thrift and provide access to credit for provident purpose. In fulfillment of this mission and as a result of their not-for-profit motive operandi, credit unions lend to help members afford life. This has been the case during good times and through each economic crisis since their establishment.

The way that credit unions execute their mission puts them in a good position to address inequity in the financial services sector and help improve the financial well-being of their members and communities. In their own way and based on the needs of their membership, all credit unions work toward this, which is why during the COVID-19 pandemic, 95% of credit unions are offering loan forbearances; more than 85% are waiving fees; and, 80% have created new loan products to meet members' pressing needs.[1] However, given the vulnerabilities of low-income and minority communities, CDFI credit unions and MDI credit unions are on the front lines of this critical work.

As of May 14, 2020, there are 324 CDFI credit unions (more than two times the number of CDFI banks), representing nearly 30% of all CDFIs and serving nearly 12 million members.[2] In addition, despite field of

[1] Ongoing survey of credit unions conducted by the Credit Union National Association (CUNA). Survey results as of March 27, 2020 See https://www.americascreditunions.org/
[2] CDFI Fund, "List of Certified Community Development Financial Institutions (CDFIs) with Contact Information as of May 14, 2020," available at https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx

membership restrictions and no Community Reinvestment Act (CRA) requirements, credit unions advance financial inclusion and access by locating roughly 70% of credit union branches are in racially/ethnically diverse areas compared to roughly 60% of bank branches.[3]

MDI credit unions represent an important way in which credit unions are fulfilling our mission by advancing financial inclusion and well-being for minority and underserved businesses and communities. Minority depository institutions (MDIs) are organized to serve the financial needs of specific minority groups. The tradition of credit unions serving a specific minority group goes back to the establishment African American credit unions in the early 20th century to provide opportunities for financial access to communities which had been excluded from the mainstream financial services industry. Today, MDI credit unions represent approximately 10% of all credit unions and serve approximately 4 million memberships (representing 3% of all credit union memberships).[4] As of December 31, 2019, there were over three and a half times as many MDI credit unions (521) as MDI banks (144).[5]

CUNA estimates that during the twelve months ending December 31, 2019, MDI credit unions provided approximately $366 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 $201 per member household or $96 per member.[6] While significant, these figures underestimate the benefits provided by MDI credit unions to members and their communities. For example, these figures do not consider the benefits of tailored products and services offered by MDI credit unions to 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.[7] Together, these benefits increase MDI credit union members' financial security and wellbeing and that of their communities.

Both MDI and CDFI credit unions form an integral part of the credit union movement and enhance our ability to so serve underserved communities during this crisis. At the same time, we recognize that both MDIs and CDFIs face challenges in accessing badly needed funding. CUNA supports efforts to direct additional funding to both. In addition, MDIs are more vulnerable due to their smaller size, so we support efforts to bolster their resilience and improve access to CARES Act programs like the Paycheck Protection Program and the Main Street Lending Facility.

How Congress Can Help Credit Unions Do More

Credit unions are committed to financial inclusion and access and continuing to support our members financial well-being while helping them manage through the crisis. MDI and CDFI credit unions play a critical role in advancing financial inclusion and the economic well-being of minorities, low- and moderate-income (LMI) and underserved communities, more generally. We are pulling together as movement to support our members and make a difference in their lives during this difficult moment,[8] but we know that, given the opportunity, we could do more, especially when it comes to providing access to capital to America's small businesses.

Small businesses and their employees have been struggling tremendously during the COVID-19 crisis. According to the U.S. Chamber of Commerce, 85% of small businesses are concerned about the impact on their operations and Moody's Analytics projects roughly one million microbusinesses are at high risk of failing as a result of the

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[3]NCUA, FDIC, and U.S. Census, University of Wisconsin, Applied Population Lab and CUNA analysis and calculations.
[4] National Credit Union Administration (NCUA), Credit Union Call Report, Mid-Year 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.
[5] Ibid.
[6]CUNA, "Year-End 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. Note that these benefits represent averages.
[7] Dopico, Luis G., "Reaching Minority Households: Learning from Minority Credit Unions," Filene Research Institute, 2016.
[8] See https://www.americascreditunions.org/

pandemic.[9] Businesses at greatest risk are in the service sector - with employees that are generally lower-paid. Communities of color are disproportionately represented in these industries. More needs to be done to ensure that these businesses survive the economic crisis that the COVID-19 pandemic has created.

We offer two suggestions for how Congress can use credit unions to make a bigger difference for low-income and minority members and communities:

1. Ensure the problems borrowers and lenders experienced during the lending phase of the SBA's Paycheck Protection Program (PPP) do not occur during the forgiveness phase.
2. Ensure that all available small business credit is deployable during the recovery.
3. Facilitate the addition of underserved areas to credit unions' fields of membership

Paycheck Protection Program

Many credit unions have been proud to offer the Small Business Association's Paycheck Protection Program (PPP) loans to their business members, putting a significant amount of resources into helping the program succeed. Whether it is pulling lending officers from other departments or redirecting resources to adjust to the high demand of the loans, credit union staffers worked around the clock to process the loans. We estimate that credit unions were responsible for tens of thousands of PPP loans with the median loan size of $55,000 in Phase 1.[10] When compared to the national median loan size of over $305,000, that goes to show that credit unions are there to support the Main Street businesses that we turn to in our day to day lives.[11]

We have surveyed our membership and it is clear that credit union PPP loans are going to the right places, like non-profit organizations that are helping the minority communities in the city of Wilmington, Delaware, minority owned businesses in the lower east side of New York such as a small deli, a tiny photography businesses, and neighborhood bakeries. The list goes on and on, and many of these loans were made by CDFI and MDI credit unions.

The PPP implementation problems have been well-documented. Our concern today is that the forgiveness process will suffer from the same inadequacies as the lending process. If that happens, all this work could be for naught. It is critical that Congress do what it can to ensure that small businesses and small lenders are not overly burden by a complicated or ambiguous loan forgiveness process.

Deploy All Available Small Business Credit

The PPP is not as much as small business lending program as it is an unemployment prevention program. It will help many businesses survive. It is not designed to not help businesses recover and thrive in the future.

As we enter recovery and for the foreseeable future, access to capital will continue to be a major issue for all small businesses, and particularly minority-owned businesses. There is absolutely no sound policy reason for credit union business lending to be restricted during this time.

- Credit unions have a history of lending to small businesses. Some of the first loans credit unions made more than a century ago went to members operating small businesses. For the first 90 years of credit unions' existence, there was no statutory cap on credit union business lending.
- SBA data shows that 80 percent of the small business loans credit unions make are loans that small banks will not make. Permitting credit unions to do more small business lending will not rob banks of lending

[9] U.S. Chamber of Commerce, along with MetLife, May 2020 and https://www.washingtonpost.com/business/2020/05/12/small-business-used-define-americas-economy-pandemic-could-end-that-forever/

[10] Credit Union National Association (2020). *CUNA PPP Survey Phase 1*. Internal CUNA Research. Unpublished.

[11] SBA, "Paycheck Protection Program (PPP) Report; Approvals through 12 PM EST 4/16/20," CUNA calculations. See https://home.treasury.gov/system/files/136/SBA%20PPP%20Loan%20Report%20Deck.pdf

opportunity; holding credit unions back will rob small businesses, including minority-owned businesses of access to critically needed credit.[12]

- We conservatively estimate that temporarily removing the MBL cap will provide over $5 billion in capital to small and informal business ventures, creating nearly 50,000 jobs over the course of the next year ***- at no expense to the federal government***.[13]

We encourage the committee to include H.R. 6789, the Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020 in the next phase of COVID-19 legislation. The bill sponsored by Representatives Sherman, Bonamici, and Fitzpatrick, and cosponsored by Chairwoman Waters would lift the credit union MBL cap during the pandemic and one year after the pandemic ends for loans specific to COVID-19.

Field of Membership

One of the most important things that Congress could do to promote financial inclusion and ensure that access to financial services is equitable would be to ensure that Federal law permits all Federal credit unions to serve underserved areas. Under current law, only multiple common bond credit unions are eligible to add underserved areas to their field of membership. If the policy goal is to ensure that all have access to affordable financial services, then the policy should not restrict a subset of member-owned, not-for-profit financial institutions from providing service to these communities. We hope the Committee will consider legislation that expands the opportunity to serve underserved communities to all Federal credit unions.

Conclusion

We appreciate your holding this important hearing today. Credit unions are well purposed and well positioned to address inequity in access to financial services. They are working to serve their members and communities, including low-income and minority communities, and they are ready to do more if Congress permits them to do so.

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

Sincerely,

Jim Nussle
President & CEO

[12] Wilcox, James A. "The Increasing Importance of Credit Unions in Small Business Lending." SBA Office of Advocacy. 2011.

[13] CUNA Estimate Assumptions: 1. Grandfathered CUs, Non-Federally Insured and/or Low-Income designated do not increase lending; 2. Non-Commercial lenders lend in amount equal to 1% of assets on average under the new authority; 3. All other Commercial CUs lend in amount equal to 60% of their current use rate; 4. Estimates produced using assumptions 1-3 are further adjusted as follows: * CUs with net worth/assets <=6% are assumed to have no Commercial Loan growth. * CUs with net worth/assets between 6% and 7% remain at the current 12.25% cap. * CUs with Comm Lns/assets >= 10% are limited to a 30% increase in Commercial Loans in the 1st year. 5. First year increases: baseline estimate = 50% of new use rate; adjusted/conservative estimate = 40% of new use rate. Employment increase is based on Council of Economic Advisors 5/09 ARRA job creation estimates ($92,000 in spending creates 1 job / $109,633 in 2019 dollars).