

# The Community Reinvestment Act & how it could affect credit unions and their members

The Community Reinvestment Act (CRA) was originally imposed on commercial banks in the late 1970's because banks were found to widely engage in discriminatory lending practices. For decades, the banking industry "redlined" – formally, systematically and blatantly blocking credit extension in minority and lower-income communities throughout the country.

Credit unions are not-for-profit member-owned financial institutions, owned by the members they serve. The CRA is intended to encourage for-profit banks to meet the needs of borrowers in their communities, including in low- and moderate-income neighborhoods. Congress passed this law in 1977 to reduce discriminatory lending practices against low-income neighborhoods.

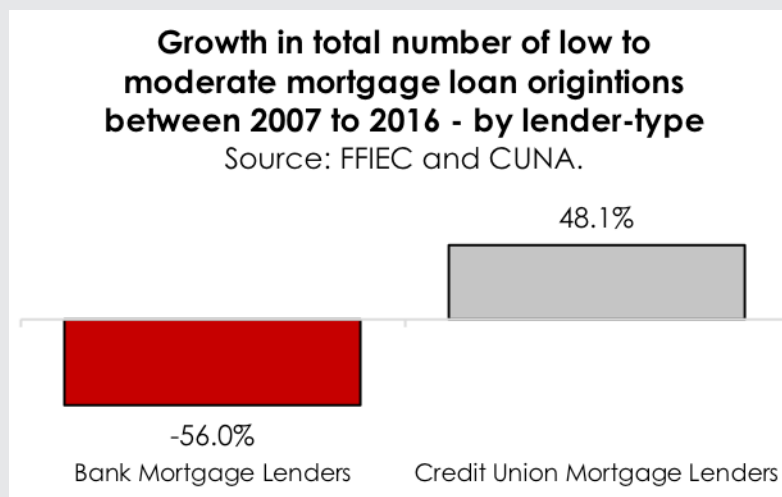
Credit unions' consumer-focused model is self-regulating, and that is why credit unions are not covered by CRA.

## What about credit unions? Did they partake in "redlining," too?

No – in the roughly 100 years credit unions have operated in the United States, these member-owned financial institutions have NEVER engaged in such behavior and have NEVER been accused of such behaviors by anyone who has seriously examined the record.

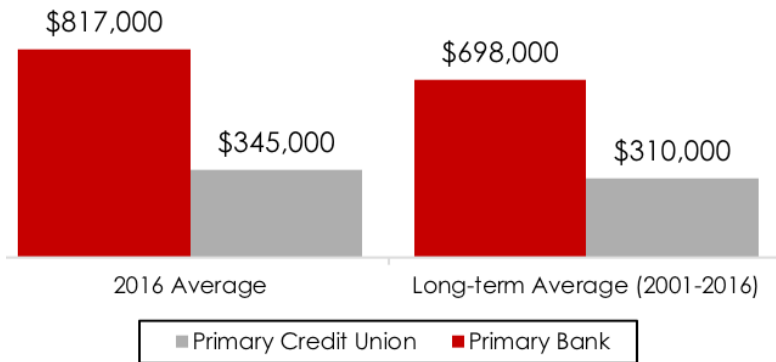
Since their inception in the early 1900's, U.S. credit unions have had the reputation of offering full and fair service to all their members, including those on the lower-rungs of the economic ladder.

## Credit unions continued their mission and kept lending during the financial crisis of 2008.



### Bank customers reflect higher net worth than those who primarily use credit unions

Source: Federal Reserve and CUNA.



Credit union membership remains concentrated in the working class of Americans. National survey data from the 2016 Federal Reserve Survey of Consumer Finances reveals that nearly two thirds (62.0%) of primary credit union customers have incomes between \$25,000 and \$100,000. In contrast, just over half (54.2%) of primary bank customers have income in that range. At higher and lower income levels, credit union membership is lower. Higher income households are more likely to be bank customers; lower-income households are more likely to be unbanked.

HMDA data shows that credit union mortgage originations to low-moderate income consumers have increased from 84,600 in 2007 to 125,316 in 2016 – a 48% increase over that period. In contrast, bank mortgage originations to low-moderate income consumers declined from 1,305,806 in 2007 to a total of only 574,124 in 2016 – a 56% decline in total originations. This translates to an annual average growth rate of 3.1% among credit unions and an average annual decline of 2.3% at other lenders.

## Credit unions are not included in the Community Reinvestment Act for many reasons

// CRA was properly designed to fix a problem by bad actors. Credit unions were not the bad actors – credit unions have always served their community of membership. Over the past 40 years, Congress has considered whether CRA should apply to credit unions, and repeatedly and consistently maintained the determination that such application is not only unnecessary, but counter-intuitive given the member-owned nature of credit unions.

// The big bank-driven argument that CRA should apply to credit unions is part and parcel of a larger strategy of the banking industry to undermine the credit union tax status, and ultimately, eliminate the credit union charter as a form of banking competition (like the way of the thrift charter).

// Credit unions offer traditional retail, consumer-facing financial services:

- They are **not** bank holding companies;
- They are **not** broker-dealers;
- They are **not** investment banks; and
- They are **not** private banks for high net worth individuals!

// Credit unions are financial cooperatives that exist solely to provide pooled funds for member-owners, and should be recognized as the good actors they are.

// If credit unions were covered under CRA, the NCUA would have to increase staff and resources to examine them for these regulatory requirements. The banking regulatory agencies (FDIC, OCC, Fed) are set up to examine, supervise, and write regulations for CRA. The NCUA currently is not. So, coverage for credit unions under CRA would be both pointless and costly.