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Fred R. Becker, Jr.
President and CEO

April 14, 2010

The Honorable Luis V. Gutierrez
Chairman
Subcommittee on Financial Institutions
and Consumer Credit
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Jeb Hensarling
Ranking Member
Subcommittee on Financial Institutions
and Consumer Credit
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Gutierrez and Ranking Member Hensarling:

I am writing to you on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, ahead of tomorrow's hearing entitled "Perspectives and Proposals on the Community Reinvestment Act."

As you are aware, the Community Reinvestment Act (CRA) was adopted as a punitive measure to punish specific bad actors – namely banks and thrifts – for engaging in discriminatory practices such as redlining and disinvestment. While some may say that CRA was to blame for the sub-prime crisis, we do not believe that to be the case. Credit unions were not included under CRA because there has never been any evidence that credit unions have engaged in these illegal and abhorrent activities. Credit unions are inherently invested in their communities, operating unlike other depository institutions with a not-for-profit cooperative structure and a common bond membership. Credit unions embrace the unique relationship that they have with their community and play an important role in providing important financial services to underserved individuals. By law, credit unions can only take deposits from and make loans to their membership. As many have wisely noted, if all financial institutions acted like credit unions, there would be no need for CRA. We firmly believe that placing CRA requirements on credit unions would create new regulatory burdens without public benefit—a solution in search of a problem. We oppose all such efforts to do so.

Many credit union members come from the low income and minority populations of our society. Although banks and thrifts are subject to CRA, HMDA data clearly indicates that credit unions are outperforming banks and thrifts in terms of loan and price spreads as well as service to these particular segments of the population.

We would also like to respond to a related report released last year by the National Community Reinvestment Coalition (NCRC), entitled "Credit Unions: True to Their Mission, Part II." NAFCU believes that the analysis and conclusions drawn by the NCRC, favoring an extension of CRA requirements to credit unions, are deeply flawed.

The NCRC report uses data compiled under the Home Mortgage Disclosure Act (HMDA) as the basis for its analysis of bank and credit union performance in serving disadvantaged communities, and to advocate for the extension of the Community Reinvestment Act (CRA) to credit unions. Unfortunately, NCRC fails to accurately represent the data, choosing to instead draw negative conclusions about credit union lending in low- and moderate-income communities.

An examination of Mortgage Loan Approval Rates[1] under the 2008 HMDA data shows that credit unions outperform banks and thrifts across the board (see table below). Further, the percentage of credit union borrowers (approved loans) with incomes of less than 80% of the HUD median family income for the area is higher among credit unions (25.9%), as compared to banks and thrifts (24.7%). That is, credit unions have a greater percentage of their loans going to lower income populations than banks and thrifts, despite banks and thrifts already being subject to CRA.

Mortgage Loan Approval Rate*

Approval Rate,* All Mortgage Loans**

	All Applicants		White Applicants		Minority Applicants	
	Applicant Income		Applicant Income		Applicant Income	
	Less than $40,000	$40,000 or More	Less than $40,000	$40,000 or More	Less than $40,000	$40,000 or More
2008						
Credit Unions	**70%**	**85%**	**72%**	**87%**	**52%**	**73%**
Banks	55%	68%	59%	70%	40%	54%
Thrifts	63%	73%	65%	75%	50%	62%

Source: Federal Financial Institutions Examination Council HMDA Data

*Loans originated plus loans approved but not accepted as a percent of all loan applications. Minority applicants include those who identified themselves as Native American, Asian/Pacific, Black or Hispanic.

**All loans include home purchases, home improvements, or refinancings, when race information is collected

[1] Approval rates are used as the denial rate is an inaccurate measure of lending performance. This is because one denial on a small pool of applicants will have a greater impact than on a large pool of applicants.

We also believe that HMDA numbers for banks and thrifts need to be examined carefully. Many have taken to approving expensive, sub-prime loans where they did not make loans before (which some may term "reverse red-lining"), and this fact is supported by the same HMDA data the NCRC attempts to twist to its advantage. The NCRC report concludes that, based on 2007 HMDA numbers, disparities in white versus minority approval rates are higher at credit unions than at banks. While a superficial examination may lead one to believe this, a complete and accurate analysis of the data reveals that the lower rate spread for banks is artificially enhanced by a substantial amount of sub-prime loans made to minority applicants. According to 2007 HMDA data, banks charged at least 3% higher than the Treasury yield on 20.8% of loans made to minorities with household incomes under $40,000 and thrifts were outside the spread on 34.7% of their loans to this population, while credit unions were only outside of the yield spread on 4.4% of their loans. Credit unions continue to beat banks and thrifts when examining the 2008 HMDA data (see chart below), even after banks and thrifts had stopped their focus on pushing borrowers into sub-prime loans.

Approved 1-4 Family Purchase Loans
Percentage of Approvals with Rate Spreads* >= 3%

	2008					
Percentage Reporting Above 3 Percent Spread	All Approvals (with race data)		White Approvals		Minority Approvals	
	Household Income		Household Income		Household Income	
	Less than $40,000	$40,000 or More	Less than $40,000	$40,000 or More	Less than $40,000	$40,000 or More
Credit Unions	**4.8%**	**2.4%**	**4.6%**	**2.3%**	**7.1%**	**2.4%**
Banks	**13.5%**	**7.6%**	**13.5%**	**7.6%**	**13.9%**	**8.0%**
Thrifts	**14.1%**	**8.1%**	**13.6%**	**7.7%**	**16.7%**	**10.5%**

Although banks and thrifts are subject to CRA requirements, HMDA data clearly indicates that credit unions are outperforming them in lending to low- and moderate-income communities. An educated analysis of HMDA data distinctly shows that credit unions are making smaller mortgage loans than banks and thrifts, and have a higher percentage of mortgage loans going to low- and moderate-income communities.

The NCRC report also examines the case of Massachusetts, which is one of two states that extend CRA obligations to state-chartered credit unions. NCRC concludes that the state-chartered credit unions in Massachusetts outperform federal credit unions by a small percentage. However, such a comparison is defective; state-chartered credit unions in Massachusetts have the ability to define their fields of membership in their by-laws (an authority not granted to federal credit unions), and therefore have greater control over who they can choose to serve. Furthermore, federal credit unions that are not defined as "multiple common-bond" credit unions are prevented from adding underserved areas to their fields of membership. Ironically, it is the same banks that help fund the NCRC that have fought for this restriction through litigation like *American Bankers Association, et al. v. National Credit Union Administration* (2005).

NAFCU would like to thank you for the opportunity to share our thoughts and for holding this important hearing on the Community Reinvestment Act. We believe that credit unions are an example of how depository institutions can reinvest in the community by providing minorities and those with lower incomes more reasonable mortgage loans. We would like to continue to work with you and the Subcommittee to address this important issue. If we can be of any further assistance to you or your staff, please do not hesitate to contact myself or Brad Thaler, NAFCU's Director of Legislative Affairs, at 703-842-2204 or bthaler@nafcu.org.

Sincerely,

Fred R. Becker, Jr.
President/CEO

cc: Members of the Subcommittee on Financial Institutions and Consumer Credit