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STATEMENT OF

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"AN EXAMINATION OF THE AVAILABILITY OF CREDIT FOR CONSUMERS"

BEFORE THE
HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

THURSDAY, SEPTEMBER 22, 2011

I. Introduction

Chairman Capito, Ranking Member Maloney, and Members of the Committee, the National Credit Union Administration (NCUA) appreciates the opportunity to testify before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit. At this hearing, the Subcommittee has asked NCUA to comment on the availability of credit products for consumers who cannot or do not always access more traditional products and services offered by mainstream financial institutions like banks, thrifts, and credit unions. As detailed in this testimony, NCUA and the credit union system have a long track record of facilitating access to credit for disadvantaged populations.

This testimony addresses the issues and questions raised in the Subcommittee's invitation. First, this testimony will provide a general overview of the credit union system and the requirements of the Federal Credit Union Act to serve people of modest means. Second, the statement will offer some general observations about the prevalence of unbanked and underbanked households.

Third, this testimony will highlight the three principal ways—availability, access, and assistance—that NCUA seeks to help the unbanked and underbanked to obtain credit. Specifically, NCUA strives to:

- Facilitate the <u>availability</u> of consumer-friendly alternative financial services products, such as through the agency's Short-term, Small Amount loan rule;
- Expand the <u>access</u> to credit unions for consumers in low-income communities and underserved areas; and
- Provide <u>assistance</u> to credit unions serving low-income communities through loans and grants offered by the Community Development Revolving Loan Fund administered by the agency.

Fourth, this testimony will briefly review some other ways that NCUA has recently sought to help consumers to make better and smarter decisions with their money. Finally, pursuant to the invitation, this statement will outline some potential steps that the federal government could consider taking to increase access to affordable and sustainable credit options for the unbanked and underbanked.

II. Overview of NCUA

As a prudential regulator, NCUA's primary mission is to ensure the safety and soundness of federally insured credit unions. Consumer protection is also a top priority for the agency. NCUA performs these important public functions by chartering, regulating, and examining all federal credit unions (FCUs), participating in the supervision of federally insured, state-chartered credit unions in coordination with state regulators, and insuring federally insured credit union members' accounts. In its statutory role as the administrator of the National Credit Union Share Insurance Fund,[1] NCUA presently provides oversight and supervision to 7,239 federally insured credit unions, representing more than 91 million members.[2]

The Federal Credit Union Act states that credit unions have a mission to meet the credit and savings needs of consumers, especially people of modest means. NCUA assists credit unions in fulfilling their statutory mission of promoting savings and meeting the credit needs of consumers by facilitating the availability of consumer-friendly products, reviewing applications to increase credit unions' presence in underserved communities, and offering technical assistance, loans, and grants to low-income credit unions (LICUs)[3] to expand services and improve operations.

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[1] Created in 1970 by P.L. 91-468 (Title II of the Federal Credit Union Act), the NCUSIF was amended in 1984 by P.L. 98-369. The Fund was established as a revolving fund in the U.S. Treasury under the management of the NCUA Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state-chartered credit unions that request insurance.
[2] Approximately 150 state-chartered credit unions are privately insured and are not subject to NCUA's oversight. The term "credit union" is used throughout this statement to refer to federally insured credit unions.
[3] A 1970 amendment to the Federal Credit Union Act provided a framework for designating LICUs. LICUs are those credit unions that predominately serve persons with incomes falling below qualifying thresholds.

In November 2009, NCUA created the Office of Consumer Protection (OCP) to demonstrate the importance of consumer protection, segregate consumer protection and consumer compliance responsibilities from those involving safety and soundness, raise the profile of the consumer protection function, and assign dedicated resources to this aspect of NCUA's mission. OCP has overall responsibility for consumer protection and chartering programs and policies.

OCP consists of two divisions. The Division of Consumer Compliance and Outreach is responsible for consumer compliance policy, programs, and rulemaking; fair lending examinations; interagency liaison for consumer protection and compliance issues; member complaint call center; financial literacy programs; and ombudsman duties. The Division of Consumer Access is responsible for new federal credit union charters, charter conversions, Field of Membership expansions, bylaw amendments, and low-income designations.

OCP also represents NCUA on the Financial Literacy and Education Commission, where agencies collaboratively work to study the accessibility of mainstream financial services for the underserved. Additionally, OCP is continuing work under an interagency collaboration with the U.S. Department of Education and Federal Deposit Insurance Corporation (FDIC) to promote savings and financial access among school-age and college students.

III. Assessment of the Unbanked and Underbanked Population

The Subcommittee has asked NCUA to identify and detail some of the economic challenges facing underbanked borrowers seeking to access credit in today's economy. NCUA has not defined the terms "unbanked" or "underbanked" in its rules and regulations. In general, "unbanked" refers to individuals without an account at a depository institution, and "underbanked" refers to individuals with accounts at depository institutions who also rely on non-depository providers for financial services and products.

The *2009 Survey on the Unbanked and Underbanked*[4] by the FDIC offers important insights into the state of access to credit in the United States. Specifically, the survey finds that an estimated 9 million U.S. households are unbanked and that an additional 21 million households are underbanked. In all, an estimated 60 million adults reside within these households. In prior congressional testimony,[5] NCUA has further noted that low-income consumers most commonly use transactional and short-term credit products provided by alternative financial providers to address their immediate financial needs.[6]

The U.S. economy runs on credit, and disruptions in the availability of credit contribute to especially painful contractions. The recent global economic contraction is no exception. The availability of credit tightened for many households in the months immediately following the collapse of our financial markets. In late 2008, more than two-thirds of banks reported tightening standards for non-mortgage loans to individual borrowers, including credit card and non-credit card borrowing, and nearly three-quarters of banks reported tightening standards for mortgage borrowing.[7] The same groups found to be more likely to be unbanked—non-whites, less educated, and young—are also the groups that have been hit hardest during the recent recession.

For example, from December 2007 to the present, unemployment rates for non-whites have risen by more than those for whites. Similarly, the unemployment rate for individuals with less than a high school diploma rose 6.6 percentage points compared to 4.9 percentage points for individuals with only a high school diploma between December 2007 and August 2011, and 4.4 and 2.2 percentage points for individuals with some college or a college diploma, respectively. Unemployment rates have increased more for younger age groups than older age groups over the same period.[8]

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[4] See http://www.fdic.gov/householdsurvey/executive_summary.pdf.

[5] See statement on "Financial Services in Disadvantaged Communities" by the Honorable JoAnn M. Johnson, Chairman, National Credit Union Administration, March 1, 2007, at http://www.ncua.gov/NewsPublications/News/speeches/2007/Johnson/Testimony07-0301.pdf.

[6] "Banking the Poor" by Michael S. Barr, University of Michigan Law School – A Working Paper Prepared for the Brookings Institution Center on Urban and Metropolitan Policy, July 2003, p. 6.

[7] Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices, June 2008 and September 2008.

[8] Bureau of Labor Statistics.

Throughout the recent severe financial downturn and subsequent recovery, U.S. credit unions have outperformed banks in providing access to credit. Between December 2007 and June 2011, credit union loans expanded by about 6 percent.[9] During this same timeframe, total bank lending declined by approximately 7.5 percent.[10]

The number and lending capacity of LICUs, which focus on providing services to individuals and communities more likely to have unbanked and underbanked populations, have also expanded during the past several years. As more credit unions have received LICU status, the LICU system has more than doubled in assets and lending and nearly doubled in members. In 2003 there were 963 LICUs with $15.2 billion in assets, $9.9 billion in loans and 3.2 million members. As of June 30, 2011, there were 1,118 LICUs with $44.3 billion in assets, $27.2 billion in loans and 6.1 million members.

Even holding the population of LICUs constant, over the period since the financial crisis started these credit unions generally expanded and increased loan growth faster than non-LICU credit unions. Loans at LICUs grew by more than twice the rate of loans at other credit unions, 14 percent versus 6 percent, during this period. Notably, real estate lending by LICUs grew by 29 percent versus 12 percent at other credit unions.[11]

IV. Availability, Access and Assistance

All consumers—whether unbanked, underbanked, or fully banked—want financial services and products that are affordable, accessible and focused on their needs. The costs for transactional and short-term credit products offered by many non-traditional financial providers are often quite high and, in many cases, can exacerbate low-income consumers' economic distress. The challenge for traditional financial institutions like

[9] NCUA calculations based on Call Report data.
[10] NCUA calculations using data for total loans and leases for all institutions from FDIC Statistics on Depository Institutions online reports.
[11] NCUA calculations based on Call Report data.

credit unions is to make these products accessible and affordable to low-income consumers in a safe-and-sound manner.

NCUA has long worked with the credit union industry—and within the confines of the Federal Credit Union Act and consumer protection laws such as the Truth in Lending Act—to make viable financial products and services more accessible and affordable to low-income and unbanked or underbanked households. Some key aspects of NCUA's regulations include:

- NCUA limits the interest rate FCUs can charge for loans or lines of credit.
- In January 2007, NCUA began permitting FCUs to offer money transfer instruments, including international and domestic electronic fund transfers and check cashing services, to anyone in the Field of Membership.
- Credit unions have developed a number of alternative loan products, known as credit builder loans, people-helping-people loans and micro loans to further meet the needs of their members. Each of these products represents market-driven, practical attempts at providing consumer-friendly credit alternatives for unbanked and underbanked communities.

As noted earlier, NCUA seeks to expand access to credit to the unbanked and underbanked population through three ongoing initiatives—facilitating the <u>availability</u> of consumer-friendly products like the agency's Small Loan rule, expanding the <u>access</u> of credit unions to potential members through LICU designations and underserved area additions, and providing <u>assistance</u> to small credit unions and LICUs, primarily with grants, loans and training administered by NCUA's Office of Small Credit Union Initiatives.

Promoting Credit Availability through the Small Loan Rule

Many underbanked households choose payday lenders and pawnshops over banks and credit unions because of convenience and a general fear and distrust of financial institutions. These underbanked households also often turn to alternative financial services providers because of the ease in qualifying for a loan.

NCUA has long encouraged FCUs to identify prudent ways to meet their members' small-loan needs. NCUA issued a guidance letter in July 2009[12] encouraging FCUs to find financially sound ways to provide their members with alternatives to the high-cost lending practices of some other financial services providers. This letter highlights the potential benefits of a well-designed, small-loan program. The guidance also reminds FCUs of compliance responsibilities and risks associated with this type of lending program.

NCUA believes that the ability to offer small loans helps FCUs fulfill their statutory mission to promote savings and meet the credit needs of consumers, particularly those of modest means. Specifically, FCUs offering such loans provide their members with responsible, reasonable credit access alternatives to potentially high-cost payday loans, title loans, and pawnshops. Individuals needing short-term credit are often underbanked or have problematic credit histories. Lacking access to traditional, longer-term lending products, they often turn to alternative providers, like payday lenders, for their short-term cash needs. These payday lenders often charge exorbitant fees, resulting in triple-digit interest rates.

To facilitate greater availability of small loans and to offer the unbanked and underbanked within a credit union's Field of Membership the availability to obtain a consumer-friendly short-term loan, the NCUA Board recently reviewed the agency's existing regulatory structure. This review recognized that many FCUs could not provide their members with a reasonable alternative to traditional payday loans due to regulatory limitations. Therefore, last year the NCUA Board considered a proposal to provide FCUs with a regulatory structure under which they could offer a responsible alternative to payday loans to members in a safe-and-sound manner. The NCUA Board

[12] See Letter to Federal Credit Unions on "Payday Lending" (09-FCU-05) at http://www.ncua.gov/Resources/09-FCU-05.pdf.

finalized the Short-term, Small Amount Loan (Small Loan) rule, in September 2010. The rule became effective October 25, 2010.

Credit unions participating in this program may offer Small Loans to members at an interest rate up to 28 percent per year or 10 percentage points higher than the current interest rate ceiling for FCUs. The NCUA Board permitted a higher interest rate on Small Loans to account for the increased risk associated with this type of lending and to make it cost effective for FCUs to offer this product.

To offer Small Loans with this higher interest rate, FCUs must follow the other requirements of the rule. These requirements simultaneously ensure that members receive access to a reasonable and responsible product, as well as protect the safety and soundness of the credit union. These Small Loan requirements include:

- A principal of not less than $200 or greater than $1,000;
- A minimum maturity term of one month and a maximum maturity term of six months;
- No more than three Small Loans in any rolling six-month period to any one borrower, and no more than one Small Loan at a time to a borrower;
- No Small Loan rollovers, except to extend the loan term without additional fees for extending credit;
- Full amortization of the Small Loan;
- A minimum length of membership requirement of at least one month; and
- An application fee to all members applying for a new Small Loan that reflects the actual costs associated with processing the application, but in no case may the application fee exceed $20.

To protect safety and soundness, FCUs offering Small Loans must also self-impose a limit on the aggregate dollar amount of Small Loans made, up to a maximum of 20 percent of the FCU's net worth. For example, if an FCU had 10 10 percent net worth it would be limited to the total dollar amount of Small Loans of not more than 2 percent of assets. Participating FCUs must also implement appropriate underwriting guidelines to minimize risk.

The Small Loan rule offers some best practices to implement a Small Loan program, too. For example, when considering a Small Loan program, an FCU should consider both the potential benefits to a member's financial well-being and the higher risk associated with this type of lending. The guidance additionally encourages an FCU to develop a Small Loan program that improves participating members' financial health, perhaps by incorporating a savings component, offering financial literacy education, and reporting members' positive payment history of Small Loans to credit bureaus. This last aspect, in particular, helps members to repair problematic credit histories, enabling those members to begin using more mainstream financial products.

In the year since the adoption of the Small Loan rule, many FCUs have implemented programs or adjusted existing programs to meet the need of their members for short-term loans at reasonable rates. As of June 30, 2011, 343 FCUs reported Small Loans on their Call Reports. At that time, they reported having originated more than 33,000 Small Loans year-to-date, with an aggregate balance of almost $14 million. The average amount of these loans stood at just under $413 and the average interest rate for a Small Loan was 20.76 percent, significantly lower than the triple-digit interest rates often charged by payday lenders.

By prudently expanding access to credit, the Small Loan rule has gained market acceptance and expanded the availability of credit during its first year. In accordance with text accompanying the rule, NCUA plans to evaluate the success of the Small Loan rule within the next eight months. This review will analyze data collected on Call Reports to determine if changes are needed to ensure the rule accomplishes the purpose it was designed to fulfill. NCUA is committed to keeping this product properly scoped and to protecting consumers.

Expanding Access to Members through Approvals of LICU Designations and Underserved Areas

Since their inception in the United States more than a century ago, credit unions have served as a financial resource for consumers.[13] Individuals who have been able to join a credit union have experienced tangible financial benefits from membership in these not-for-profit financial cooperatives.

Despite efforts by credit unions to improve financial service access for the unbanked and underbanked, the largest obstacle to greater access to credit union products is the legal constraint on credit union membership. Not every consumer may join a credit union because credit unions can only accept members who are in "designated" Fields of Membership. In the cases of low-income communities and underserved areas, the unbanked and underbanked often have even more limited opportunities to access credit. NCUA, therefore, seeks to expand access to credit for the unbanked and the underbanked by reviewing and approving LICU designations, and considering and granting underserved area applications by FCUs with a multiple common-bond charter.

A 1970 amendment to the Federal Credit Union Act provided a framework for designating LICUs. For the purpose of implementing the amendment, Congress directed NCUA to define "low income." NCUA's definition of a low-income individual is either someone who earns 80 percent or less than the total median earnings for individuals, or someone whose family income is at or below 80 percent of the median family income as established by the U.S. Census Bureau.

NCUA continues to make aggressive efforts to educate FCUs about the benefits of the low-income designation. As a result, the number of LICUs has increased from 645 credit unions at year-end 2000 to 1,118 as of June 30, 2011. Today, 15.44 percent of credit unions are LICUs, representing 4.7 percent of the assets in credit unions. LICUs

[13] A group of Franco-American Roman Catholics formed the first credit union in the United States in New Hampshire in 1908, and the Commonwealth of Massachusetts enacted the Nation's first credit union chartering statute in 1909.

also presently have 6.1 million members and a combined Field of Membership of 68.1 million potential members.

Over the years, NCUA has initiated a number of programs focused on assisting LICUs. These initiatives provide increased opportunities for FCUs to diversify their membership profile and to assist low-income designated and small credit unions as they manage their operations.

The number of LICUs continues to generally increase as more credit unions become aware of the benefits of the designation. To help more credit unions to establish their qualification as a LICU, the NCUA Board at its meeting on June 17, 2011, approved a revised rule that reduces regulatory burdens for FCUs seeking the low-income designation. Specifically, the rule change provides FCUs interested in obtaining a low-income designation with an option of demonstrating that they are a qualifying institution using a random sample of members' incomes. The agency believes this change will assist FCUs serving pockets of poverty within areas generally considered as not meeting the low-income requirements. Enabling more FCUs to obtain the low-income designation will make it easier for unbanked and underbanked households to access credit.

In addition to approving applications for LICU designations, NCUA expands access to credit for the unbanked and underbanked by authorizing certain FCUs to add underserved areas to their Fields of Membership. Specifically, with the enactment in 1998 of the Credit Union Membership Access Act,[14] NCUA received the authority to approve, for multiple common-bond credit unions, expansions enabling them to serve members that reside in underserved areas. For an area to be "underserved," the area must be a local community, qualify as an investment area as defined in the Community Development Banking and Financial Institutions Act of 1994,[15] and be underserved by other depository institutions.

[14] P.L. 105-219
[15] P.L. 103-325

Through this initiative, NCUA helps credit unions provide access to financial services to members of modest means and unbanked communities. From 2010 through July 31, 2011, 30 multiple common-bond FCUs added 36 underserved areas to their Fields of Membership. These additions provided access to financial services to more than 3.5 million people. Since 2000, NCUA has approved 1,684 underserved area additions covering 161 million people.

As a condition of obtaining an underserved area addition to the Field of Membership, FCUs must have a facility in the underserved area. This facility requirement is indicative of an FCU's commitment to providing affordable financial services to people in underserved areas. Since the NCUA Board adopted guidance in 2008,[16] the agency has also required credit unions to discuss in their application packages the unmet needs they intend to address after receiving approval to serve underserved areas. Some recent examples of how FCUs will address unmet needs include:

- Serving as a viable alternative to a proliferation of non-traditional financial service providers, such as check cashing firms, title loan providers, and payday lenders;
- Offering small-dollar emergency loans; and
- Serving those with poor credit histories through "second chance" loan and share draft products.

Just as LICUs increase access to credit for the unbanked and underbanked, FCUs with underserved areas also increase the availability of credit. As the table below indicates, multiple common-bond FCUs that have added underserved areas (UA) tend to be more proactive, when compared to all federally insured credit unions (FICUs), in offering services designed to benefit the unbanked and underbanked.

[16] See NCUA Interpretive Ruling and Policy Statement 08-1.

Credit Product Offered	Number of FCUs with UAs	Percent of Total		Number of FICUs	Percent of Total
Real Estate Loans	578	83.77%		4,620	63.93%
Risk Based Loans	572	82.90%		4,173	57.74%
Overdraft Protection/Courtesy Pay	480	69.57%		2,972	41.12%
Overdraft Lines of Credit	440	63.77%		3,176	43.95%
Share Secured Credit Cards	296	42.90%		2,076	28.73%
First Time Homebuyer Program	150	21.74%		669	9.26%
Pay Day Loans	75	10.87%		522	7.22%
Refund Anticipation Loans	29	4.20%		127	1.76%

In sum, NCUA's efforts to facilitate the ability of FCUs to obtain low-income designations and to add underserved areas has increased the availability of credit and access to credit for unbanked and underbanked households.

Offering Financial Assistance to LICUs

A third way by which NCUA assists the unbanked and underbanked to obtain credit involves the use of loans and Technical Assistance Grants (TAGs) to LICUs. NCUA's Community Development Revolving Loan Fund (CDRLF) shows that, with a small amount of financial assistance, FCUs serving low-income communities can play a significant role in providing needed financial services to those communities.

NCUA has administered the CDRLF since 1986. Within NCUA, the Office of Small Credit Union Initiatives serves as the administrator of the CDRLF. All administrative costs associated with the program are borne by the agency's Operating Fund, thus maximizing the availability of appropriated funds to support the important work of LICUs. The overall objectives for the CDRLF and its operating principles are outlined in Part 705 of NCUA's Rules and Regulations.

A proposed rule, approved by the NCUA Board in May 2011 for public comment, would modify and streamline the operations of the CDRLF. NCUA anticipates the proposed rule changes will increase loan demand due, in part, to lower interest rates and reduced regulatory burdens on participating credit unions. The changes will also enhance the availability of basic financial services for low-income households, including the unbanked and underbanked.

Since its inception, the CDRLF has granted loans totaling $54 million and TAGs totaling $12 million. In 2010, NCUA approved 283 of the 438 grant applications submitted, awarding TAGs to 210 credit unions totaling $1.4 million. As of mid-year 2011, NCUA awarded 67 TAGs totaling approximately $265,000 for the year. These awards occurred within one month of receiving the FY 2011 appropriation.

At the end of 2010, the 67 CDRLF outstanding loans totaled $5.5 million. Currently, the loan interest rate is 1 percent and is the lowest rate allowed by NCUA Rules and Regulation Part 705. As part of a process to eliminate outdated procedures and increase transparency, NCUA is reviewing this program to provide maximum assistance to LICUs.

In their CDRLF applications for loans and TAGs, LICUs have regularly demonstrated an eager interest in providing services to their members, especially those members who had limited access to basic financial services. Specific uses for grants and loans related to providing access to credit to the unbanked and underbanked in recent years include:

- Alpena Community Federal Credit Union. Situated in Michigan, the LICU leveraged the TAG with other funds to provide both live and online financial education for 800 members of the community (both credit union members and non-members). As a result, 80 new share accounts were opened for low-income, unbanked, or otherwise underserved members.

- NYU Federal Credit Union. This New York City LICU leveraged TAG funds with internal resources and other donations to implement the "Making Ends Meet" program. This program identifies members—

primarily employees and students of New York University—having demonstrated financial difficulties and provides quarterly financial education sessions designed to help them avoid future delinquencies and late fees.

- Shreveport Federal Credit Union. The Louisiana LICU used its CDRLF loan proceeds to fund a program to help members refinance high interest rate loans from finance companies. Management estimated members each saved an average of $4,500 over the life of the loans or about $125 per month.

- Brooklyn Cooperative Federal Credit Union. The New York LICU used its CDRLF loan proceeds to expand outreach to the community by opening a second branch in the low-income, underbanked community of Bedford-Stuyvesant, and to help launch a homeownership counseling program. The homeownership counseling program now serves 500 people per year and led to the launch of a foreclosure prevention program in late 2008. This program has helped more than 70 homeowners retain their homes. By its first anniversary in May 2009, the new facility had 500 members, held close to a half million dollars in savings, and had made 55 new member business loans.

The table below summarizes appropriations and NCUA approvals for loans and TAGs offered by the CDRLF during the last decade.

Fiscal Year	Appropriations		Approvals	
	Loans	**TAGs**	**Loans**	**TAGs**
2001	$650,000	$350,000	$2,657,000	$369,815
2002	$650,000	$350,000	$3,259,000	$668,044
2003	$700,000	$300,000	$1,004,997	$460,242
2004	$200,000	$1,000,000	$1,797,458	$1,225,565
2005	$200,000	$800,000	$1,669,000	$949,219
2006	$0	$950,000	$4,214,000	$1,371,130
2007	$0	$950,000	$7,758,280	$1,494,175
2008	$0	$975,000	$350,000	$1,159,244
2009	$0	$1,000,000	$2,588,000	$1,055,778
2010	$0	$1,250,000	$258,497	$1,394,601

Despite the current economic climate, LICUs have remained focused on providing services to their members, which is evident in the number of requests for TAGs. During 2010, LICUs submitted 438 applications to the CDRLF and requested $2.5 million in technical assistance funds to bring needed financial services to their communities. This requested amount is twice the amount appropriated by Congress.

While the CDRLF was able to award many of the grant requests, due to limited funding, NCUA was unable to approve the majority of the worthwhile requests. In many cases, the amount awarded was less than the amount requested to award funds to as many credit unions as possible.

NCUA annually revises the CDRLF's grant initiatives to address the current needs of LICUs and their members. To support the community goals of the CDRLF, as well as NCUA's objective of providing additional resources to LICUs, NCUA opened up seven grant initiatives for 2011, including the Financial Education and Financial Literacy initiative and the Partnerships and Outreach initiative.

NCUA currently allocates a major portion of the CDRLF appropriation for the Financial Education and Financial Literacy initiative. This program provides funds to eligible LICUs to work in collaboration with community organizations, financial institutions, and others to improve the financial literacy among credit union members and the surrounding community.

The economic downturn and the increased desire by consumers to better understand their finances have spurred the growth of the financial literacy movement over the past several years. NCUA has found the need for financial literacy even stronger in LICUs where members typically maintain smaller average deposits and access more loans at smaller average amounts.

NCUA also provides funds to LICUs to deliver new financial products and services to members and the community or to expand existing services to new and potential members. LICUs working in partnership with other organizations achieve greater impact for low-income members and improve the communities in which they operate.

Providing Technical Assistance to Credit Unions

Economic development specialists working within NCUA's Office of Small Credit Union Initiatives further provide one-on-one direct assistance and training to officials of small credit unions and LICUs around the country. These specialists assist with strategic planning, adding new products and services, board and supervisory committee training, policy development, grant writing, and the formulation of partnerships. Additionally, these specialists assist credit unions in crafting programs and products directly geared to disadvantaged members, such as alternatives to payday loans, credit builder/rebuild programs, and first-time loan programs. These programs focus on helping members who are challenged in securing credit to do so, including the unbanked and underbanked within a credit union's Field of Membership.

Some examples of direct assistance provided by NCUA's economic development specialists and designed to expand access to credit for the unbanked and underbanked include:

- Risk-based Pricing Loan Program. JDMH FCU in Jeannette, Pennsylvania, adopted a risk-based pricing program after working with

NCUA specialists. Metrowire FCU in Plains, Pennsylvania, and Del Monte FCU in Rochelle, Illinois, are now working on program design to implement similar initiatives.

- Short-term, Small-loan Program. NCUA specialists worked to design a short-term borrowing program to serve credit-restricted members at Community Healthcare Credit Union in Manchester, Connecticut, Science Park FCU in New Haven, Connecticut, UFCW 1776 FCU of Plymouth Meeting, Pennsylvania, and Pennformer Community FCU, in Canonsburg, Pennsylvania.

- Credit Products for Members with Credit Problems. Both Community Healthcare Credit Union and Science Park FCU introduced alternatives to payday and anti-predatory loans, credit builder/rebuilder programs, and first-time borrower programs.

- Deviation from Common Practice of Credit Qualification. Community Healthcare Credit Union and Science Park FCU have further adopted credit-extension programs placing greater emphasis on the member-credit union relationship than on traditional credit scores.

In sum, NCUA's Office of Small Credit Unions Initiatives continues to advance the ability of unbanked and underbanked households to access credit through the provision of loans, TAGs, and one-on-one assistance.

V. Financial Literacy and Other Initiatives

Beyond the previously mentioned efforts to increase the availability, assistance and access to credit for unbanked and underbanked households, NCUA has recently undertaken two financial literacy initiatives that benefit these audiences. These efforts aim to help consumers to make better and smarter decisions with their money.

Last year, NCUA joined with the U.S. Department of Education and the FDIC to create the Financial Access and Financial Education Collaboration. This initiative encourages schools, financial institutions, federal grantees, and other stakeholders to work together to increase financial literacy, access to federally-insured deposit accounts, and savings among students and families across the country, with an emphasis on low- and moderate-income students and families. The target audience for this program is school-age and college students and their families.

Earlier this year, NCUA also launched a free consumer tool: MyCreditUnion.gov. This website provides consumers with the information they need to improve their financial literacy and enhance their financial stability. The website offers a one-stop toolbox of information and personal finance tips designed to help individuals make smart financial decisions and better financial choices.

Consumers can visit MyCreditUnion.gov to learn about saving, borrowing and managing credit, as well as to learn how to get a free credit report each year. The website also explains how credit unions work, where to find a credit union, and how to start a credit union. In addition, consumers can use MyCreditUnion.gov to file credit union member complaints.

NCUA is committed to expanding and improving MyCreditUnion.gov, as well. The agency recently released a Spanish version of the consumer website.[17] NCUA also has plans to add more material about consumer protection and financial literacy issues to the website in the near future.

In addition to the efforts of NCUA to ensure financial literacy, credit unions are taking an active role in making sure their members are financially savvy. According to the June 2011 Call Report data, FCUs offer more than 3,500 financial education programs to their members and the communities in which they operate. The programs include

[17] See http://espanol.mycreditunion.gov/.

financial counseling, financial education, financial literacy workshops, first-time homebuyer programs, and in-school branches.

VI. Options for Increasing Access

In the invitation to testify, the Subcommittee requested steps that the federal government could take to increase access to affordable and sustainable credit options for the underbanked and unbanked. At this time, NCUA has several suggestions for the Subcommittee.

The Federal Credit Union Act currently only permits credit unions with multiple common-bond charters to add underserved areas to their Fields of Membership. Allowing single common-bond credit unions and community-chartered credit unions the opportunity to add underserved areas to Fields of Membership would open up access for many more unbanked and underbanked households to credit union membership. This legislative change could also eventually enable more credit unions to participate in the programs of the Community Development Financial Institutions Fund,[18] thus increasing the availability of credit and savings options in the distressed areas where credit unions operate.

Another legislative change that would increase the number of credit unions serving the population residing and working within underserved areas entails allowing credit unions to provide services in any adjacent geographic area meeting certain criteria associated with economic distress. These metrics include data related to income, poverty, and unemployment. This contiguous underserved area expansion would apply without regard to the more restrictive requirements of the Community Development Financial Institutions Fund and the limitations associated with NCUA's local community requirements.

[18] Located within the U.S. Department of the Treasury, the Community Development Financial Institutions Fund's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.

Congress could also consider increasing the resources of the CDRLF to make more TAGs and loans. As noted earlier, demand by LICUs for TAGs often exceeds available funding. In 2010, the dollar amount of TAGs requested by LICUs from NCUA was twice the amount available. Because of these resource limitations, the CDRLF often reduces awards for or denies funding to worthwhile proposals. Enhancing the resources of the CDRLF would allow more credit unions to undertake initiatives aimed at increasing the availability of credit for unbanked and underbanked households. Given the current fiscal realities, Congress might consider allowing the CDRLF to enter into public-private partnerships or to obtain some form of private-sector support, rather than providing funding through traditional means like increased appropriations.

Aside from legislative action, NCUA plans to continue to increase the availability of credit in at least two ways. First, the agency will expand efforts to promote awareness of the LICU designation and provide greater assistance to FCUs seeking these designations. In this regard, NCUA's Office of Consumer Protection's Division of Consumer Access stands prepared to assist any credit union in becoming more familiar with the review process. The division is also committed to helping credit unions through the application processes for the LICU designation and for underserved area additions.

Additionally, NCUA will continue to promote greater financial literacy among underserved populations. The MyCreditUnion.gov website, ongoing CDRLF TAGs for financial literacy, and the Financial Access and Financial Education Collaboration with the FDIC and the U.S. Department of Education have laid the foundation on which NCUA can build. In this regard, the agency will conduct more targeted outreach aimed at helping the unbanked and underbanked to learn more about how to obtain consumer-friendly credit and how to join the financial mainstream.

Focusing on job creation and economic growth more broadly, in recent Senate testimony[19] NCUA has indicated support for bipartisan legislation sponsored by Congressman Ed Royce (R-CA) and Congresswoman Carolyn McCarthy (D-NY) in the

[19] See http://www.ncua.gov/GenInfo/Members/Matz/speeches/ChairmanMatzWrittenTestimony-SenateBankingCommitteeMBLHearingJune2011.pdf.

U.S. House of Representatives and supported by a number of members of the Subcommittee. NCUA is focused on making certain that credit unions make safe, well-underwritten member business loans. H.R. 1418, the Small Business Lending Enhancement Act, would prudently allow credit unions to diversify their risks and portfolios. The tiered approach incorporated into the Royce-McCarthy bill features appropriate safeguards to ensure responsible lending and expand access to credit.

Credit unions have a century of experience making member business loans and fill a market niche for the small business loans that banks generally do not make. Small businesses also deserve greater, not fewer, choices in access to credit. Safe-and-sound member business lending programs provide economic benefits and strengthen communities. By prudently lifting the cap on member business lending, credit unions would be able to offer more credit to small businesses, supporting economic growth and job creation. If Congress enacts the Royce-McCarthy legislation, NCUA will act quickly to implement the strong safety-and-soundness regime called for in the bill by writing new rules and remaining vigilant in supervising these programs.

VII. Conclusion

In conclusion, NCUA has long recognized the need to expand access to credit for the unbanked and underbanked populations. NCUA has a long-standing history of working to expand the availability of credit, increasing access to credit unions by facilitating the ability of credit unions to add members, and providing assistance to small and low-income credit unions that serve communities with high concentrations of unbanked and underbanked households. Furthermore, NCUA's recently adopted Small Loan rule provides a viable, consumer-friendly, lower-cost alternative to potentially predatory loans. Finally, NCUA stands ready to work with the Subcommittee on any legislative efforts to increase access to credit, including proposals aimed at assisting the unbanked and underbanked, as well as legislation to prudently raise the current cap on credit union member business lending.