



STATEMENT

OF

THE HONORABLE DENNIS DOLLAR
CHAIRMAN
NATIONAL CREDIT UNION ADMINISTRATION

“SERVING THE UNDERSERVED: INITIATIVES TO BROADEN
ACCESS TO THE FINANCIAL MAINSTREAM”

BEFORE THE

SUBCOMMITTEE
ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
U.S. HOUSE OF REPRESENTATIVES

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Mr. Chairman, Ranking Member Sanders, and Members of the Subcommittee. On behalf of the National Credit Union Administration (NCUA), I appreciate your invitation to appear here today and am extremely pleased to have this opportunity to testify before the Subcommittee and to discuss NCUA's role in meeting the needs of millions of underserved Americans in their desire for financial self-sufficiency.

NCUA is committed to promoting and facilitating the extension of affordable financial services to individuals and communities throughout America. We consider the extension of access to credit union services to more "unbanked" or underserved individuals within the fields of membership of America's credit unions to be a high priority in our agency's strategic efforts to keep credit unions safe, sound and diversified in their risk and also successful in reaching out to make a greater difference in the financial lives of their members from all walks of life, including those that the Federal Credit Union Act refers to as "persons of modest means."

NCUA has initiated a number of successful efforts throughout its history which were designed to extend lower cost financial services to more underserved individuals through member-owned, not-for-profit financial cooperatives. We want to see more of the "unbanked" be empowered to "bank" themselves through the self-help approach member-owned credit unions can provide.

The growth in nationwide credit union membership to over 83 million is evidence of the dramatic impact credit unions are having in providing a valuable financial service alternative to more lower-income individuals and assisting them to find a much needed financial services partner. We recognize that many residents of underserved neighborhoods find themselves in a vicious pawnshop/payday lender cycle that can only be broken when they have access to the lower cost and user-friendly alternatives provided by traditional financial institutions.

Credit unions are reaching out to be that kind of financial partner for many "unbanked" individuals in underserved communities, bringing increased hope for financial self-sufficiency and perhaps the American dream of homeownership. In my testimony today I would like to emphasize some of NCUA's most recent actions and initiatives that are designed to, and we feel are serving to, further the goal of continuing this record of outreach by America's credit unions.

Three successful NCUA agency initiatives to reach the "unbanked" will be addressed today. They began at different times in recent agency history but have been strategically coordinated under the outreach banner we have now named our Access Across America initiative. The results of each have been impressive and the potential for enhanced future impact, far-reaching.

The three initiatives I would like to discuss for the few moments we have today and to offer as a results-oriented model of how NCUA's Access Across America

program is making a difference in extending credit union services to the underserved are our agency's:

- Underserved Area Adoption Program,
- Inter-agency and Credit Union Partnerships, and
- Community Development Revolving Loan Fund.

Each will be outlined and briefly addressed below:

ACCESS ACROSS AMERICA

“Creating Economic Empowerment for All Walks of Life”

Access Across America is an NCUA initiative designed to facilitate the extension of lower-cost credit union services to underserved communities and create opportunities for economic empowerment for people from all walks of life. The initiative is showing tremendous results with a growing interest from credit unions, the neighborhoods which need their services, and other partner agencies who are working with us to further what credit unions are accomplishing through this initiative.

As of the year 2002, there were over 90 million Americans living in census tracts designated by the U. S. Treasury Department's Community Development Financial Institutions (CDFI) program as investment areas based upon income and economic criteria which certainly warrant the distinction as being underserved areas. In many instances, residents of these underserved areas often find themselves largely at the mercy of higher-cost outlets such as pawnshops, check-cashing stores, and rent-to-own companies in the absence of an affordable financial alternative.

As should all agencies when we begin to look for ways to better meet our mission, our Access Across America initiative led NCUA to first look for areas where our own agency's administrative process and internal priorities needed to be overhauled to further the goal of extending access to credit union services to the underserved. We found examples where our own procedural impediments had become stumbling blocks to innovation in the extension of financial services to the underserved by the credit unions NCUA regulates and supervises.

Without sacrificing safety and soundness, without lowering oversight standards, in fact, without changing an existing regulation, NCUA made the decision that we could further the goals of Access Across America by streamlining, where appropriate without sacrificing the integrity of our regulations, the process for federal credit unions to adopt underserved areas into their field of membership – an option allowed to federal credit unions by regulation since 1994, and statutorily incorporated into the Credit Union Membership Access Act of 1998.

NCUA initiated an extensive credit union education campaign, directly assisted credit unions in identifying nearby underserved areas which met the legal criteria, computerized the application process, and prioritized the timeliness of the approval or disapproval process. The result was that the adoption of an underserved area into a credit union's field of membership went from a previous average of 16 months for an application to be approved to what is now an average of 10 weeks.

This adoption process for underserved areas as a part of Access Across America has exceeded our highest expectations – not merely in the removal of regulatory obstacles, but in the extension of lower-cost financial services to more Americans from all walks of life.

In fact, the removal of unnecessary regulatory impediments has resulted in the unbridling of innovation in service to underserved areas at what have become record levels. It has certainly served to put the “access” into our Access Across America initiative. Some numbers help to make the point.

In 1999, under the same field of membership rules and statutes regarding underserved areas that we have today, there were 7 federal credit unions that adopted CDFI-designated investment areas into their fields of membership, making 235,000 residents that became eligible for credit union membership in that year.

In 2001, just two years later, with the procedural enhancements incorporated under the umbrella of Access Across America, there were a total of 164 federal credit unions that adopted 281 CDFI-designated investment areas. The result was a record-setting 16.1 million Americans living in these underserved neighborhoods that at the end of the year had access to the lower-cost financial services of a credit union but did not have such access at the beginning of the year.

In 2002, thinking we could never see the record-setting numbers of 2001 duplicated, we approved the applications of 223 federal credit unions to adopt 424 underserved neighborhoods, totaling 23.5 million residents (a 45.9% increase over 2001 and a total increase 100 times greater than the annual results just three years before in 1999).

As of the end of May 2003, there have been an additional 64 credit unions adopting 96 underserved areas, giving another 7.4 million residents of underserved areas access to a traditional financial institution and putting us on a pace of approximately 18 million residents of CDFI-designated investment areas gaining access to a credit union in 2003.

Recognizing that there may be duplication in the numbers as some underserved areas have been adopted by more than one credit union, we maintain that these

numbers tell a positive story. We also want to emphasize that these numbers come only from federally-chartered credit unions, and that there are certain state regulators who have approved state-chartered credit unions in their respective states to likewise adopt underserved areas; therefore, the positive story is only enhanced by these state initiatives.

NCUA requires a solid and verifiable business plan be submitted and approved to ensure that all due diligence and risk management standards have been met before a federal credit union can be approved to adopt an underserved area. Importantly to the results, we also require a physical presence by the credit union in any underserved neighborhood adopted by a credit union. We have found that local community access is crucial.

By tracking the results from this adoption program we can verify that access to a local and lower-cost financing alternative has indeed resulted in a significant number of the over 45 million Americans residing in these underserved areas actually making the decision to take advantage of their eligibility and becoming members of their local credit union.

In fact, as a part of our agency monitoring closely the progress of our Access Across America initiative, we have found from NCUA call report data that the average annual membership growth rate since January 2000 in federal credit unions that expanded into underserved areas has been 4.80%. The national average for annual membership growth in all federal credit unions was 2.49% in that same three-year period since January 2000.

In other words, the membership growth rate for federal credit unions who adopt underserved areas is 93% greater than the average annual growth rate for all federal credit unions. Not only are the residents taking advantage of the access extended to them through this initiative, but the credit unions are finding that there is good business in these communities as long as there is proper due diligence and risk management in place.

This NCUA call report data is significant evidence that credit unions are not merely expanding into underserved areas, they are adopting those communities and making a positive difference in the lives of the residents there. That is why we use the term “adopt” an underserved area in all of our communications to credit unions to emphasize the importance of outreach to the individuals in these communities.

There are numerous specific examples of credit unions meeting the challenge set by Access Across America that could be cited as well as the statistics presented above. For example, the credit unions of Ohio, through the Ohio Credit Union League, established a program providing financial education classes covering savings, money management, and handling credit for the Hispanic community in their state. Last year, 225 people attended the course and received a certificate

of graduation. The Ohio League, in a partnership between their member credit unions and the Ohio State University Extension Office, sponsor this successful program. Earlier this week, Treasurer Rosario Marin presented an award to this Ohio financial literacy program.

In a partnership with the San Antonio Affordable Housing Corporation, San Antonio Federal Credit Union, a \$1.5 billion federally-chartered institution, has provided extensive financial literacy resources to families seeking the American Dream of homeownership in the San Antonio community, particularly in Hispanic neighborhoods. This partnership has built on the financial education component with a special mortgage financing program which has resulted in the credit union providing the construction funding and permanent mortgage loans to over 120 families totaling over \$7 million. The credit union has committed another \$5 million toward this project. Over two years into this partnership initiative, there has not been a penny of loss to the credit union in these mortgage loans.

The tremendous success of the San Antonio initiative indicates the benefits of partnering with successful community organizations and represents a quality model of providing access to homeownership to an inner-city, underserved community. In particular, the Hispanic families in these neighborhoods are the cornerstone of this partnership. Their access to affordable financial service through this partnership has both created a financial empowerment opportunity for these families and opportunity to strengthen the financial position of this credit union through participating in this initiative. We consider partnerships such as this, when done right, a potential win-win for both the communities and the credit union.

This leads to the next example of the success of NCUA's Access Across America initiative that we wish to discuss today – inter-agency and credit union partnerships under Access Across America.

INTER-AGENCY AND CREDIT UNION PARTNERSHIPS

Through Access Across America, NCUA is partnering with key federal departments and agencies to develop solid opportunities to aid communities in America with the resources and technical assistance to provide much needed financial services, affordable housing, and economic empowerment opportunities.

These efforts are designed to counter the growing predatory lending problem in America and to extend access to lower-cost financial services through a member-owned credit union. From the service of faith-based and other local credit unions in providing financial assistance for their communities to campus credit unions committed to instilling financial literacy at an age early enough to

build upon, America's extension of service to the underserved communities in our country has never been more important than now.

Access Across America seeks to bring results which demonstrate the value of economic empowerment to people from all walks of life. Our federal partners provide valuable resources to America's credit union system including grant opportunities and innovative programs available for credit union members to participate. Examples of partnership activities that have been fostered include:

U.S. Department of Agriculture: NCUA signed a Memorandum of Understanding with USDA to promote USDA programs to credit unions offered by USDA Rural Housing Service, Rural Business-Cooperative Service, and the Rural Community Development Initiative. In September, the USDA participated in NCUA's Access Across America workshop in El Paso, Texas held for credit unions that are involved with extending financial services to Colonias residents in the southwestern United States. Also in June, NCUA was a key presenter at USDA's Rural Housing Summit in Washington, DC.

U.S. Department Housing and Urban Development: NCUA is a federal partner with HUD's Blueprint for the American Dream, which is a White House initiative to increase homeownership by 5.5 million minority families by the end of the decade. In 2002, on behalf of NCUA, I participated in a panel discussion on mortgage financing at the White House Conference to Increase Minority Homeownership. In June, 2003, NCUA was a key partner in HUD's "Homeownership Express" bus tour with a stop in Birmingham, Alabama.

U.S. Treasury Department's Community Development Financial Institutions: CDFI has provided many credit unions with several million dollars in awards for the credit unions' initiatives to provide access to financial services in CDFI-designated areas. The Treasury Department provided \$2.8 million to credit unions through the First Accounts Grant Assistance program. These grants were provided to institutions that offered low-cost electronic checking or other types of accounts to low- to moderate-income individuals not being served by a financial institution. Through Access Across America, NCUA has promoted credit union participation in these Treasury Department programs through written communication to credit unions and in personal contact by agency personnel with credit union officials.

Internal Revenue Service: NCUA and the IRS signed a Memorandum of Understanding to promote the IRS' partnership initiative to help families with low- to moderate-income build assets and increase financial literacy. This partnership is in conjunction with the IRS' well-established Voluntary Income Tax Assistance (VITA) initiative and has been well received by credit unions and their members.

Corporation for National and Community Service: NCUA's partnership with the Corporation for National and Community Service has forged volunteerism

efforts with credit unions for AmeriCorps/VISTA programs and encourage credit unions to utilize the volunteer resources available through the CNCS.

Federal Deposit Insurance Corporation: NCUA has issued Letters to Credit Unions notifying federal credit unions of the FDIC's MoneySmart financial literacy initiative and encouraging their participation. We continue to partner with FDIC on these initiatives and have recognized a tremendous response from credit unions using the MoneySmart financial literacy curriculum for their members.

Neighborhood Reinvestment Corporation: NCUA is represented on the NRC Board of Directors by one of our presidentially-appointed NCUA Board Members. NCUA has hosted workshops and issued joint publications in partnership with NRC as part of the Access Across America initiative and its Partnering And Leadership Successes (PALS) component.

Small Business Administration: NCUA encourages credit unions to consider the guarantee programs for member business lending. The SBA 7(a) loan program allows credit unions to serve their members and impact their communities through a conduit for start-up business capital and to empower entrepreneurs and small business owners in America which continues to create jobs and grow the economy. NCUA has worked in partnership with the SBA to further credit union participation in the 7(a) guarantee program, an important outreach vehicle for SBA and a valuable risk mitigation opportunity for NCUA to promote as a credit union safety and soundness regulator concerned about proper risk management.

Another component of Access Across America worthy of mention is the previously mentioned PALS initiative – Partnering And Leadership Successes, which is intended to encourage credit unions to share their best practices for improving member service and reaching out to all individuals in their field of membership. It provides a forum to discuss successful efforts so credit unions can tap the experiences of those who have faced similar challenges. NCUA has hosted a series of PALS workshops on a wide range of issues in locations across the nation including San Francisco and Boston. These workshops have focused on partnership opportunities with the Neighborhood Reinvestment Corporation, and have encouraged credit union partnerships with NeighborWorks® organizations to give credit union members access to low-cost, non-conforming mortgage loans.

In July, the North Carolina, South Carolina, Georgia, and Alabama Credit Union Leagues will cosponsor a PALS workshop in North Carolina on Hispanic outreach. The workshop will address the financial service needs of the Hispanics and Latinos as well as techniques to market successfully to this community. In October, a workshop is planned which will focus on member business lending, with a particular emphasis on start-up lending for small businesses in underserved communities.

Another issue of importance in extending lower cost financial services to underserved individuals is international remittance. As the federal regulator of federally chartered credit unions, we are sometimes called upon to review the regulations associated with transferring money in and out of the country. NCUA does this from a perspective of safety and soundness for the credit union and its members, efficiency, cost to the consumer, and national security.

The predatory high-cost of international remittance has been a concern of NCUA for a number of years. We have tried to facilitate where appropriate the innovative services and technology available through credit union partnerships – such as the *IRnet* a service facilitated by the World Council of Credit Unions. *IRnet* is an electronic funds transfer services providing credit union members with a safe and inexpensive way to send money overseas or domestically. Services such as *IRnet* provide access to a viable and lower-cost alternative to excessive predatory fees charged by many non-traditional institutions. The savings to individuals remitting funds internationally can be sizable when the not-for-profit credit union sector offers a lower flat-fee alternative to the percentage of funds (averaging in excess of 30%) which is often charged by some international transmittal outlets.

Credit unions must, of course, comply with all USA Patriot Act regulations and verify their customers' identity. NCUA strongly believes that encouraging individuals to use traditional financial institutions actually provides greater security. Credit unions have the expertise and ability to recognize potential fraud and crime.

In February 2002, NCUA's General Counsel released an opinion letter providing guidance to federal credit unions about the limited ways wire transfer services might be extended to eligible non-members of credit unions. These individuals, often vulnerable to risky alternatives, need to be encouraged to use safe, well regulated financial institutions to move money. The Committee on Financial Services has recognized NCUA's commitment to serving the "unbanked." The Committee recently approved legislation (H.R. 1375) that would provide regulatory relief to the financial services industry that included a provision amending the Federal Credit Union Act to allow federal credit unions to cash checks and wire money for eligible non-members. Representatives Ose and Gonzalez introduced stand-alone legislation that is similar to the provision in H.R. 1375. With enactment of this language, I am confident credit unions will commit further to serving these individuals. In the meantime, NCUA will continue to facilitate these lower cost international remittance alternatives wherever possible under existing law and regulation through credit union partnerships such as those mentioned herein.

NCUA has maintained a keen strategic focus on facilitating credit union service to underserved communities wherever possible. In particular, we have focused

considerable attention in recent years to those minority communities where many residents lack the understanding of and trust in mainstream financial institutions. Because of language barrier issues, there are Hispanic and Latino neighborhoods where this is a significant issue in need of special initiatives. We are aware of numerous credit unions that have developed innovative outreach programs to serve these neighborhoods, including educating them on the importance of financial literacy and value of opening a savings or checking account. One challenge and hurdle for many in these neighborhoods, however, is the issue of identification.

As Chairman of NCUA, I have met with my counterparts in Mexico, Argentina and Chile, among other nations with institutions they regulate as a part of the worldwide credit union movement. We share a common interest in the safe and efficient movement of money across our borders. Together we are working in conjunction with one another to preserve and improve the integrity of the process. In this regard, Mexican Matricula Consular cards are working effectively as a form of identification from our experience. For a non-citizen without a taxpayer identification number, current regulations permit financial institutions to accept other government-issued documents evidencing nationality or residence and bearing a photograph or similar safeguard. A Matricula card meets all the requirements set out in regulations by the Treasury Department. As the Hispanic population continues to grow in this country, the Matricula Consular card is a necessary component to provide services to this unique population within the United States. We recognize it as a legitimate identification source for an individual to become a member of a credit union and work closely through our Office of General Counsel to assist credit unions in the effective use of the Matricula card.

This process has served well and as long as federal credit unions operate a safe and sound remittance system with the proper institutional due diligence monitored by NCUA as an effective credit union supervisory authority, we expect it to grow and continue to be a viable, affordable financial alternative.

For example, City Credit Union in Dallas is participating in a Dallas Police Department program called Communities Banking for Safety. Under the program, City Credit Union has teamed with the Dallas police to protect Hispanic citizens that have not previously had the benefit of a relationship with a financial institution. The program enables individuals to open accounts at any branch; all the individual needs is a Matricula card. City Credit Union provides a full range of financial services to these members, including remittances. The credit union also offers basic consumer education classes to assist their Hispanic members.

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

The Community Development Revolving Loan Fund (CDRLF) plays a vital role in the success of NCUA's Access Across America initiative. The CDRLF was established by Congress in 1979, through an initial appropriation of \$6 million to assist officially designated "low-income"¹ credit unions in their efforts to provide basic financial services to underserved communities. The credit unions participating in the CDRLF provide underserved communities access to a variety of services including basic savings and share draft accounts, home and car loans, and start-up capital for small businesses.

Over the years, Congress has continued its commitment to the CDRLF program by increasing the number of appropriated dollars available for loans to \$13 million. For more than 13 years, NCUA has successfully administered this ongoing program, providing more than 217 revolving loans totaling \$32.8 million during its history. And, in 1992, the NCUA Board began funding technical assistance grants by using the interest generated from the CDRLF loans. In fiscal year 2001, Congress recognized the success of the grants by reserving certain funds specifically for this part of the CDRLF program. To date, combining grants awarded from both the interest generated by CDRLF loans and the total of \$1 million appropriated by Congress specifically for the grant program over the past three fiscal years, the CDRLF technical assistance grant program has provided more than 1,000 grants totaling \$2.4 million to assist low-income credit unions.

Low-income designated credit union use low-interest loans from this program to further community development by providing funding for member loan demand, additional member services, and increase credit union capacity to serve members. The grants are used for verifiable and need-based technical assistance purposes. Low-income members benefit from the greater service provided by their credit unions.

A survey completed in May 2001 found that low-income designated credit unions that receive CDRLF assistance demonstrated the following results:

- Used the program to make additional funds available to meet community loan demands and improve financial services to members,
- Experienced significant growth,
- Stimulated economic activities in their communities, and
- Increased funding for these institutions from other sources.

¹ Credit unions designated as low-income may accept non-member deposits, participate in the Community Development Revolving Loan Fund program, accept secondary capital funds and receive technical assistance. Credit unions may request and obtain low-income designations. See Section 107(6) of the Federal Credit Union Act (12 U.S.C. 1757(6)).

Credit unions have used the funding for a variety of programs. In San Francisco, the Northeast Community Federal Credit Union received a loan in the amount of \$100,000 to support its loan programs and extend service to small business and non-English speaking populations. In Munising, Michigan, a grant to Munising Community Credit Union enabled them to provide the only ATM within a 55 mile radius. In Shreveport, Care Plus Federal Credit Union used a grant to automate its posting of payroll deductions. Until Care Plus received the grant, it was hand-posting over 1,000 payroll deductions weekly.

Access to affordable financial services and products can provide these communities with a much needed and viable alternative to check cashers, pawn shops, and title loan companies. By providing an alternative to higher-cost lenders, credit unions play a significant and meaningful role in helping residents keep more money in their communities and households. The CDRLF program furthers this worthwhile public policy goal, and NCUA values the strong support Congress has provided over the years.

CONCLUSION

Mr. Chairman, as you can see, the National Credit Union Administration takes seriously its responsibilities to not only ensure the safety and soundness of the American credit union system, but to also make sure that it is both viable and valuable in meeting the needs of folks from all walks of life.

Building today's NCUA Access Across America initiative on the foundation of decades of outreach by financially sound credit unions has established a successful model of individual and community empowerment that we feel can have a positive impact for future generations in leaving millions of individuals no longer in the ranks of the underserved and giving them the self-help empowerment through a member-owned credit union to "bank" themselves out of the category of the "unbanked."

Again, Mr. Chairman, I appreciate your calling of this hearing on this vitally important issue and am honored to have been asked to be here today on behalf of the National Credit Union Administration to speak briefly about some of the successes of our Access Across America initiative. I look forward to answering any questions you may have on these issues or any others of interest to you and the members of the subcommittee.

Thank you very much.