**Testimony of Deyanira Del Rio**
Chair, Board of Directors
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Before the House Financial Services Committee
Subcommittee on Investigations and Oversight

**Hearing: Dodd-Frank's Impact on Communities, Small Businesses and Americans**

July 19, 2012

Chairman Neugebauer, Ranking Member Capuano, and Members of the Subcommittee, thank you for inviting me to testify at today's hearing.

I am the Board Chair of the Lower East Side People's Federal Credit Union (LESPFCU), a not-for-profit community development financial institution in New York City. LESPFCU has a 26-year history of promoting savings and asset-building among low income families and stimulating economic development in the neighborhoods we serve. We manage $33.2 million in assets and serve more than 6,000 members. Approximately 82% of our members are low or moderate income; two-thirds are Latino. The majority of our borrowers are female heads of households.

Our credit union offers a full range of financial services, from savings and checking accounts to credit cards, business and real estate loans, and money transfer services. Since the credit union's inception, we have provided $60 million in capital to more than 8,500 families, small businesses, and nonprofit organizations in our target communities.

As a federally-insured depository institution, LESPFCU is subject to extensive consumer protection and safety and soundness regulations. I am pleased to comment on the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 on our financial institution and the communities we serve.

In my testimony, I would like to focus on four main points:

- The Dodd-Frank Act and other financial reforms have not impeded our credit union's ability to provide low-cost loans and services to our members.

- To the extent that our credit union is facing challenges, they result from the financial crisis and ongoing economic downturn – not from excessive regulation.

- Strong prudential regulation and consumer protections are needed to prevent future financial crises, and to ensure fairness and opportunity for low income consumers and communities.

- The Consumer Financial Protection Bureau has a vital role to play in regulating and leveling the playing field for depository and nonbank financial institutions.

1. **The Dodd-Frank Act and other financial reforms have not impeded our credit union's ability to provide low-cost loans and services to our members.**

The Dodd-Frank Act and other reforms enacted since the 2008 financial collapse have not caused our credit union to raise costs or eliminate services for our members. In fact, our credit union's lending has increased in recent years, from $16.9 million in 2007 to $22.4 million as of June 1, 2012. Fully 94.9% of our members' deposits are reinvested back in our communities, in the form of affordable housing, small business, and consumer loans. Approximately 95% of our small business loans are to women and minority owned businesses.

Our credit union is also serving more people than ever before. A record number of new members joined our financial institution last year, in part as a result of widespread mistrust of big banks and growing interest in credit unions. We continue to provide free checking (share draft) accounts to all members who maintain a balance of at least $25 at the credit union.

Our financial institution has not experienced a decrease in revenue as a result of credit card and overdraft reforms – primarily because we did not engage in unfair practices curbed by the CARD Act; nor did we rely on abusive overdraft fees, opting instead to provide traditional overdraft lines of credit and other responsible products to our members.

While our credit union supports the Dodd-Frank Act and the mission of the Consumer Financial Protection Bureau, it is important to note that the new regulatory framework makes accommodations for small financial institutions like ours. For example, as an institution with less than $10 billion in assets, we are supervised for compliance with consumer financial protection laws by our regulator, the National Credit Union Administration. In addition, the CFPB is required to assess the impact of its rulemaking on small financial institutions and small businesses.

2. **To the extent that our credit union is facing challenges, they result from the financial crisis and ongoing economic downturn – not from excessive regulation.**

To be clear, the lack of financial regulation and enforcement leading up to the financial crisis has created enormous burdens for small credit unions like ours – both directly and indirectly. When our financial institution considers challenges that we and our members are likely to face in the coming years, we are primarily concerned about the effects of continued unemployment, a depressed interest rate environment, and the ongoing foreclosure crisis.

These dire economic conditions have harmed our credit union, even though we played no part in causing them. A growing number of our members, for example, have lost jobs and income, which has resulted in higher loan delinquency at our credit union over the past year. In assessing delinquent and charged-off loans, we have identified few

underwriting deficiencies, and instead find that they reflect continued economic distress in the neighborhoods we serve, which are among New York City's poorest.

To mitigate these risks, LESPFCU has taken greater advantage of Small Business Administration (SBA) and other loan guarantees; participated in loans with other credit unions; restructured delinquent loans; and raised secondary capital investments from both public and private sources – all of which are important tools permitted by our regulators.

The subprime lending and foreclosure crisis has imposed tremendous costs on the credit union system in another important way. In 2009, the National Credit Union Administration established a Stabilization Fund to stabilize corporate credit unions (institutions that serve as clearinghouses for credit unions like ours) that had invested in what turned out to be toxic mortgage-backed securities. All credit unions must now pay a percentage of their assets into the fund annually. These assessments, which are a direct hit to credit unions' net worth, have harmed many credit unions' ability to lend and grow, and helped lead to the demise of numerous low income credit unions across the country.

In short, effective consumer protection and safety and soundness regulation and oversight would have benefited our credit union, and prevented the hemorrhaging of billions of dollars from the credit union system.

3. **Strong prudential regulation and consumer protections are needed to prevent future crises and to ensure fairness and opportunity for low income consumers and communities.**

In the years leading up to the financial crash, lack of financial regulation permitted abusive lending practices to reach crisis proportions. The economic and social repercussions of the ongoing foreclosure crisis, bank failures, and corrupt financial practices being uncovered on a seemingly weekly basis will be felt by American families and communities for years to come. The Federal Reserve has estimated that the median net worth of American families fell by almost 40% between 2007 and 2009 – losses that will take years, possibly generations, to recover.[1]

In addition to lost wealth, a growing number of families are contending with damaged credit histories as a result of predatory lending and foreclosures, increasingly aggressive debt collection tactics, medical debts, and layoffs. Damaged credit, in turn, blocks many Americans not only from future credit and homeownership opportunities, but also from affordable rental housing, jobs, and other economic opportunities that could help them get back on their financial feet and assist in economic recovery.

Congress enacted the Dodd-Frank Act in 2010, in the wake of undeniable regulatory failure and egregious lending practices that destabilized neighborhoods across the country, and nearly brought down the global economy. Among the Act's provisions is a requirement that lenders consider borrowers' ability to repay loans – a fundamental tenet of responsible lending that was lost during the credit boom. Our credit union supports

[1] *Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances*, http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf

such common sense regulations, which we believe will go far to preventing similar future crises.

Opponents of financial regulation frequently point out that the Act goes too far – citing its more than 2,000 pages and authorization of up to 400 new rule-makings. In our view, given the size, complexity, importance, and massive failures of our financial sector, we question whether Dodd-Frank will go far enough.

Ultimately, irresponsible and unchecked lending practices undermine our credit union's work to promote savings and asset development, and pose a significantly greater threat to our financial institution's long-term sustainability than the relatively short-term and marginal costs of regulatory compliance.

4. **The Consumer Financial Protection Bureau has a vital role to play in regulating and leveling the playing field for depository and nonbank financial institutions.**

LESPFCU welcomed the creation of the CFPB as the first agency tasked specifically with protecting consumers in the financial services marketplace – a function that was sorely missing in the years leading up to the crash. From hidden overdraft fees and triple digit APR tax refund loans to predatory "No-Doc" and Payment Option ARMs, low income communities across New York and the country were flooded with high-cost, exploitative products that regulators failed to curb. As we all now know, abusive lending practices harmed not only borrowers and their communities, but exposed the financial services system to broad, systemic risk.

This regulatory failure is particularly distressing because many of the problems we are currently facing could have been avoided, had regulators paid meaningful attention to the harms that reckless lending practices wreaked on families and communities. By ostensibly focusing on safety and soundness examinations at the expense of consumer protection, regulators ironically failed to detect the systemic risks caused by predatory lending (which was, after all, lucrative in the short-term).

We are particularly supportive of the CFPB's powers to regulate and supervise nonbank entities in the financial services market. Prepaid debit card companies and money transmitters, for example, have a growing presence in the communities we serve, yet have been insufficiently regulated, particularly with respect to fees and consumer protections. Many of our credit union members have been harmed by aggressive and often illegal debt collection practices by debt buyers, which harass and often file lawsuits against consumers for old and invalid debts. These tactics devastate people's credit reports and scores, and can lead to unwarranted wage garnishment and seizure of bank account funds.

Just this week, the CFPB announced that it will supervise the nation's major credit reporting agencies under its larger participants rule – bringing this industry, which has an outsized impact on people's lives and economic opportunities, under meaningful federal supervision for the first time.

LESPFCU and many of our partner credit unions have engaged directly with CFPB Director Richard Cordray and staff at field hearings and regional meetings, and indirectly in comment letters on various issues and proposed rules. We have been impressed so far by the thoughtfulness of the CFPB's approach to rulemaking, and the many ways in which the bureau has reached out to and solicited feedback from financial institutions, small businesses, and individuals. We believe that the CFPB's efforts to promote transparency and accountability in the financial services marketplace will confer benefits to our members and our financial institution that far outweigh the costs of regulatory compliance.

I look forward to answering your questions and thank you again for this opportunity.