

July 15, 2011

Tawana Y. James
Director, Office of Minority and Women Inclusion
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

**Re: Comments regarding Minority Credit Union Program** 

Dear Ms. James:

Thank you for the opportunity to comment on NCUA's proposed minority credit union (MCU) program. The Federation supports the creation of a program to preserve and strengthen critically-needed minority institutions, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. As the trade association for credit unions that serve low-income and minority communities, we look forward to working with the Office of Minority and Women Inclusion (OMWI) to promote and ensure a strong, effective MCU program. The Federation's preliminary comments about the program follow.

## I. The MCU program must prioritize the preservation of minority credit unions.

Simply put, the Federation believes that the most important measure of OMWI's success – both as an office and in its implementation of the MCU Program – will be its success in *preserving the number and character of minority institutions*. This is by far the area in which OMWI has the greatest opportunity – and through Dodd-Frank, a clear statutory mandate – to preserve sound and affordable credit union services in communities of color throughout the country. The Federation urges OMWI to set the preservation of MCUs as its highest priority, and to structure the MCU program and the office's related initiatives accordingly.

There is an urgent need to preserve and bolster the work of minority credit unions. The number of MCUs has dwindled in recent years, including as a result of NCUA mergers and liquidations, and challenges associated with chartering new institutions. While MCUs, which often are also small institutions, are not the sole credit unions facing such challenges, there is a strong rationale for dedicating resources to their survival. MCUs play a critical role in their communities, where they are often the sole alternative to

predatory payday lenders, high-cost check cashers, pawn shops, and unregulated money lenders. Communities of color are among those hardest hit by the subprime lending and foreclosure crisis, and by the ensuing rise in unemployment, damaged credit histories, and economic dislocation. MCUs provide a literal lifeline to residents in such communities, enabling them to avoid financial crises and spurring economic recovery in their communities. A recent study found that a prominent MCU and Federation member, Latino Community CU, contributed to higher property values and a decrease in crime in areas where it operated branches.

MCUs also play a key role in the broader credit union movement, ensuring diversity in the industry and pioneering services and initiatives to serve the underserved. Indeed, the work of MCUs (and low-income designated CUs, which are often one and the same) has amplified the visibility of the credit union movement nationwide, and served as evidence of its continued commitment to serving people of modest means.

The Federation urges OMWI to take bold steps to meet its charge of preserving minority credit unions. We specifically call on OMWI to:

- Provide meaningful benefits to credit unions that participate in the MCU Program. The benefits proposed by OMWI currently focus on training and technical assistance, partnerships, and merger consideration. The Federation is eager to work with OMWI to advise on and, as appropriate, directly provide needed training and technical assistance to at-risk MCUs. We also urge your office to expand the kinds of support offered to MCUs, as outlined below.
- Expand financial support for MCUs. We urge NCUA to provide direct financial assistance to MCUs, in cases where such assistance could stabilize a struggling institution. This would be especially appropriate in cases where a long-standing and historically stable credit union suffered a loss of capital resulting from NCUA assessments, for example, or an unusual loss related to economic conditions outside the credit union's control. We recognize that the agency has been reluctant to provide such assistance to date, and would argue that the urgency of the Congressional mandate to *preserve* minority credit unions requires new thinking and the expanded use of such powers.

Specifically, NCUA should develop criteria and goals related to:

Provision of Sec. 208 assistance, to strengthen the net worth of MCUs;
 and

 Conversion of the Community Development Revolving Loan Fund to secondary capital, to be made available to low-income designated credit unions, especially MCUs. (The Federation also supports preserving a portion of the CDRLF for 0% deposits at credit unions.)

## We urge NCUA to:

- Pursue all possible avenues for the preservation of MCUs. Only when all
  avenues for preservation have been exhausted should NCUA pursue merger
  partners. This may require fundamental changes in examiners' tactics and
  attitudes toward struggling credit unions. We would be eager to discuss with
  you several recent mergers of prominent credit unions, as case examples of
  actions that we believe could have been approached differently and with a
  better outcome for the credit union, the NCUA, and the NCUSIF.
- Weigh merger and Purchase & Assumption bids in favor of MCUs, in cases
  where preservation of the original MCU has been pursued and deemed
  impossible. There are several positive examples of mergers between likeminded institutions that could serve as models, such as the merger of First Delta
  with Shreveport FCU, to name but one recent example.
- Set concrete and quantifiable goals and benchmarks for the preservation of MCUs. NCUA should develop and publicize a strategic plan outlining how it intends to meet its Congressional mandate of preserving the number and character of minority credit unions. This plan should include quantifiable goals and concrete benchmarks on which OMWI will report, and by which the public and elected officials can measure its success.
- Ensure accountability and transparency in NCUA actions against credit unions.
   Too often, NCUA fails to publicly disclose its reasons for shutting down credit unions, providing only very general language. This opacity is simply not sufficient, at a time when the number of credit unions is dwindling at an alarming rate. The mandate that NCUA preserve MCUs makes transparency and disclosure of the reasons behind adverse actions particularly important, to ensure agency accountability.
- II. The definition and certification of MCUs should be flexible and reflect the diversity of credit unions serving minority groups.

OMWI proposes to define a "minority credit union" (or MCU) as a federally-insured credit union in which either (a) more than 50% of its <u>current</u> members and management officials fall within the eligible minority groups; OR (b) more than 50% of its <u>eligible</u> <u>potential</u> members (i.e. field of membership served by the credit union) and the majority of the management officials fall within the eligible minority groups.

The Federation supports a broad definition of an MCU that takes into account credit unions that have historically served members of minority groups, as well as credit unions that are in the process of expanding services to minorities, in response to changing demographics or a recent field of membership expansion. Allowing the latter credit unions to certify as MCUs would recognize and strengthen their efforts to serve underserved minority communities.

The Federation recommends, however, that OMWI remove the requirement – in either definition – that more than 50% of management officials fall within the eligible minority groups. If a credit union serves an actual or potential membership that is more than 50% minority, that should suffice for designating the institution as an MCU.

The Federation supports OMWI's proposal to allow credit unions to self-certify as MCUs, subject to verification by NCUA at the exam following self-certification.

We additionally recommend that NCUA add "Pacific Islander" to the categories that qualify as "minority groups" for purposes of the MCU program. Finally, we understand that one of the banking agencies has interpreted "American" (as in "African-American" or "Hispanic-American") to mean a U.S. citizen or permanent legal resident. NCUA should absolutely not construe such a narrow interpretation, as credit unions are not required – nor do they have the capacity or legal knowledge – to ascertain their members' immigration or citizenship status.

Thank you for the opportunity to share our comments. Please do not hesitate to contact us if you have any questions. We look forward to continuing to work with OMWI to develop this important and exciting new program.

Sincerely yours,

Clifford N. Rosenthal President and CEO

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Deyanira Del Rio, Chair Governmental Affairs Committee