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National Association of Federally-Insured Credit Unions

May 8, 2020

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Re: Financial Services Committee CARES 2.0 Proposal

Dear Chairwoman Waters:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share with you our thoughts on the Financial Services Committee's priorities and proposal for the CARES 2.0 package. We thank you for your leadership on these measures. As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products.

As we have shared with you previously, credit unions are keenly aware of the hardships their members are facing due to the COVID-19 pandemic and are working around the clock to proactively assist them. First and foremost, credit unions are concerned about the health and safety of their staff and members. Many are taking steps to help minimize person-to-person interaction, such as limiting staff travel, encouraging staff to telework as much as reasonably possible, and reminding members of online and mobile banking resources as well as drive through windows, if available. Furthermore, many credit unions have implemented programs to protect their members' financial health, including skipping payments without penalty, waiving fees, low or no-interest loans, loan modifications and no interest accruals.

Credit Unions Play an Important Role in Helping Small Business with the PPP

Credit unions have also stepped up to ensure small businesses in their communities are taken care of during these uncertain times. Credit unions greatly appreciate that they were included as lenders under the Paycheck Protection Program (PPP), and their response through this program has been tremendous. According to a recent National Bureau of Economic Research study, over 600 credit unions made PPP loans in the first round of funding. As a point of comparison, just over 400 credit unions had an outstanding Small Business Administration (SBA) loan at the end of 2019. The study found that credit unions accounted for 3.3 percent of total loans by number of loans, but only 1.4 percent by dollar volume, indicating that credit unions' average loan size was smaller than the overall average loan size. NAFCU survey results have found that credit unions participating in the PPP have made, on average, over 200 loans in the first two phases, though we have heard from some credit unions that have made over 1,000 loans. While there is variation, the average loan size made by credit unions is well under $75,000.

All of this goes to show that credit unions are providing small dollar loans to smaller businesses, some of which have no other financial institution to turn to. While credit unions are already committed to making these loans, we appreciate the Committee seeking to modify the PPP fee structure to incentivize lenders to prioritize smaller loans. Furthermore, we appreciate that your proposal provides Treasury and the SBA with the authority to prioritize smaller loans if aggregate demand is greater than appropriations.

When the second round of funding is exhausted, we encourage Congress to add additional funds to this program as it remains a lifeline for many small businesses in these times of uncertainty. Many credit unions continue to see interest in this program from small business members, many of which have just gotten the necessary paperwork together and were not able to get an application in earlier. Credit unions do not want their members to lose this opportunity if funding runs out with their application pending. We appreciate the steps your proposal takes to set aside PPP funds for community financial institutions, as we feel this is vital to ensure smaller businesses have access to these loans. Furthermore, we are supportive of a dedicated processing window for small lenders. Small institutions face constraints including limited staffing and resources, which means they often manually input information into E-Tran. As you know, credit unions have experienced significant difficulties with E-Tran due to high volume traffic, and a dedicated window is essential to ensuring they have access.

Credit Union MBL Cap Relief Will Help Small Businesses Beyond the PPP

Looking ahead, most experts agree that the economic impact of COVID-19 and the credit needs of small businesses will be with us beyond the short-term bridge provided by the PPP. With that in mind, we are supportive of the Committee's efforts to exclude business loans made in response to COVID-19 relief from the credit union member business lending (MBL) cap. This concept has widespread support, with National Credit Union Administration (NCUA) Chairman Rodney Hood, and Board Members Todd Harper and J. Mark McWatters all voicing their support for MBL cap relief as a step to make it easier for credit unions to do more to help small businesses in light of the pandemic. We thank the Committee for contemplating such relief, and we urge the Committee to consider extending this relief for a three-year period from the start of the COVID-19 national emergency, to be extended as necessary, as small businesses will likely take years to fully recover from this crisis.

Other Measures that Can Help Credit Unions Serve Their Members:

<u>Loan Maturity Extension</u>
When it comes to lending, we ask that you consider expanding your proposal to include legislation to provide credit unions with relief from the outdated 15-year general maturity limit found in the *Federal Credit Union Act* (FCU Act) for most credit union loans. Credit unions frequently hear from small businesses that a 20-year loan would be preferable in terms of a lower monthly payment, but because of the 15-year maturity limit, small businesses often turn to banks in order to get those loans. However, with credit likely to be constrained for the foreseeable future, these loans will be harder to get. We ask that you give credit unions this flexibility so they can work

with their members and provide them with the funds they need as we face the recovery ahead. H.R. 1661 would address this issue and has demonstrated support in the House with 21 bipartisan cosponsors.

Additional CDFI and CDRLF Funding
As you consider additional relief efforts, we encourage the Committee to continue to support increased funding for the Community Development Financial Institutions (CDFI) Fund and the NCUA's Community Development Revolving Loan Fund (CDRLF). These are important tools for credit unions to have access to funds to help those in underserved and low- and moderate-income areas. Providing $1 billion in emergency funding would allow more credit unions to access monies to provide specific programs to help their members. We would also urge you to consider measures to make it easier for credit unions to become a CDFI.

Currently, there are more than 300 CDFI credit unions serving over 10 million Americans, and there are currently 522 minority designated credit unions. CDFI credit unions are diverse institutions ranging in asset size from under $2 million to over $10 billion in assets, with a focus on addressing local needs and building local economies. Credit unions have a strong record of being engaged in underserved areas and can help to stabilize these communities during this difficult time.

Extending CARES Act Measures for the Central Liquidity Facility (CLF)
We are pleased to see the Committee's support for extending the CLF changes found in the CARES Act through 2021. We would note that NCUA Chairman Rodney Hood recently called on Congress to make these changes permanent and we would support that effort.

CARES 2.0 Should Be Balanced to Not Harm Credit Unions' Ability to Serve Their Members

Finally, we would like to raise concerns with a few of the provisions in the Committee proposal that, although well-meaning, may have unintended consequences, could place new hardships on credit unions, and hamper their ability to help members get access to credit. Enacting provisions now that harm community financial institutions could exacerbate the current health crisis into a new financial crisis.

Bans on Fees Could Lead to Elimination of Courtesy Pay/Other Programs
Efforts for a moratorium on courtesy pay fees could lead to an elimination of this important option for consumers. Such a blanket moratorium may end up denying credit union members a service they have indicated they want and have affirmatively consented to. Many credit unions are already waiving fees and helping members with alternative options, including short-term low- or no-interest loans. Credit unions have a long track record of working with their members when fees are an issue. Courtesy pay programs allow credit unions to pay a transaction even when the consumer has insufficient or unavailable funds in the account. This can be a faster way to help consumers in need make necessary payments or get needed supplies. A blanket elimination of courtesy pay fees may force institutions to stop many of these programs due to concerns about abuse and the financial impact on the institution. Consumers could then lose out on this immediate assistance option, which, again, is something they have already opted to have.

New FedAccounts Proposal Could be Cumbersome to Implement in Time to Help

We are concerned that the proposal to create a new "FedAccounts" system in order for consumers to deposit stimulus payments may not realistically happen soon enough to help Americans during this crisis and would create major disruptions in the U.S. banking system that have not been fully vetted. Instead, we suggest that you consider steps to take advantage of underused capacity in our current banking system. For instance, credit unions want to help Americans who are unbanked, underbanked or underserved by a financial institution, but many are limited in their ability to add underserved areas to their field of membership. Congress should amend the FCU Act to allow all credit unions to add underserved areas to their field of membership. This is one way to help provide access to capital to those who need it most, at no cost to the federal government. Just last week, NCUA Chairman Rodney Hood and Board Member Todd Harper both urged Congress to grant the agency this authority to respond to the pandemic.

Requirement to Cash Stimulus Payments Could Create Challenges

We are concerned that the proposal to require financial institutions to cash CARES Act stimulus checks for free may pose fraud risks, and we ask that you clarify the Customer Identification Program (CIP) requirements in this proposal. We are concerned that, as proposed, this may create new compliance burdens on credit unions that are only exacerbated by the current social distancing environment and could create a program susceptible to fraud. This could end up being extremely costly for financial institutions. Credit unions also face unique restraints—for example, credit unions are only permitted by the FCU Act to cash checks for nonmembers in their field of membership. Credit unions fully understand the importance of providing services to those who are underserved and unbanked, and, as noted above, the goal of this provision could also be accomplished by expanding credit unions' ability to add underserved areas to their fields of membership.

Legislatively Mandated Blanket Loan Forbearance Is Problematic

We would also caution against any additional mandated blanket loan forbearance as a response to the pandemic. The forbearance provisions in sections 4022 and 4023 of the CARES Act have raised a number of issues and concerns for credit unions, as many of the consequences of these provisions were not addressed in the Act. We are concerned that broad mandated loan forbearance that does not balance the perspectives of financial institutions could create both operational questions and safety and soundness issues without providing regulators the flexibility to address them. Credit unions are already working with members to ensure they get the relief they need, including providing forbearance and skip payments options on many types of loans based on need. Blanket mandated loan forbearance, regardless of actual need, can strain a financial institution's liquidity, making it harder to operate and provide additional credit to members. Financial institutions continue to face payment obligations on mortgage loans during a forbearance period, which compound these issues. Legislatively mandated blanket forbearance programs would cause credit unions to lose the ability to work with a member to achieve a mutually agreeable solution that protects both the member and the institution.

We thank you for your leadership in crafting the Committee's next phase of relief efforts and for the opportunity to share our thoughts. We look forward to continuing to work with you on pandemic relief and economic recovery. Should you have any questions or require any additional information, please contact Brad Thaler, NAFCU's Vice President of Legislative Affairs, at 703-842-2204 or bthaler@nafcu.org.

Sincerely,

B. Dan Berger
President and CEO