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The Honorable Patrick J. Toomey
Chairman
Subcommittee on Financial Institutions and Consumer Protection
Committee on Banking, Housing, and Urban Affairs
Washington, D.C. 20510

The Honorable Jeff Merkley
Ranking Member
Subcommittee on Financial Institutions and Consumer Protection
Committee on Banking, Housing, and Urban Affairs
Washington, D.C. 20510

Dear Chairman Toomey and Ranking Member Merkley:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association that exclusively represents the federal interests of our nation's federally-insured credit unions, I write in conjunction with tomorrow's hearing entitled "The State of Rural Banking: Challenges and Consequences."

As you are aware, those in rural communities face many challenges, including obtaining the financial services they need. Credit unions are proud of their record of working in rural communities to provide the best financial services possible, but often face obstacles in form of regulatory restrictions that prevent them from doing more.

First, there are many rural areas that may not have the opportunity for greater financial services options because a local credit union is unable to serve them as a result of limitations in National Credit Union Administration (NCUA) regulations.

NCUA allows credit unions of particular charters to add rural districts to their field of membership in an attempt to provide rural areas with greater access and choice of financial services. While we appreciate NCUA's efforts to allow credit unions to better serve rural communities, the NCUA definition of rural districts does limit the effectiveness of the regulation. Currently, NCUA restricts the definition of rural districts to (1) a district that has well-defined, contiguous geographic boundaries; (2) more than 50% of the district's population resides in census blocks or other geographic areas that are designated as rural by the United States Census Bureau; and (3) does not exceed certain other population thresholds. The district's population cannot exceed either (a) the greater of 250,000 or 3 percent of the population of the state in which the majority of the district is located, or (b) if the district has well-defined contiguous geographic boundaries, it does not have a population density in excess of 100 people per square mile, and the total population of the district does not exceed the greater of 250,000 or 3 percent of the population of the state in which the majority of the district is located.

NAFCU believes a more flexible definition of a rural district would increase availability of financial services to rural communities that might otherwise not have access to financial services. For example, the 250,000 limit does not adequately reflect our nation's makeup. Further, we believe NCUA should either remove or greatly increase the 100 person per square mile limit, as this population density threshold is far too low. NAFCU does not believe a person per square mile limitation should be part of the analysis for determining whether a credit union should be granted a community charter with rural district designation.

Second, in addition to field of membership limitations, the credit union industry is facing a tidal wave of new regulatory burdens. One of the new burdens with the greatest impact on rural areas are the new mortgage lending regulations issued by the Consumer Financial Protection Bureau (CFPB). In particular, the Qualified Mortgage (QM) rule creates significant obstacles to providing rural communities with the mortgage lending they need. The cap on points and fees presents an issue that particularly resonates in rural areas. Typically, the costs covered under the points and fees cap are fixed costs that do not change as a result of the cost of the home. This means the cap is more punitive in communities where home costs are lower, as is often the case in rural communities. Unfortunately, this means the availability of the QM loans stands to be diminished in these areas. As many of the community financial institutions serving these areas are leery of the additional liability associated with non-QM loans and have chosen to stop or limit them, the overall availability of mortgage loans ultimately decreases.

While the points and fees cap of the QM rule has and will continue to have a negative effect on mortgage lending in rural communities, there are options to help mitigate the impact. Among them is a provision included in the *Financial Regulatory Improvement Act* (FRIA), which would give a safe harbor to lenders from the QM regulation for loans held in portfolio. Credit unions, particularly those that operate in rural areas, have a unique and personal relationship with their members. This relationship provides them with insight into the credit worthiness of a particular member that surpasses data points such as debt to income ratio. The willingness of a credit union to hold a mortgage on portfolio instead of selling the mortgage into the secondary market is indicative of credit unions' belief in the strength of the loan.

Additionally, if a credit union holds the mortgage on portfolio, only the credit union is exposed to losses, not the overall housing finance system. Providing a safe harbor for portfolio lending from the QM rule would allow credit unions and other community financial institutions to make the same quality loans they always have but under the current regulatory regime would not otherwise be able to make.

Finally, the current method used by the CFPB to recognize rural areas does not always accurately identify all the rural areas across our nation. The FRIA includes language that would remedy this issue. The FRIA would implement a process in which a person living or doing business in a state would be able to apply to have an area of the state receive a rural designation. This provision would be a significant step forward in helping to address some of the regulatory burden facing financial service providers in rural areas.

NAFCU believes that passing provisions such as these into law will be a significant step in addressing some of the major challenges facing the financial services industry in rural communities. If you have any questions or we can be of any assistance, please don't hesitate to contact me or NAFCU's Associate Director of Legislative Affairs, Quincy Enoch, at 703-842-2261 or qenoch@nafcu.org.

Sincerely,

Carrie R. Hunt

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cc: Members of the Subcommittee