

SEPTEMBER 2022



ISSUE BRIEF

## Underserved Areas - Banking Deserts



## BACKGROUND

In order for credit unions to best serve Main Street America and everyday Americans in the 21<sup>st</sup> century, the federal credit union charter must keep pace with changes in state laws, technology, and the financial services industry. Critically, the federal charter must have modern field of membership (FOM) requirements that allow credit unions to meet the needs of communities in today's financial services marketplace.

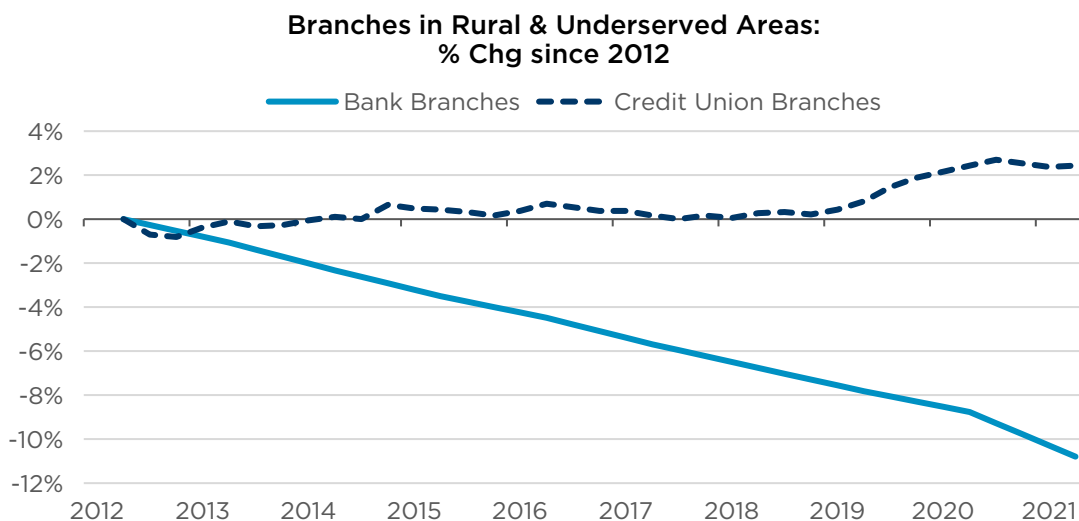
An important element of meeting this marketplace need is that all credit unions should have the ability to serve populations in underserved areas and banking deserts by applying to the National Credit Union Administration (NCUA) to add them to their FOM. In 1998, as part of the Credit Union Membership Access Act, Congress provided federal credit unions with the ability to add underserved areas to their FOM. However, subsequent legal challenges by the banking industry over the reading of the statute led the NCUA to limit this authority to only multiple common bond credit unions in 2006.

Since the 2008 financial crisis, the financial services sector has seen increased consolidation. This has led to a rise in areas without easily accessible bank branches as many banks have closed unprofitable branches, creating new "banking deserts." These banking deserts have negative effects on communities. As banks continue to close branches, NAFCU shares Congress's concern and believes that credit unions can be part of the solution. Allowing all credit unions to take on underserved areas in their FOM is a commonsense solution to the lack of financial services in banking deserts, and it comes at no cost to the federal government.

We urge Congress to amend the FCU Act to allow all credit unions the ability to add underserved areas to their fields of membership. The need for this authority has never been higher when you consider the following:

- › Banks closed 6,764 branches between 2012 and 2017 according to the Federal Reserve ([report](#))
- › Branch closure by banks only accelerated during the pandemic, with banks closing more than 4,000 branches since March of 2020 according to an independent NCRC study. This is a pace of over 200 bank branch closures a month in the last 2 years. ([report](#))

- › When merging banks closed a branch, the number of small-business loans made in the area fell by 13% for more than eight years afterward, a [study](#) by an economist at the University of California at Berkeley found.
- › As the chart below shows, the number of bank branches in rural & underserved areas have declined by 10.8% since 2012 while the number of credit union branches in those areas have grown by 2.4%.



*Note: Bank data based on FDIC Summary of Deposits branch types 11 & 12  
Sources: FDIC, NCUA, NAFCU calculations*

## LEGISLATIVE DEVELOPMENTS

H.R. 7003, the Expanding Financial Access for Underserved Communities Act. This legislation was introduced by House Financial Services Committee Chairwoman Maxine Waters (D-CA) and Consumer Protection and Financial Institutions Subcommittee Chairman Ed Perlmutter (D-CO) on March 8, 2022. This bill would allow all federal credit unions to apply to the NCUA to expand their FOM to include underserved communities, including communities that lack a depository institution branch within 10 miles. The bill would also exempt loans made by credit unions to businesses in underserved areas from the credit union member business lending cap.

H.R. 7003 was marked up and passed by the House Financial Services Committee by a vote of 27-22 on May 17, 2022. The text of the legislation was also included as part of H.R. 2543, the Expanding Financial Access for Underserved Communities Act. This larger legislative package has a number of provisions that aim to address access to

financial services, diversity in various financial institutions and establishments, and other related issues. H.R. 2543 passed the House of Representatives on June 15, 2022, on a party-line vote.

## **OUTLOOK AND ASK**

NAFCU is strongly supportive of H.R. 7003, the Expanding Financial Access for Underserved Communities Act. The numbers show that credit unions stand ready to do more to help those who have been left behind by banks. We urge lawmakers to support this legislation and enhance the ability of credit unions to serve the underserved.