ACCESSING FINANCIAL SERVICES AND ACCESS ACROSS AMERICA – A CREDIT UNION PERSPECTIVE ON SUCCESSFUL PARTNERSHIP INITIATIVES

Remarks by

Dennis Dollar
NCUA Chairman

At the

Fannie Mae Foundation
Access To Financial Services For
Working Poor Families Roundtable

Capitol View Conference Center
Washington, DC

Monday, November 10, 2003

Thank you, Stacey. Honored guests. I very much appreciate the invitation you extended for me to participate in this Fannie Mae Foundation sponsored roundtable on the important issues of Access to Financial Services For Working Poor Families today. The Fannie Mae Foundation has a noble purpose that has always impressed me, but I am even more impressed by the leading role the Fannie Mae Foundation has played in helping American families with issues of financial literacy, access to credit, and financial self-sufficiency. It is quite an honor to be asked to speak for a few moments at this important roundtable which has, in my opinion, the potential to open the doors of access for millions of Americans to greater financial self-sufficiency and the American dream of homeownership, particularly to those working poor living in underserved or unbanked areas where the lack of "access" is a greater disqualifier than is their credit rating or their debt ratio. Someone's neighborhood should never, within itself, be a disqualifier when it comes to access to the American dream.

On behalf of the National Credit Union Administration, the regulator of all federally chartered credit unions in the United States and the administrator of the National Credit Union Share Insurance Fund which insures the deposits in almost 10,000 federally and state chartered credit unions, I am pleased that the growing role of credit unions in meeting the needs of millions of Americans from all walks of life in their desire for financial self-sufficiency and the American dream of home ownership continues to be recognized at the highest levels. The Fannie Mae Foundation's leadership in bringing about this gathering of agencies, organizations, corporations and individuals who are committed to expanding access to affordable financial and mortgage credit for Americans from all walks of life is to be commended. I believe that great results will come from the synergy a roundtable such as this can produce as various groups who are involved in their own initiatives come to point of understanding what others are doing in the same arena and agreeing to work together where possible towards our common goal – more access, more affordable financial services, more homeowners.

At the NCUA, our initiative that I have been asked to discuss briefly here today – Access Across America - promotes and facilitates the extension of affordable financial services to individuals and communities across America. When we began Access Across America initiative in 2001, one of our goals was to help facilitate partnerships between the credit unions we regulate and insure with other governmental agencies who have programs and initiatives for which credit unions were eligible to participate in but perhaps, for reasons as simple as a lack of familiarity or awareness, about which they were not participating.

The long struggle for some to achieve the American Dream becomes even more of a battle when they have no partner to work with them in dealing with the financial aspects of the journey. The dream of homeownership, saving for a child's college education, or investing for the future seldom is achieved when an individual's primary or only "financial institution" is the local pawnshop, title loan company or rent-to-own outlet. While there may indeed be an appropriate role for regulated alternative sources such as payday lenders and check cashing outlets as a source of last resort for some residents of these communities, I cannot see anyone making the case that these types of outlets should be anyone's primary financial institution. They need access to a depository account and traditional savings and lending sources.

A recent report for the Brookings Institute by Michael Barr of the Michigan Law School, noted three major points that we must consider as we look for ways to positively impact the "unbanked" in America:

- First, low-income families' limited access to the banking system undermines their financial stability, and imposes costs on the economy as a whole;
- Second, technological advances in banking presents a unique opportunity to expand access to the financial services mainstream;
- And third, government can, and should, play the role of catalyst in expanding access to financial services for low-income families.

At NCUA, we agree with Professor Barr's conclusions and have determined that we can make the greatest impact, as an independent governmental agency, by designating Access as the key point of our emphasis in trying to play a meaningful role to create economic empowerment and financial self-sufficiency for more Americans.

Accessing the American Dream can become a reality for many with the empowerment of communities to provide access to lower-cost financial services for folks from all walks of life. As not-for-profit, member-owned financial cooperatives that are structurally driven more by member service than stockholder dividends, credit unions can be a financial partner of the type many underserved Americans, especially the working poor, are missing in their struggle for a piece of this nation's economic pie.

Recent economic numbers, including the job creation numbers, which are indicating that the nation's economy is pulling out of a several year economic downturn will increase the number of "working" poor in this country. Many of them were previously among the "unworking" poor.

The opportunity now exists for many who were previously without employment to move to the level of the employed; however, we cannot allow the lack of access to lower cost financial services to be the missing link which prevents them from taking the next step from the employed to the financially self-sufficient.

The partnership with other departments and agencies such as HUD with its Blueprint for increasing minority homeowners, USDA's Rural Development program, the Neighborhood Reinvestment Corporation's NeighborWorks program, the SBA, the White House Office of Faith-Based and Community Initiatives, and the US Treasury Department has been an integral part of our Access Across America initiative at NCUA and it has helped create a template that we have used in other partnership agreements with such agencies as the FDIC in its MoneySmart financial literacy program, the Internal Revenue Service in its VITA taxpayer assistance program, among others.

What can be the results from such cooperative initiatives among agencies?

The results from NCUA's Access Across America program can give us some concrete answers.

Working in consultation with our partnering agencies, NCUA endeavored to work with them to streamline process wherever possible to better enable credit unions to extend access to lower cost financial services to more Americans, particularly the underserved or unbanked.

As do all agencies when we begin to look for ways to better meet our mission, NCUA first looked for areas where our own agency's administrative process and internal priorities might need to be overhauled. We found examples where our own procedural impediments had, within themselves, become stumbling blocks to innovation among those we regulate and supervise.

When we asked the question among our credit unions, “What is the biggest deterrent to your credit union better achieving its mission of extending lower cost financial services to more underserved Americans?” …the answer came back – You Are.

We committed ourselves to changing not just that perception, but also to changing the reality where it existed.

Without sacrificing safety and soundness…without lowering oversight standards…in fact, without changing an existing regulation, the National Credit Union Administration set out to streamline process wherever possible to better facilitate the extension of credit union services to more underserved Americans while still remaining within the letter and the spirit of all applicable laws passed by Congress and rules established by NCUA that define the legal parameters of a credit union’s structure, authority and abilities.

In some cases, such as the ability to adopt a CDFI-designated investment area into the field of membership of a federal credit union, we initiated an extensive credit union education campaign, assisted credit unions in identifying nearby underserved areas which met the legal criteria, designed templates that could be used to facilitate the application process, streamlined the process itself, and prioritized the timeliness of the approval or disapproval process. The result was that the adoption of an underserved area into a credit union's field of membership went from a previous average of 16 months for approval to an average of 10 weeks.

And speaking of results, they have already exceeded our highest expectations – not merely in the removal of regulatory obstacles, but in the extension of lower cost financial services to more Americans from all walks of life.

Removal of regulatory impediment has resulted in the unbridling of innovation in service to underserved areas at record levels. It has certainly served to put the "access" into our Access Across America initiative.

Just a couple of numbers to back up the points I am making here about the importance of removing procedural impediments and facilitating innovation in outreach…one of the primary purposes in this roundtable today.

In 1999, under the same field of membership rules regarding underserved areas that we have today, there were 7 federal credit unions who took CDFI-designated investment areas into their fields of membership, totaling 235,000 residents in these 7 underserved areas who were extended eligibility for credit union membership.

In 2001, just two years later, again with no change in the rules for adopting underserved areas but with the significant change of the enhanced approach by NCUA as an agency mentioned a moment ago and which we have incorporated under the umbrella of Access Across America, there were 164 federal credit unions who adopted 281 CDFI-designated investment areas. The result was 16.1 million Americans living in these underserved neighborhoods that had access to the lower-cost financial services of a credit union at the end of the year who did not have such access at the beginning of the year.

In 2002, there were 223 credit unions adopting 424 underserved neighborhoods, totaling 23.5 million residents, exceeding by over 7 million the record-setting numbers of 2001. And, as of the end of October 2003, there have been 144 credit unions who have adopted 230 underserved areas, putting us well on a pace to add another 24 million residents of underserved areas now having access to a traditional financial institution.

Because NCUA requires a physical local presence in the underserved neighborhood by any credit union that adopts the area for service and a detailed business plan must be submitted and accepted to establish both the ability to serve the entire community but to demonstrate how they will do so, access to a local and lower-cost financing alternative has resulted in a significant number of the over 60 million Americans residing in underserved areas who have been extended access under our Access Across America actually choosing to become a member of their local credit union, start a savings account, take out a loan with an interest rate in the teens rather than in the hundreds, and, yes, apply for and actually have a chance to be approved for a mortgage.

As a part of monitoring the progress of our Access Across America initiative, NCUA call report data indicates that the average annual membership growth in credit unions that expanded into underserved areas has been 4.80%. The national average for annual membership growth in all credit unions was 2.49% since January 2000.

In other words, the membership growth rate for credit unions who adopt underserved areas is 92.6% greater than the average annual growth rate for all federal credit unions.

It has always been our contention that these credit unions are expanding into these underserved areas not solely for the sake of growth because the risk management issues involved might make the decision to adopt an underserved area one fraught with as many potential downsides as upsides from a due diligence perspective. Credit unions have moved into underserved neighborhoods because they have a heartbeat for the communities and want to extend lower cost financial services to more folks from all walks of life…and because we have made it possible for them to do so without unnecessary regulatory burden. The numbers over the first three years prove that to be so and they make a case for what we as agencies can accomplish without lowering standards if we prioritize results. I believe Deming referred to it as “form follows function.”

NCUA’s tracking of these membership growth numbers reinforces the findings of a recent study conducted by the Credit Union National Association (CUNA) in its January 2003 “Serving Members Of Modest Means Survey” which indicated that after an average of 7.3 months of service per underserved area, the 256 credit unions that adopted 470 underserved areas under NCUA’s Access Across America initiative have added over 615,000 members from those areas. These members had a total of $2.1 billion in savings and $2.9 billion in loans as of June 30, 2002, according to the CUNA survey.

Both the industry’s survey results and our tracking data from our NCUA call reports clearly show that Access Across America is positively impacting these communities with more credit union members, increased savings and lower cost loan alternatives. This is proof positive that credit unions are not merely expanding into underserved areas, they are adopting those communities and making a positive difference in the lives of the residents there.

If these early indicators of success were to be extended over a ten-year period, the results would be astounding. If these trends continue, credit unions could indeed put the most significant dent ever into the pawn shop-payday lending mentality which permeates so many of these neighborhoods, both urban and rural areas. It will also result in significantly greater home ownership numbers through enhanced access to locally-based mortgage financing alternatives at competitive rates.

I would consider that success to be one of the crowning achievements of Access Across America.

Our challenge today is to further such successful efforts and to duplicate their results from agency to agency, organization to organization, corporation to corporation, community to community and neighborhood to neighborhood.

As it has done in our initiative and partnerships, I believe that this roundtable, along with the sponsorship and facilitation of the Fannie Mae

Foundation, can help lead to the synergy I mentioned earlier and the types of results we have discussed here this morning.

I am honored to be here on behalf of the National Credit Union Administration and to participate with all of you. The scriptures remind us that “where there is no vision, the people perish.”

In our positions of leadership, we are challenged to be men and women of vision. When it comes to furthering opportunity for financial self-sufficiency and the American dream of home ownership, that vision must be allowed to be more than something we hold. Our vision for furthering the goal of financial self-sufficiency among Americans who lack it today must be allowed to manifest itself.

Although there are indeed limits in our roles as both public agencies and private organizations, we must where we can be visionary agents of access to that American dream.

I look forward to today’s roundtable furthering that access.

Thank you very much.