

TESTIMONY OF

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REGARDING IMPLEMENTATION OF

THE CREDIT UNION MEMBERSHIP ACCESS ACT OF 1998

BEFORE THE

**SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**
HOUSE BANKING AND FINANCIAL SERVICES COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

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UNITED STATES HOUSE OF REPRESENTATIVES
Committee on Banking and Financial Services

Submitted Respectfully:

The following statements are a reflection of a small credit union's board of directors and management. We believe our representation in the following areas to be addressed, reflects the voice of many who have little or no opportunity to state their objections to The National Credit Union Administration's interpretations of legislation passed by congress in 1998. After devoting thirty five years to this true cooperative, we have seen evolution which may destroy the reasons credit unions were founded for. "To promote thrift, and give cheap loans" has been the mission statement of the movement all these years.

Modernization and development has been a key for forging ahead in our "free enterprise" society. In the area of medicine and technology, the charge ahead has been instrumental in securing a safer future for our children. Perhaps our biggest mistake is a clear vision of what should be changed or what should be left alone. An example would be the strong family structure of years ago which is having its foundation weakened year by year, as the times change. We tend to forget where our roots are. Sometimes there are areas which can be damaged by modernization and development as a result of "lack of heart" and knowledge of this "true cooperative" as displayed by inappropriate decisions made on our behalf by our regulators.

With fifty percent of the nations credit unions being \$5,000,000.00 in assets or smaller, and with the next twenty percent still considered to be small, the belt has been tightened for survival. This has been due to streamlining the processes, interpretations of the law which favor the minority in credit unions (\$20,000,000.00 and over in assets), and old fashioned favoritism towards large credit unions who have in a lot of instances put their members dollars into the razing of large lavish buildings, and have picked up fee structures equaling those of a bank, giving them the ability to lessen the responsibility of a loan portfolio to their members. It was flashed on television and radio the mention of a ultra large credit union in New York State giving \$600,000.00 to get its name on a sports arena. If a credit union looks like a bank, talks like a bank and acts like a bank, they do not belong in the humble position of being a credit union. You can offer full service, such as this credit union, in a modest environment in answering the member needs without jeopardizing our true function. A credit union who personally talks to its members, councils, and follows up on financial problems is fulfilling its intended purpose.

***EVALUATION OF NATIONAL CREDIT UNION ADMINISTRATION' TREATMENT OF THE
COMMON BOND REQUIREMENT IN THE FEDERAL CREDIT UNION ACT***

1. It is our understanding that under the new law, the NCUA Board of Directors has a definite responsibility to encourage the formation of new, separately chartered credit unions, as have been granted in the past. I cannot cite actions where they have fulfilled this duty, especially in the last fifteen years, but have observed instances where they have done just the opposite. NCUA's interpretations of the law, such as SEG groups, streamlining and granting of community charters with overlap privileges to already existing credit unions, have drastically reduced the number of newly chartered credit unions in recent years (excluding Community Development credit unions, which are a separate entity). The NCUA board seems to have leaned too heavily on adding groups to existing credit unions at the expense of increasing the number of charters granted. Evidence is the shrinking number of credit unions, while the assets and members increased. This fact cannot be disputed.

2. NCUA's final rule on economic advisability provides that as a general matter groups should have at least 3,000 members if they are to form a credit union. - NCUA'S interpretation of congress' intent is not consistent with the charge to get new credit union charters approved. The 3000 member limitation to charter is not consistent with the intent and is extremely excessive and can be interpreted as detrimental. This number represents a six fold increase over the previous, limiting new charters, and encouraging already large credit unions to get larger. There are a limited number of charter applications that can meet the size requirement of 3000. It is time to go backwards to the encouraging number 500. A lower threshold will lead to more chartering and fewer additions of SEG groups.

3. NCUA has indicated that among other factors, they will consider the "desire" of the group to be added. - Desire has always been a factor in granting approval of SEG groups, but as a growing gulf exists between large and small credit unions, "desire" needs to be carefully applied, especially in the case of large groups of persons. Large credit unions are more attractive and visible through television, ads, expensive internet advertising and other forms of the media. There are many large credit unions who pay six figures monetarily for just such marketing of themselves. Logic says groups will "desire" to join a more visible large credit union rather than the smaller ones. The result - Smaller number of credit unions, tremendous growth of those of whom are already large, and a definite disappearance of small credit unions who serve as the designers intended.

4. NCUA'S final rule favors the addition of groups to large local credit unions as opposed to small local credit unions. The Regulatory Agency should be taken to task for allowing community charters with over-lapping privileges to be granted. Years ago it was very difficult to become a community charter. If and when it was allowed, there was no over-lapping other credit unions, and the geographic lines were carefully defined. The streamlining permitted under NCUA'S interpretation, in addition to abolishing protective clauses aid the growth of large credit unions. Presently, NCUA will have the ability to merge a small credit union with another without prior agreement between the two credit unions. A regulatory agency should regulate, not dictate. Whole county community charters are in the game plan of many large credit unions as well as cities, sometimes overlapping as many as seventeen credit unions. From what we read of the designers intent for a credit union's function, the objective is to give cheap loans and promote thrift. Safety has always been a factor along with controlled growth. The cliché' "freedom of choice" has been misused by NCUA to support their actions. Freedom of choice has always been "a credit union or a bank?" Regulatory misinterpretation is now pitting one credit union against another. Non-profit cooperatives should exist in harmony as do other non-profit organizations (churches, etc.). To inspire the pitting of one credit union against another is contrary to this wonderful movement's philosophy. Free enterprise belongs in the profit making industry. Right now, fifty per cent of the nation's credit unions are under \$5,000,000.00. They are small, unpretentious and fulfill their obligations to their members. There are no large amounts of money to promote themselves, therefore, they do not have a voice in the movement. Any attempt to have a voice leads to censoring in different ways. Small credit union will lose further ground to NCUA'S interpretation of the rules put forth.

From some of the buildings seen recently, the trend is towards lavish and large. Pompous ego-boosting positions are created by large growth and expansion. NCUA should consider every charter granted as Community with over-lapping, and its implication upon other credit unions, on a one by one basis. Otherwise, credit unions will diminish in numbers, even larger concentrations will appear, leaving the members unserved in areas only a small credit union can serve.

5. The interpretation and final rule with respect to reasonable geographic proximity can only aid and abet large credit unions getting larger. In the past, NCUA'S definition of a "service facility" was intended for areas such as an army base abroad. To delete the ability of a credit union to refuse membership to

of another country other than the United States of America, will lend to a weak loan portfolio, and redundancy, as credit unions are plentiful throughout the world. Again, it seems NCUA is promoting rapid, expansive growth. We believe that good practices and controls should be used in the guidelines for "service facilities".

6. Under CUMAA, NCUA would like the ability to merge a pair of credit unions, regardless of the credit union's desire to do so. It is our contention that this move can lead to graft and nepotism. The credit unions themselves should have the ability to pick each other as a mate, considering safety and soundness. To remove or dilute the past procedures will place more power in the regulators hands. In the past when a merger took place, the system worked, thereby, why change it.

7. NCUA'S interpretation of "family member and family household membership- In the early 1980's NCUA allowed credit unions to expand their charters to include the "extended family tree" via board action. Each credit union chose the extent of the family tree that best fit their credit union. NCUA has now scaled back the final rule to include only family members living in the same household. Congressional intent is to make credit union membership available to all who have a need. Is it not hypocritical to incorporate streamlining in almost every area of the bill, then turn around and narrow the interpretation of the family tree? There is a contradiction here. What more common bond is there, but those of a family and extended family.

8. NCUA's final rule regarding community chartered credit union - We do not agree with NCUA'S final rule on chartering community credit unions. The overlap allowance without consent will be deadly to the small credit unions being over-lapped. The geographic boundaries should be very restricted to less populated areas, not being serviced at all by other credit unions. The boundaries should be well defined with no over-lapping, except where mutual consent exists between credit unions, not to be interfered with by NCUA. As it now stands, there seems to be no limits applied by the Board. If a credit union wants to encompass several counties, it is possible according to NCUA'S interpretation.

In summary, the credit union movement is at a crossroads. Dramatic changes which are being instituted by the NCUA Board could break the backs of the largest category in the United States, namely the smaller credit unions. Sadly, we do not believe NCUA has anticipated the damage that can be done to small credit unions by their interpretations of the final law. The present board's flagrant decisions clearly intend to cause a division in the movement via competition between credit unions.

How fast we forget who we are and what our humble beginnings were. All credit unions chartered to date had defined protections by NCUA. We were allowed to define our own character while not imposing upon other credit unions, while at the same time, address safety and soundness issues. If we failed at the latter, we ceased to exist. Many of the most recent Board actions are supportive of larger credit unions getting larger and in decreasing the total number of chartered credit unions. The smaller credit unions as we know them today, may no longer exist tomorrow.

RECOMMENDATIONS -

1. Return the family tree membership to credit unions.
2. Immediately discontinue granting over-lapping charters without consent of affected credit unions.
3. Increase the NCUA Board of Directors to five, so that small medium and large credit unions can

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4. Require all groups of 500 or more to apply for a separate charter.
5. Abolish streamlining in any form.
6. Consider dividing the credit union movement into two divisions, one for large credit unions, one for small credit unions.
 - A. Small credit unions - Have special grants available for the small to perfect the services and increase protection.
 - B. Large credit unions - Discourage concentrated growth which damages our image and concepts.

In closing, it is our sincere desire that all credit unions large and small can have an equal opportunity to exist in the future, and to serve those members who have a need for our institution.

Respectfully submitted,

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the Irondequoit Federal Credit Union .