



Federal Financial Analytics, Inc.

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CREDIT UNIONS FALL SHORT OF THEIR STATUTORY PRO-EQUALITY MISSION, NEW STUDY FINDS

The U.S. credit-union industry was formally established in 1934 with a statutory mission providing unprecedented federal benefits in return for a commitment to serving families of “small means” through “provident” and “productive” products. In 2019, U.S. income inequality is even worse than it was in 1934, making this mission still more essential. However, objective data show that credit unions have strayed from this mission, all too often providing financial services to higher-income households that do little to ensure long-term family financial security or national productivity.

WASHINGTON, DC, June 25, 2019 – Although a little-noticed segment of the U.S. financial system, credit unions now amount to a \$1.5 trillion industry servicing 119.4 million customers. Originally chartered under federal law in 1934 to serve households of small means through “provident or productive” services, credit unions enjoy numerous benefits, including a federal tax exemption unmatched for any other private enterprise. Although the need for equality-essential financial services is even greater in 2019 than it was in 1934, no one has studied the extent to which credit-union benefits are earned by compliance with statutory charter requirements [since 2006](#). A [new study](#) from Federal Financial Analytics, Inc. takes this on, evaluating an array of data and governmental studies of individual aspects of credit-union activities to conclude that the credit

union industry falls short of express statutory requirements. The study thus recommends renewed attention to the credit-union mission and effective enforcement to ensure that it is meaningfully and materially achieved.

“Sometimes the question of credit-union mission compliance is seen as an us-versus-them battle between bankers and credit unions,” said Federal Financial Analytics managing partner Karen Petrou. “This study readily acknowledges the vital role credit unions can and should play in household financial services – its goal is not to question credit unions, but to remind policy-makers of their vital mission to ensure that taxpayer-benefits received are credit-union benefits earned.”

This 38-page study marshals research presented in 181 footnotes to demonstrate that credit unions in 2019 often stray far afield from their statutory mission. Some have even figured prominently in investigative reports of new forms of predatory lending – for example with regard to [taxi-medallion lending](#). Others were recently [cited by federal consumer-protection regulators](#) for putting vulnerable students at grave financial risk. Mounting evidence also suggests that the credit-union sector as a whole now largely serves middle- and upper-income households. Special-purpose “low-income credit unions” backed by even more generous federal benefits are found to serve wealthier households in low-income areas and to define their markets so generously that even the most prosperous communities – Greenwich, Connecticut as a case in point – are served by these “low-income” companies.

Because of the urgent need for an increased supply of equality-essential financial services, this paper assesses not only the extent to which credit unions meet their mission, but also how their federal regulator judges and enforces it. “We looked in vain for data from the National Credit Union Administration about how many low-and-moderate income households are served by credit unions when income is measured the way other federal agencies do, let alone by the generous definitions of ‘low income’ the NCUA prefers,” Petrou said. Third-party research from community groups and even the General Accountability Office suggest a major mission gap, but this is best judged by the

NCUA. The Federal Financial Analytics study thus recommends that the credit unions' federal regulator quickly ascertain whom credit unions serve, paying particular attention to companies with the special "low-income" designation. In light of the statutory requirement that credit unions provide provident and productive loans, the paper also recommends that the NCUA go beyond its current policy of measuring only total credit union loan volume instead to measure what types of loans are made to whom at how much long-term gain to borrowers in terms of income advancement or wealth accumulation.

Although individual credit unions are generally too small to create systemic risk, the study notes that any failures put both members and taxpayers at risk. Significant improvements in regulatory capital and other safety-and-soundness rules are thus also detailed.

"America is no longer the middle-class nation we still like to think we are," Petrou said. "Indeed, the average millennial now has a [net worth of just \\$8,000](#). The credit-union mission is more urgently needed than ever, but our study concludes that it's time for federal policy-makers to ensure that mission goals are backed by market performance."

Federal Financial Analytics, Inc. takes full editorial and methodological responsibility for this paper which expresses its own views based on its own research. The firm maintained complete control over its content and is solely responsible for it. Funding was provided by the American Bankers Association.

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Federal Financial Analytics, Inc. is a proprietary think tank providing analytical and advisory services on legislative, regulatory, and public-policy issues affecting global financial-services companies. Since 1985, the firm's practice has been a unique blend of strategic advice and policy analysis, serving as a thought leadership resource for boards of directors and senior management seeking a forward looking assessment of risks, opportunities, governance, and other matters critical to success. Clients also include senior regulators and policy-makers around the globe, who rely on the firm's objectivity for confidential forecasts of the market impact of actions under consideration.