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INDEPENDENT COMMUNITY BANKERS of AMERICA®

June 5, 2019

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing & Urban Affairs
United States Senate
Washington, D.C. 205150

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing & Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of community banks across the country, with more than 52,000 locations, I write to express our grave concerns about credit union lending abuses, victimization of struggling immigrant borrowers, and failed oversight associated with taxi medallion lending in New York City, as vividly documented in a recent New York Times exposé.[1] We are particularly concerned about the failure of the NCUA to prevent these abuses, despite repeated warnings. NCUA oversight failure is likely not limited to taxi medallion lending in New York City but is systemic in nature, a symptom of an agency captured by the industry it is charged with regulating. What additional credit union lending abuses have yet to surface? **We request that your committee convene hearings at your soonest convenience to explore the role of the NCUA in this and other lending scandals.** The March 2019 NCUA Inspector General Report on the failure of three New York City credit unions would form an appropriate basis for the hearings.

Over the course of a decade, a classic asset bubble arose in the price of New York City taxi medallions, with prices detached from the underlying economics and more than quadrupling. Self-employed taxi drivers, nearly all low-income immigrants, were coaxed into borrowing more than they could afford to purchase medallions, resulting in financial ruin for thousands of families, approximately 950 bankruptcies and, tragically, a number of suicides. Half a dozen credit unions dominated the market in medallion lending, though certain banks and non-bank lenders became involved in the late stages of the bubble. This was a replay of the subprime lending crisis in residential mortgages prior to 2008, and a remarkable failure of lenders and regulators to learn the lessons of that recent crisis. All the familiar elements were involved: poorly informed borrowers, falsified loan documents, interest-only payments, prepayment penalties, and other abusive features as well as out-right fraud. One observer quoted in the Times series described it as a Ponzi scheme built on a premise of ever-increasing medallion prices. Much like the subprime mortgage crisis, there is uncertainty as to how many of these predatory loans were sold to other credit unions, what credit risk they continue to present to the Share Insurance Fund, and how widely this issue has metastasized. Unfortunately, this likely is the beginning of underlying problems yet to be exposed.

[1] Part 1: "How reckless loans devastated a generation of taxi drivers." Part 2: "As thousands of taxi drivers were trapped in loans, top officials counted the money." Brian M. Rosenthal. New York Times. May 19, 2019.

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As borrowers struggled to make payments, credit union executives reaped exorbitant salaries and bonuses. As one example, the Times notes that the CEO of Progressive Credit Union made about $30 million in salary and deferred payouts during the bubble, including $4.8 million in bonuses and incentives in 2014, the year it burst. The Times documents ownership of multiple homes and yachts among these executives. The tax-exempt, non-profit status of these entities did not restrict them from paying executive compensation more commonly associated with hedge fund managers and Wall Street investment bankers.

At the root of this fiasco is a failure of the NCUA to regulate and supervise. Lending concentration, abusive loan terms, and medallion prices inflated well above their fundamental value were obvious to industry observers, but the NCUA was deaf to the many warnings it received from the outside as well as from within the agency. Described by one observer quoted by the Times as more a trade group than a regulator, the agency clearly was and clearly remains captured by the credit union industry.

Community bankers are well aware of the NCUA's regulatory capture and the competitive advantage it confers on a tax-exempt industry. The NCUA has "reset the default switch to yes" in response to any and all industry demands, to quote former NCUA Chairman Debbie Matz.[2] The taxi medallion scandal shows that the cost of regulatory capture goes beyond competitive advantage to the financial ruin of borrowers, systemic risk, and significant losses to the tax-payer backed National Credit Union Share Insurance Fund. In this case, the losses totaled $750 million. As a tax-exempt industry, credit unions warrant heightened scrutiny to preserve (or, more accurately, claw back) the original purpose of the tax exemption: to "make more available to people of small means credit for provident purposes."

Fortunately, the New York Times has stepped forward where the NCUA has stepped back. But an official investigation, backed by the power of the subpoena, is urgently needed. A public, congressional hearing could uncover additional credit union lending abuses and induce the NCUA to keep an arm's length from the tax-exempt industry it is charged with regulating, strengthen its oversight, and hopefully prevent future scandals.

Thank you for your consideration.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC: Members of the Senate Committee on Banking, Housing & Urban Affairs

[2] Speech before the Government Affairs Conference of the Credit Union National Association. February 22, 2016. The context of this remark was the numerous regulatory powers expansions NCUA had recently provided to the industry.