Statement of

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Also representing the Credit Union Association of New York

At a Public Hearing

"Banking Development District Program"

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Members of the New York State Banking Department: I thank you for the opportunity to provide comments from the credit union movement regarding the Banking Development District Program. My name is Sue Commanda. I am the CEO of Hudson River Community Credit Union located in Corinth, New York. I also appear before you today on behalf of the Credit Union Association of New York, the state trade association and its 475 state and federal credit unions and their 4.2 million members.

Our testimony will explain credit unions' support for inclusion of credit unions in the Banking Development District Program, and specifically, how credit unions can actively help the State achieve the goals of the Banking Development District program and afford New York's consumers the option of affordable financial services through their credit union.

Credit unions are not-for-profit cooperative financial institutions, owned by their members and governed by a volunteer board of directors. Credit unions were founded more than a century ago to help create thrift for and encourage savings by their members. Throughout their existence and especially during the current economic crisis, credit unions remain true to their origins and focused on their mission - to encourage financial independence.

Membership in state and federal credit unions in New York is limited by law to certain categories and is unique to each of our 475 credit unions across the state. Membership may be based upon a common employer, association, school, union, or community. Because of this unique structure among financial institutions, all credit unions are locally-owned. This local-ownership component has created another aspect to their mission – namely; reinvesting in and the betterment of the local communities they serve. It is through their ongoing efforts to fulfill this mission that credit unions have reached out to serve underserved areas. Across the nation, Congress and state legislatures have recognized the importance of access to affordable, not-for-profit financial institutions to low-income underserved communities, and have supported public policy to allow increased access to credit union services.

As you know, in an attempt to enhance financial services in underserved areas, the Banking Development District Program was created in 1997. This program provides property tax breaks to banks and thrifts that establish branches in such areas, and it allows municipalities to invest funds in these institutions at special rates. It is important to note that currently, credit unions are *not* included among the list of financial institutions authorized to participate in the Development District Program ("BDD"). The intent of the BDD Program is to stimulate the local economy by enhancing access to capital for local businesses, promoting long-term economic development, fostering job creation and promoting community stabilization and revitalization. In fact, the branches opened through this Program have been touted, by the Banking Department, as a key element to making revitalization a reality. In an attempt to balance the needs of the underserved areas with those of the participating financial institutions, the Program was designed to ease the concerns of banks and thrifts over the uncertainty of long-term financial viability, by offering several advantages. Yet, despite the advantages afforded by the Program, including real property tax breaks, favorable CRA consideration, Empire Zone benefits and access to public funds at below market rates, there continues to be a lack of physical presence by these financial institutions in underserved areas. There is the potential to reach out to many more New York consumers and businesses through this Program and we, the credit union community, believe we can play an integral role in helping the Banking Development District Program reach its potential. Here's why.

First, credit unions can expand the Program's reach. Credit unions have a unique mission of serving low income and/or underserved communities, specifically everyone who lives, works, or worships in such areas. This social aspect to our philosophy of doing business is understood and valued by our regulators, including the Banking Department, who has worked to ease statutory and regulatory barriers preventing credit unions from serving these groups.

Since 2002, a total of 131 underserved areas (also called low-income), as defined by the National Credit Union Administration, have been added to the charters of 60 credit unions in New York State. Each one of these 131 areas now has a credit union branch where they can get low cost financial services.

Credit unions want to serve more underserved communities, but require additional resources to open and maintain branches in these communities. Some credit unions currently operating underserved area branches do so at a loss, which is compounded by their inability to avail themselves of the advantages offered through the Development District Program. Imagine how many more branches could be opened if credit unions were able to participate in the BDD Program.

Second, credit unions will help reach more of the underserved. As you are aware, the Banking Development District Program is aimed at banking the "unbanked" and providing New Yorkers with greater access to mainstream financial institution relationships. Credit unions are well suited to advance this goal, particularly in this economic crisis. How? Let's take a quick look at mortgage lending activity as an example. Recent statistics regarding this activity draw a clear conclusion – that is - credit unions have outpaced non-credit union lenders when it comes to serving the underserved, and credit unions did not make loans that their members could not repay. Congressman Barney Frank, the chairman of the House Financial Services Committee, said recently that "If credit unions made all of the mortgage loans, then there would have been no subprime crisis, and therefore no economic crisis."

Finally, credit unions can also provide benefits to the state's municipalities. By enabling credit unions to participate in the Banking Development District Program, municipalities would have the option to invest in not-for-profit financial institutions that keep investments local. And in turn, the municipal deposits would be used to provide much-needed lending capital to potential borrowers in the community. Credit unions, in this crisis, are lending –to their members and to small business. Small businesses are in need of loans of all sizes, including those of less than $100,000, which many have said banks are less willing to make. By allowing credit unions to participate in the BDD Program, credit unions could do more for the small business owners in their communities who need help the most. Large banks tend to devote a smaller portion of their assets to loans to small businesses. The current economic downturn and the continuing consolidation of the banking industry are leaving fewer smaller banks in many markets.

Those who oppose allowing credit unions the ability to participate in the BDD program argue that credit unions do not pay taxes. Tax status has nothing to do with our participation in this program. Like any other not-for-profit organization, credit unions do not pay an income tax because they have no income to tax. Credit unions return all earnings to members in the form of dividends and better services to members and the community. Member owners of the credit union pay taxes on dividends. Credit unions **do pay property taxes**, and that is where the BDD program could really help credit unions do more for underserved communities. Credit unions earn their tax exemption everyday, and talking about taxing them is inappropriate and not supported by the state legislature or Congress. If opponents find it advantageous to operate as a not-for-profit financial institution, the Association will provide information to bank stockholders and directors to help them convert to credit unions.

Given the examples I have shared, it's easy to see why Hudson River Community Credit Union and the Credit Union Association of New York, along with its nearly 475 credit unions and their over 4.2 million members believe credit unions are a glaring omission from this

Program. Including credit unions in the Banking Development District Program would stimulate the local economy by enhancing access to capital for local businesses and by bringing more affordable financial services to low-income areas, thereby promoting long-term economic development, job creation and community stabilization and revitalization. That is why the Credit Union Association of New York supports current legislation-Assembly bills **166 and 168** sponsored by Assemblywoman Del Monte and Assemblyman Jeffries, which would authorize credit unions to participate in the Banking Development District Program.

Members of the New York State Banking Department, Hudson River Community Credit Union and the Credit Union Association of New York applaud your leadership and your support of credit unions. Credit unions join you and all cosponsors in seeking to ensure the Banking Development District Program reaches its full potential and provides a true benefit for those consumers and communities in desperate need of affordable, mainstream financial services.

I thank you for allowing me to testify today, and I am happy to take questions.