Independent COMMUNITY BANKS of OREGON

Senate Bill 582

Senate Committee On Business and Transportation
March 4, 2015

Chair Beyer and members of the Senate Committee on Business and Transportation, thank you for the opportunity to provide testimony with respect to Senate Bill 582. My name is Kevin Christiansen, and I am representing the Independent Community Banks of Oregon (ICBO). ICBO serves banks headquartered in the State of Oregon. Currently, there are 27 banks headquartered in Oregon, 24 of which are state-chartered banks with the State of Oregon's Department of Consumer and Business Services (DCBS) serving as their primary regulator along with the Federal Deposit Insurance Corporation (FDIC). The principal mission of the ICBO is to support the opportunity for financial service providers of all sizes to be viable and successful in order to meet the financial services needs of their diverse customers and communities across the State of Oregon.

The ICBO has concerns with several elements of Senate Bill 582 before you today.

Locating New Places of Business (Branching)

Section 1 of the bill would remove requirements that Oregon credit unions apply and pay a fee to the Department of Consumer and Business Services (DCBS) with respect to opening new branches or places of business. Both state-chartered banks and state-chartered credit unions are supervised by DCBS as their primary regulator. The proposed change, however, would only apply to state-chartered credit unions. State-chartered banks are required to obtain approval for any new location from the DCBS via application and fees, as well as from the FDIC. Section 1 of this bill eliminates a long-standing regulatory process for Oregon credit unions that still exists for Oregon banks, most of which are much smaller and limited in their geographic reach than Oregon's largest credit unions (see attached table).

The rules for bank branching are set forth in ORS Chapter 714. To establish a new branch office under current law, a bank must file an application and pay a $500 fee. Each application is to be investigated by DCBS, considering safety and soundness, capital adequacy, the bank's compliance with applicable laws, and the results of bank examinations. DCBS can approve or disapprove the application, but if it does nothing within 30 days, it is deemed to have approved the application. Once approved, branches must be up and running within 1 year (2 years with extension). At the Director's request, the bank must report total deposits held at each branch.

The rules for credit union branching are found in ORS Chapter 723. Under current law, credit unions must also file an application and pay a fee to open a new branch, but there are two important differences from bank branching. First, ORS Chapter 723 does not establish any specific criteria under which the Director is to evaluate a credit union branch application. Second, rather than the statutory fee of $500 that is paid by

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banks, credit unions pay a fee set by DCBS by rule. That sum is currently $300 (OAR 441-710-0500). It is not clear to us whether or not state-chartered credit unions are subject to the same branching rules at the federal level as banks have under FDIC.

There is another difference between banks and credit unions as it relates to branching. The existing rules on establishment of mobile credit union facilities (ORS 723.032(3)) provide that a community credit union can only establish a mobile facility "within its well-defined local community, neighborhood or rural district served by the credit union." Neither the existing law nor Senate Bill 582 apply the same restriction to branch offices of community credit unions. Generally, community credit unions may only extend membership to those who live or work within the community served. A community credit union, however, could establish one or more branches anywhere in the state. Under Senate Bill 582, this could be done without giving notice to the Director or anyone else. Recent data shows that many of Oregon's largest credit unions are locating new branches in higher income communities rather than serving people of "modest means" as they were chartered to do in exchange for their tax-exempt status.

Senate Bill 582 would remove the application and fee requirement for Oregon credit unions to expand their geographic reach, another advantage they would have over local tax-paying community banks. If it is the will of the committee to do away with the longstanding branching requirements for state-chartered credit unions, then the same elimination of a state-level application and fee should be extended to Oregon's state-chartered banks.

Field of Membership

Section 2 of the bill removes a limitation on credit union membership that conditions a member subscribing for and paying an initial installment of one or more shares of the credit union. Traditionally, membership in credit unions was limited by the common bond requirement. Through the Oregon "community charter", many credit unions have been allowed to move away from common bond requirements. That said, under ORS 723.172(3), credit union membership may include either: “(a) one or more groups, each having a common bond of occupation or association; or (b) persons who live or work in, or organizations located within, a well-defined local community, neighborhood or rural district.” In several cases this has led to a nearly statewide footprint for community credit unions.

Removing the subscription and installment provisions -- as proposed in Section 2 of the bill -- further erodes the common bond requirement. Credit unions were established in the 1930's to provide loans to groups of individuals sharing a common bond (such as the same employer) with the idea that these individuals with limited means could pool their resources for financial services like small dollar loans. In exchange for this public benefit, credit unions were afforded an exemption from income tax. While many credit unions in Oregon and across the nation generally adhere to their mission, Oregon's largest credit unions with more than $1 billion in assets have no resemblance to traditional credit unions. They operate like mutually-owned banks (which pay taxes) without the same costs and regulatory requirements, like the Community Reinvestment Act. Further erosion of their field of membership requirements only serves to exacerbates the inequity between tax-exempt credit unions and local community banks.

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Director Compensation

Section 3 of the bill would enable credit unions to pay directors and supervisory committee members compensation for their service. Credit unions fiercely defend their tax-exempt status, stating that they are "non-profit" organizations, despite considerable retained earnings that fuel their generous compensation packages and growth. The reality is that many credit unions are sophisticated financial institutions competing for the same commercial and individual customers banks serve. Their cooperative ownership structure is much like that of tax-paying mutual savings banks like First Federal of McMinnville and Evergreen Federal of Grants Pass.

Given their income tax immunity and desire to be viewed the same as other not-for-profit organizations, it is troublesome that credit unions are seeking compensation for their directors and committee members, a practice much more common in tax-paying, for-profit businesses. As credit unions seek to look and act like banks, the legislature at a minimum should be asking credit unions to demonstrate the public benefit that they are providing in exchange for their state income tax exemption.

Conclusion

To be clear, ICBO believes that traditional credit unions have a place in the financial services industry. Community banks do not shy away from competition, but embrace it provided competition takes place on a level playing field for the participants. That level playing field, however, currently does not exist. In fact, as credit unions become larger and unconfined by "common bond" requirements, they are also moving away from servicing low income Oregonians.

As an example, recently released 2013 Home Mortgage Disclosure (HMDA) data shows that of all mortgages originated by credit unions in Oregon, 1% were made to low-income borrowers, 14% were made to moderate-income borrowers, 53% were made to middle-income borrowers, and 32% were made to upper-income borrowers. In 2013, all five of Oregon's largest credit unions' mortgage loan originations were skewed towards middle- and upper-income borrowers in the state.

If it is the will of the committee to move Senate Bill 582 to the floor, the legislature should:

1) Provide parity for state-chartered Oregon banks with regard to applications and fees for establishing a new business location; and

2) Require state-chartered Oregon credit unions to regularly report and disclose the public benefit they provide in exchange for their exemption from income taxation.

Thank you for the opportunity to provide testimony on Senate Bill 582.

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Oregon's Top 30 State-Chartered Banks and Credit Unions

Ranked by Total Assets as of September 2014

Yellow = Banks
Red = Credit Unions

Rank	Financial Institution	City of Headquarters	Total Assets
1	Umpqua Bank	Roseburg	$ 22,486,010,000.00
2	Onpoint Credit Union	Portland	$ 3,550,048,639.00
3	Bank of the Cascades	Bend	$ 2,334,240,000.00
4	Pacific Continental Bank	Eugene	$ 1,491,429,000.00
5	Oregon Community Credit Union	Eugene	$ 1,271,588,132.00
6	Selco Community Credit Union	Eugene	$ 1,198,745,642.00
7	Advantis Credit Union	Milwaukie	$ 1,170,704,049.00
8	Unitus Community Credit Union	Portland	$ 927,533,416.00
9	Northwest Community Credit Union	Springfield	$ 901,312,115.00
10	First Community Credit Union	Coquille	$ 813,212,857.00
11	Rivermark Community Credit Union	Beaverton	$ 598,120,580.00
12	Citizens Bank	Corvallis	$ 569,109,000.00
13	Marion & Polk Schools Credit Union	Salem	$ 498,365,147.00
14	Siuslaw Bank	Florence	$ 399,342,000.00
15	Community Bank	Joseph	$ 348,756,000.00
16	Premier Community Bank	Hillsboro	$ 342,953,000.00
17	Bank of Eastern Oregon	Heppner	$ 310,541,000.00
18	Capital Pacific Bank	Portland	$ 255,613,000.00
19	NW Priority Credit Union	Portland	$ 231,769,562.00
20	Central Willamette Community Credit Union	Albany	$ 229,502,410.00
21	People Bank of Commerce	Medford	$ 209,547,000.00
22	Oregon Coast Bank	Newport	$ 184,280,000.00
23	Oregon Pacific Bank	Florence	$ 179,620,000.00
24	Clackamas County Bank	Sandy	$ 178,970,000.00
25	Summit Bank	Eugene	$ 175,077,000.00
26	MBank	Gresham	$ 164,488,000.00
27	Albina Community Bank	Portland	$ 139,634,000.00
28	Centerpointe Community Bank	Hood River	$ 132,997,000.00
29	Lewis & Clark Bank	Oregon City	$ 129,571,000.00
30	Willamette Valley Bank	Salem	$ 120,970,000.00