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Credit Union National Association

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MONTH/YEAR of Records*: March-2008

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(1) Subject*: Economic Development

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BAUCUS

Thank you for having me. I want to thank fellow Montanan Tracie Kenyon (KEN-YUN) for the kind introduction. Tracie has been President of the Montana Credit Union Association for 6½ years, and she's done a great job.

I'd also like to take this opportunity to welcome all of you to Washington, and for waking up bright and early to be here this morning.

As Chairman of the Finance Committee, I meet with members of the financial community just about every day. From the nation's largest investment institutions. To Montana rural banks. From Fortune 500 Company CEOs. To Montana's small town community leaders, in their finest Stetsons and cowboy boots.

I hear what's on the minds of a diverse group of people. And more often than not they're talking about community.

Aristotle said: "Every community is an association of some kind and every community is established with a view to . . . obtain that which they think good."

This is an important point this morning.

Credit Unions

Because community, after all, is the foundation upon which credit unions are built. As a financial cooperatives, credit unions rely on the savings of individual members to finance loans to fellow community members.

Not only does this practice allow credit unions to loan more responsibly but it also directs investment to where it counts most, where it can do some good. For its credit union members, and thus the community.

Credit unions play a large role in Montana. More than a third of Montanans are members of a credit union.

And credit unions have a unique roll to play in today's complex system of financial institutions. The recent trend among other lending institutions has been to resell loans and mortgages into the financial market place at large. But credit unions have redoubled their efforts to become part of their communities.

One great example is your work in financial education. In an age when credit history can have life-altering consequences, our credit unions are enabling the next generation to be wise with its money.

Take, for example, Montana's network of credit unions. I am always pleased to hear the work that Montana's credit unions are doing to provide financial education classes in local schools.

These classes teach our youngsters to make sound financial choices at a young age. Local, free income tax assistance is another way Montana's credit unions volunteer for their communities.

I am proud of what's going on in my home state. But the truth is efforts like this occur nationwide. Examples like these provide the reasoning behind credit unions' non-profit status.

Your non-profit status allows you to provide additional benefits. You don't have to put profits first. So credit unions can provide credit that may does not earn the fast financial return, but can offer sterling returns in terms of community development.

Credit Unions really step up to the plate to provide an invaluable service to people all over the nation who would otherwise be reliant on risky, often predatory loans.

Housing Market and the Economy

You've all heard the phrase, "There's no place like home." And without homes, there is no community. In the past decade, credit unions have increasingly become involved in residential mortgages.

Today, our country is reeling from a mortgage fiasco caused by subprime loans. The subprime mortgage market allowed borrowers with poor credit, low income, or little savings to qualify for mortgage loans.

In the best cases, this market opened up credit opportunities to high-risk borrowers, who have made good faith efforts to repay their loans. In the worst cases, lending was predatory. Future increases in interest rates were often hidden in contractual legalese.

Another factor: These loans were securitized. They were packaged, sold, and resold in the markets. Those who made the loans and those who packaged the loans and sold them have very little at stake in what happens to these mortgages.

Unlike the traditional system of the past, subprime lenders often had no need to conduct a proper risk evaluation.

As a result, no one cared enough to determine whether the people in need of credit could actually pay off their mortgages. In turn, this has created uncertainty in the mortgage-backed securities market.

The Associated Press reports that the number of families facing foreclosure on their homes jumped 57 percent in January, from a year ago. In the final quarter of 2007, home sales prices fell 9 percent, the steepest decline in the 20 year history of the Standard and Poor's housing index.

The depth of this crisis varies by each economist's estimate. Some believe that we will face an additional 20 percent decline in home prices over the next couple of years.

I held a hearing last week to discuss the broader economic implications of the current real estate market. Lawrence Lindsey, economist and economic policy advisory for the first President Bush, testified that if housing prices decline by 20 percent, more than $4½ trillion of household wealth would disappear. Now that's a big number!

The home is the most important asset for many Americans. Homes represent about one-third of the net worth of U.S. households.

The subprime fallout started by affecting those with exotic mortgages. But now it affecting those who have spent a lifetime building an impeccable credit history and financial record.

If the expected foreclosures materialize, The Center for Responsible Lending estimates that 40 million neighboring homes will experience a loss in equity. As unkempt yards begin to crop up in neighborhoods. As "for sale" signs begin to rival signs of life, it is not hard to see how a spike in foreclosures will drag down a family's most valuable asset: their home.

The spike in foreclosures around the country, is beginning to fray the edges of our communal social fabric. The community within neighborhoods diminishes as neighbors are forced out of their homes.

Federal Government Action

Economic growth in the first half of 2008 will likely be disappointing. We passed a strong stimulus package, and that will help. And Congress will also continue to discuss other options to curb the impacts from the housing market.

I've been working closely with the Administration on short-term fiscal policy. I am meeting with Chairman Bernanke and Treasury Secretary Paulson on a regular basis.

I am particularly proud of the stimulus package we passed earlier this month. This final stimulus package was one of compromise. While I would have liked to have seen some additional provisions, I believe we passed a good bill.

We were able to extend assistance to 20 million senior citizens, the greatest generation, to ease the pain of living on a fixed income in an inflationary economy.

We added benefits for a quarter million disabled veterans so that they too can have access to gainful employment.

Congress has also included provisions to help stabilize the mortgage market. The conforming loan limit for Fannie Mae and Freddie Mac is increased for one year, so that the GSEs can step in to certain markets to refinance subprime mortgages.

And as we continue to discuss the housing crisis and credit crunch, we must look beyond the residential market. Our hearing last week focused on the implications to the commercial real estate market. These implications will be felt in other markets as well.

There is no easy fix to our current predicament. We must work together and do our part to weather the storm.

Credit Unions' Role

Action must not end with the government. Indeed, if ever there were a time for public-private cooperation, it would be now. Amongst private enterprises, credit unions are in a unique position.

By placing value in communities and not simply profits, credit unions have continued to invest in their communities. And I encourage you all to look for ways to do more in your communities.

In periods of economic dislocation there are great opportunities for institutions who have weathered the storm. Credit unions should have adequate capital from preexisting, prudent lending practices to maintain themselves and continue to provide high-quality services.

Allowing this excess capital to buffer against the present downturn, credit unions can demonstrate the benefits of cooperative, community lending.

Charles Dickens once wrote, "It was the best of times, it was the worst of times." While the cascading economic turmoil from a niche market of securitized loans threatens to derail the economy at large, it offers an opportunity for us to reassess what we value most.

Without homes there is no community, and without community there isn't much of anything. Credit unions have long known this, and accordingly have led the charge as true community lenders.

You're important because you help communities to obtain that which they think good. You're important because you help communities to find the best of times. And you're important because you know, as we all know, that there is no place like home.