

**Testimony of
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**On behalf of
The National Association of Federal Credit Unions**

“Hurricane Katrina: The Financial Institutions’ Response”

**Before the
Subcommittee on Financial Institutions and Consumer Credit
United States House of Representatives**

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Introduction

The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of the nation's federally chartered credit unions. NAFCU is comprised of almost 800 federal credit unions—member owned financial institutions across the nation—representing nearly 26 million individual credit union members. NAFCU—member credit unions collectively account for approximately two-thirds of the assets of all federal credit unions. NAFCU and the entire credit union community appreciate this opportunity to participate in this discussion regarding relief for America's financial institutions in the wake of Hurricane Katrina.

I am the President and CEO of E Federal Credit Union headquartered in Baton Rouge, Louisiana, a position I have held for 10 years. Established in 1934, E Federal is a multi-SEG credit union that primarily serves the employees and annuitants of ExxonMobil and other petrochemical companies in the community, with approximately 25,000 members and more than \$175 million in assets.

I also presently serve on the technology committee of NAFCU, am Vice Chair of the Credit Union Cooperative Branching (CUCB) Network in Louisiana and have over 20 years of experience in the financial services industry.

The Aftermath of Hurricane Katrina

I am pleased to report to the Subcommittee that the National Association of Federal Credit Unions has been working with the National Credit Union Administration (NCUA) and other credit union groups since the beginning stages of this disaster to provide help to impacted credit unions in any way that we can.

NAFCU's President and CEO Fred Becker met with NCUA Board Chairman JoAnn Johnson on Wednesday, August 31st and pledged the Association's help in whatever way that the NCUA needs it. Our members are following the agency's lead for where they need additional equipment and resources. NAFCU has been supporting all reasonable and prudent efforts to provide relief for the victims of Hurricane Katrina that continue to protect the safety and soundness of credit unions.

The impact of Hurricane Katrina has been especially hard on credit unions. The NCUA's numbers indicate that 139 total credit unions headquartered in the disaster area were impacted by the storm, and of those 139 impacted, 102 were operational as of late last week, including every affected credit union in Alabama and Mississippi. More and more credit unions are coming back on line everyday, so I imagine that those numbers have grown by now.

Coming up here today from Baton Rouge and having seen much of the devastation first-hand, I can say that the credit unions that survived are working together to support those that did

not. Many credit unions in the impacted area are trying to be as flexible as possible with the rules, within safety and soundness limits, to accommodate those in need of financial assistance. The losses to credit unions in the impacted area are expected to be great. E Federal was fortunate to have suffered no loss other than a day and a half of limited service to our members due to power outages.

One of the biggest challenges for credit unions in the aftermath of Hurricane Katrina is to have the regulatory flexibility to deal with the challenges in serving the needs of the hurricane victims. The NCUA has done an excellent job in working with impacted institutions, but those of us who are exercising flexibility within safety and soundness limits want to be sure that we are not penalized tomorrow for meeting the financial needs of the victims today. Any action that Congress can take to signal this message to the regulators would be important. I was pleased to see NCUA set up a task force very quickly in Baton Rouge and begin a needs assessment almost immediately. We have been in contact with our examiner on several occasions to coordinate any assistance requested. We are also pleased to see that the NCUA has relaxed its rules on “held to maturity” investments, allowing credit unions the flexibility to make changes to their portfolio to address immediate needs.

Some of the other concerns that E Federal and other credit unions in the impacted area have brought to our attention include:

- Telecommunications are difficult – ATM’s and Debit/Credit card machines are spotty, which causes everyone to want cash. The outages are also affecting our shared credit union network, resulting in difficulty for those out of the immediate

area who are trying to contact credit unions headquartered in Louisiana. Some credit unions are posting notices at evacuee shelters in order to provide contact information for those that don't have access to the Internet. Much more needs to be done to help in this area at the Federal level. Several credit unions cannot get their lines re-routed out of the New Orleans sub-stations, which is causing a great amount of distrust on behalf of members who cannot get their data through normal methods (automated voice response machines and through the web). One immediate step that the Federal government could take would be to set up a series of computer centers in the region, where victims could get online to access their accounts as many have lost their computers.

- The desire for cash raises currency issues. Institutions have been taking key steps to make sure that they have the cash available to meet their needs. We have experienced excellent cooperation from the Federal Reserve, our Corporate Credit Union System and our depository banking partners in this regard. Any help that Congress can give in this regard would be a positive step.
- Not all members brought their identification with them when they evacuated– this makes check cashing extremely difficult and will make reissuance of formal documents also more difficult. Members wanting to set up new accounts are having trouble due to the Patriot Act requirements.

- Many plastic cards, statements, and other financial documents were in the mail or already in personal mail boxes in the New Orleans area. These have a great potential of being stolen or strewn about in the mess – those that are in the mail and are being re-routed have great potential of getting in the wrong hands. Unfortunately, this disaster will likely cause an increase in identity theft to hurricane victims.

While our members in the greater Baton Rouge area were not impacted to any degree resembling those further south, the long term affects are already visible as many are providing temporary, and in some case permanent, housing for family and friends. The need for cash and basic necessities has tripled in a matter of days. Add to that the increased fuel and energy costs, and finances are stretched thin. E Federal is providing loan extensions, skip payments and a special needs team to assess the borrowing needs of those with impaired credit. In addition, we have offered office space at two branches, currently serving as training rooms, to affected credit unions to set up shop.

Only one of our employees was unable to return because of the storm. E FCU has provided notice through NAFCU of openings available for displaced workers.

As a member of the shared credit union branching network (CUCB) we were able to serve members from credit unions in the New Orleans area with immediate cash needs. Even with communications to their credit unions being down, we can provide off-line transactions and

cash needs for those with proper identification. We found many credit union members who were totally lost and looking for any avenue to secure cash during the height of the evacuation. The communications failure for electronic transactions put more pressure on our offline operations. In most cases, it was interesting to see that women normally had a checkbook with them which offered some method of affording a transaction while men did not. Many of the credit union members we serve were about to get paid when the evacuation began, so they had very little if any cash. It was also very interesting to read in our Sunday paper that several banks in the area have teamed up to share facilities with competitors that may have lost branches in the storm. The spirit of cooperation was and still is evident in the financial services area no matter what our past differences may have been.

Another one of the unique aspects of the credit union community that helped in this time of need is our aforementioned “shared branching”. This process of sharing service centers, which is prevalent in the Gulf Coast region, has been a godsend as surviving institutions have been able to help many of the ones that suffered damage, through operation of service centers that can serve all members of the participating credit unions (as noted above). As Vice-Chair of the CUCB Network in Louisiana, I am pleased to see that NCUA Chairman Johnson noted earlier this week, “We encourage credit unions to evaluate the benefits of joining a shared branching network, because many of the credit unions that were able to regain operations and serve their members, were able to do so through shared branching.”

We are also pleased that FEMA took the steps this past weekend to change its relief program from a debit card one to issuing checks and depositing funds into accounts of victims.

In addition to alleviating likelihood of crime resulting from people carrying large sums of money, credit unions are now free to focus on providing important financial counseling and education to help members get back on their feet. Additionally, that influx of funds will help the institutions that have been facing the increased withdrawals. For those that were issued the debit cards before the program changed, many credit unions have waived their ATM fees for these cards (and for many transactions).

In addition to E FCU, many other credit unions have taken amazing steps to help those in need in the wake of the disaster. For example, despite losing the 25% of their business that comes out of New Orleans, Campus FCU is trying to meet challenges by keeping their displaced employees on the payroll and enrolled in their benefits programs to assure that they are whole. In addition, Campus FCU President and CEO John Milazzo tells me that Campus FCU, like credit unions throughout the region, has been doing what it can to serve any of the hurricane victims in the area, using the flexibility granted by the NCUA to meet the needs of victims, many of which just walk in the door needing help. Part of that service is assisting credit unions that have lost everything. Campus FCU is housing the University of New Orleans FCU and the New Orleans Fireman's FCU in their facilities.

Credit unions from across the country are taking great steps to help those that need help. Western FCU, headquartered in Manhattan Beach, California, is assisting Navigator Credit Union, a fellow Northrop Grumman affiliated credit union in Mississippi, by sending cell phones from Western FCU (since many of the Gulf Coast circuits are out), sending employees to help Navigator CU make emergency loans, and helping Navigator CU get the cash it needs to make

loans. This cooperation between these two credit unions from different parts of the country was arranged through NAFCU and the NCUA, whose staff has been doing yeoman's work in contacting impacted credit unions and helping them get up and running. This is just one story of many similar ones coming out of this disaster that demonstrates the special nature of credit unions working together in the time of need to serve their members.

Two legislative proposals that would aid credit unions in the long term recovery from this disaster have been before this Subcommittee for some time now:

- The first would be to give NCUA the authority to allow credit unions to continue to serve and add members from their select employee groups (SEG's) after a credit union converts to a community charter. With many people who may belong to a credit union's SEG's displaced throughout the region, this would give credit unions the flexibility to convert to a community charter to survive, while being able to add employees from their old SEG's who may have been evacuated from the community. Additionally, the provision would grant the credit union the authority to serve the employees of the business or group if it were ever to return to the region (as some SEG's may disappear for an extended period of time). This important proposal is part of the *Credit Union Regulatory Improvements Act*, H.R. 2317, and part of the *Financial Services Regulatory Relief Act*, H.R. 3505, that are pending before the Subcommittee.
- The second proposal would be to give NCUA greater flexibility with Prompt Corrective Action (PCA) reform. This proposal, included as Title I of the *Credit Union Regulatory Improvements Act*, would give NCUA the flexibility that the other banking regulators currently have in dealing with PCA levels. This would result in a new, more appropriate measurement to determine the relative risk of a

credit union's assets and improve the safety and soundness of credit unions and the National Credit Union Share Insurance Fund.

We hope that the Subcommittee can act expeditiously on these, and other proposals to help credit unions and all other financial institutions, that have been impacted by Hurricane Katrina.

Additionally, there have been proposals floated to provide a level of indemnification for financial institutions who are cashing checks from Hurricane victims. Such a proposal does appear to be a good idea, if it is not funded from the deposit insurance funds. However, I would note that the implementation of such a program could have a number of obstacles, as the opportunity for fraud would be great.

Conclusion

The challenge for credit unions in the wake of Hurricane Katrina has been great. Unfortunately, some may not survive. Yet, the response from the credit union community has been tremendous, as credit unions from across the nation have been stepping up to assist those in need. It will be important that Congress and the regulators, from the agencies in Washington to the field examiners, recognize the flexibility within safety and soundness considerations that many institutions have had to make in order to effectively assist hurricane victims. It would be unfair to penalize them tomorrow, for their efforts to help those in need today.

It is with this in mind that NAFCU stands ready to work with the NCUA and Congress to meet the needs of hurricane victims. We support efforts that help secure the safety and

soundness of credit unions while helping financial institutions meet the needs of hurricane victims. We thank you for this opportunity to appear before you today and would welcome any questions.