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January 18, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member McHenry:

On behalf of community banks across the country, with more than 52,000 locations, I write to request that you convene a hearing on the National Credit Union Administration's approval of an "emergency merger" between Pentagon Federal Credit Union and Progressive Credit Union, creating a tax-exempt "open charter" credit union on an unprecedented scale. A Financial Services Committee hearing would be very useful for examining the NCUA's use of its emergency merger authority and exploring the consequences for the American financial services sector.

With assets of \$24 billion, PenFed is the third largest U.S. credit union. Progressive Credit Union was a struggling \$383 million asset credit union chartered by the state of New York with a specialty in lending collateralized by taxi cab medallions. The NCUA approved an "emergency merger" of the two credit unions effective January 1.

The most significant asset held by Progressive was not its loan portfolio or its branch network but an "open charter" which allows it to serve any individual, family, or business anywhere in the U.S. without restriction, an exception to the common bond requirement on which the credit union tax subsidy is based. Progressive held the open charter because it was grandfathered when the common bond requirement was created in 1934 by the Federal Credit Union Act. The NCUA's use of its emergency authority allowed the open charter to transfer to PenFed. Under an ordinary merger, the open charter would not have transferred. PenFed is now an open charter credit union with no check on its reach or expansion -- a new breed of tax-exempt credit union that could remake the competitive landscape of American financial services, endanger the revenue base of federal, state, and local governments, and harm thousands of community banks.

Some questions to explore in a hearing might include:

- Was there an unanticipated crisis that warranted the NCUA's use of its "emergency merger" authority? Taxi medallion credit unions have been troubled as far back as 2014. Were

Progressive's capital levels allowed to dwindle to dangerously low levels to justify the use of emergency authority?

- Did the NCUA use Progressive's open charter to make it a more attractive acquisition target? As noted above, only an emergency merger permits the transfer of an open charter. Would this constitute an abuse of NCUA's emergency authority and the grandfather provision?
- Does the merger benefit PenFed members or only PenFed executive officers who are likely to see significant salary and benefit increases?

The PenFed CEO has been outspoken and unabashed about his desire to grow the credit union "without speed limit" and triple its asset size to \$75 billion by 2025. See the August 1 *Wall Street Journal* article titled: "[A Military Credit Union Grows With 'No Speed Limit': Pentagon Federal's Push to Serve 'Everyone' Tests Regulatory Limits.](#)"¹ PenFed's marketing slogan, "Great Rates for *Everyone*," has long telegraphed its ambition for an open charter. Progressive's open charter and the emergency acquisition presented an opportunity that fit perfectly with PenFed's rapid growth strategy.

The NCUA would better serve the public by imposing a speed limit on PenFed than flouting its emergency merger authority without regard for the consequences. A Financial Services Committee hearing would provide an appropriate venue for a thorough examination of the issues raised by this troubling merger.

Thank you for your consideration.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC: Members of the House Committee on Financial Services

¹ Tracy, Ryan, "A Military Credit Union Grows Without 'Speed Limit'." *Wall Street Journal*. August 1, 2018. <https://www.wsj.com/articles/a-military-credit-union-grows-with-no-speed-limit-1533121200?mod=searchresults&page=1&pos=13>