**Time for self-reflection following recent credit union scandals**

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Over the last year, the news reaching the general public about credit unions has not been good. Embezzlement, bribery, unfair treatment of low-income members, suicides of borrowers – distressingly, these search words now sometimes pop up along with “credit union.” A recent Credit Union Journalarticle asked, “[Will credit unions’ reputation be the next victim of medallion fallout?](https://www.cujournal.com/news/will-credit-unions-reputation-be-the-next-victim-of-medallion-fallout)”

I don’t believe so – but not altogether for good reasons. I’m often amazed how an industry with more than 115 million members can be so little known and, dismayingly, little understood among the general public. How many credit union members truly understand that their financial institution is a cooperative, that they own it, and that they could – as Edward Filene hoped – become an incredibly potent force for democracy?

Here’s a sad litany of the credit union scandals from the last 18 months.

In the spring of 2018, the public learned that Donald Trump’s personal attorney, Michael D. Cohen, owned numerous taxicab medallions (the metal badges attached to cab hoods that gave yellow cabs the exclusive right to cruise for passengers on city streets and essentially, licenses to operate yellow cabs) in New York and Chicago. In the following months, Cohen pleaded guilty to making false statements to a financial institution. [Melrose Credit Union](https://www.cujournal.com/news/ncua-liquidates-troubled-melrose-credit-union) in New York City was one of his lenders.

That spring, the news broke that Kam Wong, CEO of the 100-year-old Municipal Credit Union – the largest in New York City, with 500,000 members – defrauded the institution and its member-owners of millions of dollars. A supervisory committee member helped to cover up his activities. Wong pleaded guilty and in June 2019 was [sentenced to more than five years in prison](https://www.cujournal.com/news/ex-municipal-credit-union-ceo-hit-with-5-year-prison-sentence) and a restitution order of nearly $10 million.

In the fall of 2018, the New York Timesreported that striking Marriott workers were [being ill-served by their credit union](https://www.cujournal.com/opinion/coverage-of-striking-hotel-workers-casts-pall-on-cu-fee-practices). The writer pointed to the repeated high fees that low-wage Marriott workers paid for small, “payday” loans while more prosperous employees including board members obtained loans at favorable rates. The members [went to court](https://www.cujournal.com/news/court-lets-suit-against-marriott-credit-union-stand) and the credit union was found to have committed truth-in-lending violations.

On May 20, 2019, credit union CEO Edward Rostohar pleaded guilty to decades-long embezzlement of $40 million from the CBS Employees FCU in Studio City, California. He admitted that his [training as a former NCUA examiner](https://www.cujournal.com/news/ceo-of-failed-credit-union-says-examiner-past-helped-fuel-fraud) helped him avoid detection because he knew where to look for the signs of fraud. Earlier this month, members of the liquidated credit union [filed suit against the institution's board](https://www.cujournal.com/news/members-sue-board-of-failed-cbs-employees-fcu).

The saddest and possibly most damaging story was told through a front-page investigation by the New York Times. The city was home to long-established credit unions whose main business was making loans for taxi medallions. For many years, the number of medallions was strictly limited, a “monopoly” that provided yellow-cab drivers reasonable prospects to earn a decent living. Over the course of years, the value of the medallions increased – a lot.

Credit unions and other lenders made increasingly large loans collateralized by these medallions. For decades, the loans performed well. But over the course of 2004-2014, a revenue-hungry city administration auctioned off 1,000 new medallions, each yielding hundreds of thousand dollars. The city advertised aggressively; televised testimonials assured prospective borrowers that this was the best investment that they could make – “better than the stock market,” as [one spot reportedly claimed](https://www.nytimes.com/2019/05/19/nyregion/taxi-medallions.html). Fueled partly by the city’s intervention, medallion prices rose to about $1 million.

Then came Uber and Lyft. Soon, thousands of their drivers were competing with the yellow-cab drivers, whose incomes plummeted. Medallions once purchased with borrowed funds for more than $1 million now went for as little as $200,000. This meant that the value of the collateral held by credit unions and other lenders plummeted. “Good” loans were now underwater. Multiple credit unions were plunged into insolvency. But more tragically, at least six yellow-cab borrowers – mostly immigrants whose medallions had lost value and who had no prospect of repaying their loans – committed suicide.

The story gets worse. On Aug. 7, 2018, [NCUA filed administrative charges against Alan Kaufman](https://www.cujournal.com/news/ncua-brings-charges-against-ousted-ceo-of-melrose-credit-union), whose family had founded Melrose Credit Union, one of the foremost medallion lenders. Weeks later, the credit union was liquidated. On July 11, 2019, Kaufman was indicted on bribery charges, citing vacations (Paris, Maui, the Super Bowl), rent-free housing and other gifts that Kaufman had received in exchange for favorable terms on tens of millions of dollars of loans.

Fingers are now pointing in every direction: at corrupt individuals, at credit union mismanagement, at the New York City government, and at state and federal regulators. New York City officials and advocates have claimed that credit unions and NCUA have been the *least* cooperative in modifying underwater loans to help stressed borrowers.

**Bigger questions**

The allegations of corruption are, of course, troubling for our industry. But the ethical questions go further. Did credit unions merely rely on the assumed value of the medallion collateral? Did they make the loans simply because they always had in the past and because they could? Were compensation or bonuses linked to loan volume? Many of these loans were made to immigrants with limited English-speaking ability and understanding of the American financial system. Crucially, did the credit unions take into account borrowers’ ability to repay?

This is where ethics meets public policy. As institutions claiming to be trusted partners for their member-borrowers, credit unions *must*make every effort to ensure that they have the *ability to repay*. The Consumer Financial Protection Bureau has issued rules for small-dollar loans that hinge upon ability to repay. It has dismayed me to see that some credit unions have opposed the ability-to-pay requirements.

Scandals come and scandals go. Trillion-dollar banks inflict far greater damage on the public than do credit unions – and rarely suffer criminal charges. I do not believe credit unions are likely to suffer lasting reputation damage among the public. But to the degree that this results from the lack of awareness or knowledge about our cooperative movement, that is not the kind of reputation protection we should aspire to.