

NCUA LETTER TO FEDERAL CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314**

DATE: February 2006 **LETTER NO.:** 06-FCU-02
TO: Federal Credit Unions
SUBJ: Measuring Service to Members
ENCL: Questions and Answers: Measuring Service to Members

Dear Board of Directors:

Later this month, NCUA will begin the process of collecting two types of data from some federal credit unions. The collection of this data is in response to specific congressional requests to measure service provided by credit unions. This data collection also responds to questions raised by the Government Accountability Office (GAO) in its October 2003 report on credit unions and raised again during its most recent follow-up audit.

The first type of data NCUA will gather is information to profile credit union membership. This will enable the agency to better assess how credit unions are serving all their members, particularly those who may be considered members of modest means in relation to the credit unions' authorized limited fields of membership.

The second type of data NCUA will gather is information on credit unions' senior management compensation and benefits. Collection of this data is also in response to specific congressional requests. Since the collection of both types of data will be in conjunction with an examination or supervision on-site visit, the confidentiality of all data on a credit union and an individual basis will be protected.

The data collected will be aggregated and used by NCUA to do an initial evaluation of:

- the extent and type of services provided to members,
- the income distribution of members,
- the reliability and value of this preliminary data, and
- executive compensation and benefits.

The data will be collected from a sample of federal credit unions across charter types using NCUA's examination authority, which is set forth in the Federal Credit Union Act. To ensure this data is statistically sound for federal credit unions, a random selection process was used to identify 481 federal credit unions for participation. It is important to note, that while the information collected is statistically valid for all federal credit unions, it is not statistically valid for the different types of charters. However, the different charter types are proportionately represented within the 481 federal credit unions that will be contacted. In order to achieve a valid statistical sample as to different charter types, it will require a much larger number of credit unions be included in the data collection process.

As the information is aggregated, it is likely NCUA will determine that additional or different data should be collected from a larger number of credit unions to allow for a valid statistical analysis and discussion of member service by charter type. If the collection of data is expanded to a broader base, it will provide the opportunity to more fully address many of the issues that have been raised, such as the possible distinction between credit unions due to different charter types, geographic locations, and fields of membership. Should this occur, the agency anticipates it will be necessary to coordinate with the federal Office of Management and Budget to comply with its requirements relating to the collection of this additional data.

If your credit union is selected for an on-site visit, an examiner will review loan files, analyze information contained in your AIREs share and loan download, and briefly discuss the types of services provided to your membership. As with all examination and supervision visits, the confidentiality of member information will be protected.

The collection of the membership and compensation data will have minimal impact on those credit unions selected to participate. Every effort is being made to coordinate as many data gathering on-site visits as possible during regularly scheduled examinations; however, it is more likely the data will be collected during a supervision on-site visit. You can expect a specially trained examiner to be on-site for approximately two days. Initially, most of the examiner's time will be directed at reviewing selected loan files. However, as we progress, examiner focus and time will shift from a review of loan files to analysis of the AIREs share and loan download and discussion with management. This shift in emphasis will reduce time on-site at the credit union. Training has been provided to the NCUA examiners participating in these examination/supervision on-site visits to promote consistency and accuracy during the gathering of data.

Credit union staff involvement will be limited and focused on discussions with management or other appropriate personnel. They will be asked to respond to questions from the examiner designed to address the important issue of the types of services provided by the credit union. It is NCUA's position that any

assessment of income distribution must also include an assessment of the types of services offered by a credit union.

Once the initial valid statistical sample has been collected, the information will be reviewed for its completeness and accuracy. After review, it will be consolidated and made available to Congress and/or GAO, along with NCUA's comments and analysis, in response to the inquiries that have been made.

We appreciate your cooperation. If your credit union is selected, we ask that you provide requested information and engage in candid dialogue with examination staff. Although the collection of data will begin shortly, a completion date cannot be established until we review the preliminary data gathered.

For your convenience, we have enclosed a list of questions and answers about this process and NCUA's plan to measure service provided by credit unions.

If you have questions, please contact your NCUA regional office.

Sincerely,

/s/

JoAnn Johnson
Chairman

Enclosure