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Woodstock Institute



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March 28, 2006

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandra, VA 22314-3428

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**Re: Woodstock Institute Comments on Proposed Rule Part 701.1**

Dear Ms. Rupp:

I am writing from Woodstock Institute in Chicago, a 33-year old research and advocacy nonprofit and a national leader in credit union research. The purpose of this letter is to express our opposition to the proposed changes to the National Credit Union Administration chartering and field of membership policy addressing the expansion of credit unions into underserved areas. There is substantial evidence that many large credit unions have been ineffective at serving lower-income people, and we believe that any regulation that limits their ability to do so in the future should be opposed.

## Introduction

The Federal Credit Union Act emphasizes the role of credit unions in providing affordable services and credit to consumers with modest incomes. The legislation's purpose, according to its preamble, is "to make more available to people of small means credit for provident purposes through a national system of cooperative credit."

Credit unions offer affordable services that are essential to asset development in underserved communities, including savings and checking accounts, loans, check cashing, wire transfers, and financial counseling. The Institute has published several reports on community development credit unions (CDCUs) and low-income credit unions, whose mission is to provide loans and services to disadvantaged consumers. CDCUs are a very diverse category of credit unions that support community development. Members of the National Federation of CDCUs serve urban and rural communities in all parts of the U.S. Further, CDCUs often work in predominantly minority communities and may be affiliated with community-based organizations or churches.[1]

[1]For more information on the products and services offered by low-income credit unions see Williams, Marva. "Financial Services for People of Modest Means: Lessons from Low-Income Credit Unions." Chicago: Woodstock Institute, 2004. For a detailed comparison of the terms and conditions of credit cards issued by banks and credit unions, see Wasirich, Tim and Malcolm Bush. "Blindfolded into Debt: A Comparison of Credit Card Costs and Conditions at Banks and Credit Unions." Chicago: Woodstock Institute, 2005.

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**The Impact of Limiting Expansions**

Woodstock Institute believes that all credit unions, regardless of charter ype, should be permitted to expand into underserved areas and enroll new, lower-income members.

While CDCUs and LICUs have a long documented history of effectively eaching out to lower-income members, it is also essential to determine the role that mainstream cred unions play in underserved communities. CDCUs and LICUs have a very limited scale, representing le s than 15 percent of all credit unions. With over 10,000 institutions representing 80 million people, ma nstream credit unions have a significant role to play in providing services in underserved areas. Further the Federal Credit Union Act emphasizes the role of all types of credit unions in providing affordable se vices and credit to consumers of small means.

However, larger, mainstream credit unions are, in many cases, reluctant nd ineffective and expanding their membership to include lower-income people. In 2002, the Institute p blished *Rhetoric and Reality: An Analysis of Mainstream Credit Unions' Record of Serving Low-Income People*. The report refuted the credit union movement's claim that it meets the savings and credit needs f "persons of small means." It found that credit unions in the Chicago region serve much lower percentag s of lower-income households than middle- and upper-income households. The report virtually changed he rhetoric in the industry and was widely disseminated and discussed. Further, many credit union i dustry leaders confirmed the empirical findings.[2]

This is not to say that because many mainstream credit unions have bee unable or unwilling to enroll new lower-income membership, they should no longer be able to expan into underserved areas where affordable financial services are most necessary. Rather, these credit u ons must be able to continue offering affordable products and services in underserved areas, and should be encouraged to increase their efforts. Since the end goal is to increase access to financial services, re ulatory action should focus on accountability of credit unions which choose to expand, not limit the nu ber of credit unions able to do so.

The NCUA's provision requiring credit unions that have adopted under erved areas to have a physical presence within that underserved area within two years is precisely th kind of accountability that is necessary to ensure credit unions are meeting the financial services nee s of their adopted underserved areas. In addition, the proposed changes to the definition of service facili y are beneficial to ensuring that credit unions that seek to expand into underserved areas are comm tted to making a meaningful investment in both the community and in their new members. The constr ction of a branch, adoption of a shared branch, or similar effort is representative of this kind of meaningf investment.

By definition, underserved areas lack the same facilities and opportuniti to access services as areas that are adequately served. In 2005, Woodstock Institute released *Reinvest ent Alert 27: Increase in Bank Branches Shortchanges Lower-Income and Minority Communities*, n analysis of the geographic

[2] Jacob, Katy, Immergluck, Daniel and Bush, Malcolm. "Rhetoric and Reality: An Analy s of Mainstream Credit Unions' Record of Serving Low-Income People." Chicago: Woodstock Institute, 2002

distribution of brick-and-mortar banking facilities in the Chicago region. Tl e alert found that, despite the recent boom in new branch construction, many predominately minority c lower-income communities remained substantially underserved in terms of access to a bank branch. Wc odstock Institute believes that credit unions, regardless of charter type should be able to move in and fill tl s void. Therefore, if a credit union is currently serving an underserved area, then they should be permitte l to continue to do so even in the event of a change in charter.

**Conclusion**

Credit unions should have fewer restrictions to providing financial produc : and services to underserved areas, rather than more restrictions. However, in cases where credit unior have elected to expand into underserved areas, there should be regulations in place to ensure that tl ey are making a meaningful investment, such as a branch or shared branching facility. Finally, these c edit unions should be able to continue operating and enrolling new, lower-income members in the event c a charter change.

Please feel free to contact me or a member of my staff for more informatior at (312) 427-8070.

With best wishes,

M. Williams /TOF

Marva Williams
Senior Vice President

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