SEFCU
A Federal Credit Union

www.sefcu.com

Patroon Creek Corporate Center
700 Patroon Creek Blvd.
Albany, NY 12206-1067

Administration: 518-452-8234
866-733-2880

Call Center: 518-452-8183
800-727-3328

August 18, 2008

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

Re: Proposed Rule Part 701.1 Chartering and Field of Membership Manual

Dear Ms. Rupp,

On behalf of SEFCU, I would like to thank the National Credit Union Administration (NCUA) Board for inviting us to comment on the proposal to amend NCUA's Chartering and Field of Membership regulation as it relates to underserved areas.

As a multiple common bond federal credit union that currently serves several underserved areas, SEFCU shares many of the concerns stated by other credit unions. The proposed changes will have a negative impact on the ability of credit unions to add underserved areas in the future by making the process more cumbersome, difficult and costly. Based on the proposal and the specific areas in which you have asked for input, I have outlined our comments in the following order:

- Definition of underserved area designation
- Separate designation for geographic areas
- The impact on previously approved underserved areas
- Meeting the unmet needs for financial services
- Moratorium on current applications

Definition of Local Community for Underserved Area Designation

In the proposal, NCUA points out that the Chartering Manual sets forth different requirements for determining if an area is a "well-defined, local community" for a community charter application versus if an area is "underserved" for purposes of adding the area to a field of membership as an underserved area. For community charters, the credit union must support the "presumptive community" assumption that is outlined in the Chartering Manual (e.g. multiple political jurisdictions with a total population of 500,000 or less) by submitting a letter "describing how the area meets the standards for community interaction and/or common interests" within the proposed area. The provisions for adding an underserved area do not contain any such letter or documentation requirement proving that an underserved area is a "presumptive community." NCUA seeks input on whether these two application types should bear the same requirements.

SEFCU is opposed to amending the underserved criteria to include the "presumptive community" requirement now applicable for community charter applications. This change would make the process for adding an underserved area very similar to obtaining a community charter; however these charter types are very different in philosophy. A credit union applies once for a community charter and that application includes one contiguous geographic region. This charter governs the entire member base of the credit union and defines the field of membership.

That is not the case with underserved areas. One credit union can have multiple, non-contiguous underserved areas. The potential membership from those areas is a part of the membership base; not the entire base. Requiring the same documentation for a portion of a field of membership as that of an entire field of membership is punitive and will be detrimental not only to our ability to grow but to the credit union philosophy as a whole.

If under the new rule, credit unions are required to provide the same amount of documentation for an underserved area as they currently do for a community charter, then more credit unions will opt the community charter and not add underserved areas. Credit unions that have made strategic decisions not to apply for a community charter will need to rethink that decision, since adding an underserved area will be just as difficult, time consuming and expensive. As a result, the underserved areas will remain underserved. For SEFCU, we have enhanced neighborhoods in the Cities of Albany (7 locations), Binghamton (2 locations), Buffalo (1 location), Kirkwood (1 location), Schenectady (2 locations), Syracuse (3 locations) and Troy (1 location) by opening branches, helping the unbanked become financially literate and assisting community non-profit organizations to achieve their goals.

Geographic Areas Considered Separately for Underserved Designation

It appears that under the proposal, credit unions would be required to consider each political or geographic jurisdiction separately. We are opposed to this change, as this would result in credit unions requesting fewer underserved areas because of the requirement to place a branch in the underserved area within two years. If each consideration must take place for each jurisdiction independently, then credit unions would be required to place a branch in each location within a shorter amount of time and could potentially increase expenses for the organization.

Another challenge with this proposal appears to be that NCUA would require criteria based on census tract boundaries or boundaries of a Metropolitan Statistical Area (MSA) as opposed to city or town boundaries. As stated by

Corning Credit Union, this would limit service to definitively underserved populations. In many cases across the country, cities or towns within MSAs would absolutely qualify, by any reasonable standards, as underserved. However, the entire MSA may not qualify. Under the proposed changes, credit unions would not be able to serve the underserved. A specific example would be the city of Buffalo, New York. Under the proposed changes it could not qualify as an underserved area because it falls within the MSA which exceeds the population limitations and includes more affluent areas, such as Grand Isle. It should be obvious that the city of Buffalo could theoretically meet the definition of underserved and would benefit greatly from credit unions being able to add the city to their fields of membership as an underserved area. SEFCU opposes any rule change that would require credit unions to only consider larger geographical areas as underserved, as this leaves out the possibility of adding a city or town that is arguably underserved, even when a larger geographic area, such as an MSA, is not.

Previously-Approved Underserved Areas

SEFCU is concerned that the proposed changes would require credit unions to provide new documentation and prove again that an area meets the definition of underserved, in order to obtain approval to add a previously-designated underserved area to its field of membership.

Today, once the NCUA designates an area as underserved, another credit union can request to add that exact underserved area to its field of membership by submitting only business planning documentation. SEFCU requests that NCUA not change this provision. It is important to consider the investment that credit unions have made in opening branches in underserved neighborhoods and the positive role they play in helping to revitalize and reinvigorate local communities.

Significant Unmet Needs for Financial Services

Before a credit union can add an underserved area to its field of membership, the credit union is required to show that the area's financial services needs are "unmet." As part of the demonstration that an area has significant unmet needs, the proposal would require the credit union to submit a one-page narrative statement which addresses the pattern of unmet needs in the area for loans and other services. On the surface, the one-page narrative does not appear to be a burden, however, a close reading of the proposal shows that the one-page narrative would need to be supported by a significant amount of documentation to prove the area has unmet needs and that there is a lack of service by other financial institutions.

In the proposal, NCUA provided many websites that may contain this information. As pointed out by other credit unions, the data provided is not grouped or categorized according to the boundaries proposed by the NCUA. It is also often limited to the financial institution's headquarter location and does not include ancillary facilities. In order to drill down to the detail required by this proposal, a credit union would be required to expend significant resources to obtain the necessary information. It is certainly true that the Internet has expanded our ability to retrieve information, however, it is important to remember that not all information provided is accurate and trustworthy.

Furthermore, the proposed changes suggest including financial service providers that have not been considered in the past. It is our belief that simply because other "institutions" such as payday lenders, pawn shops, rent-a-centers and check cashers are present in an area being considered for underserved status, does not mean that the area is 'well served'. In fact, areas that have the highest prevalence of these services are likely the least served. Considering an area with these entities in it as 'well served' could be detrimental to the residents of the area. These alternative institutions may, by their very presence, create the illusion that an area's financial needs are being met, when in fact these entities are often more costly to do business with and actually serve to put consumers even farther behind financially.

In addition, the formula mentioned in the proposal that includes other "financial institutions" such as those listed above, as well as, ATMs and shared branches from other financial service providers is too complicated and should be eliminated. As stated by many other respondents, interestingly, credit union ATMs and shared branches are not considered by NCUA as providing service to an underserved area, but this proposed change would have NCUA consider those of other financial institutions as an indication of meeting needs. SEFCU's suggestion would be to eliminate the more subjective measurements (unmet needs and underserved by other financial institutions) and continue to use CDFI's qualifications for determining if the needs of an area are met. Anything else could end up being applied inconsistently, which does not benefit anyone.

Finally, we must consider the investment that credit unions make when expanding into underserved areas. In addition to building branch offices and providing financial services, credit unions hire staff to work in these neighborhoods and our employees play a critical role in giving back by being part of the community. At SEFCU, we are visible in our undeserved neighborhoods like Hamilton Hill in Schenectady, Arbor Hill and South Pearl Street in Albany, in downtown Binghamton, Buffalo, and Syracuse. From those branches, we use a wealth of programs to help our neighbors achieve financial success and to make their community a better place. Some of the ways SEFCU is involved are listed below:

- Our financial educators conduct frequent seminars on basic banking, saving, budgeting, managing credit and other topics, helping members as well as consumers who are transitioning from welfare to workfare.
- We help members save more by giving them an alternative to check cashing and payday lenders.

- Our employees are part of the community, donating their time and talent to help revitalize the neighborhood.

At SEFCU, when we enter into an undeserved neighborhood, we provide much more than financial services, we help people achieve their dreams and make their neighborhoods a better place.

Moratorium on Current Applications

Again, SEFCU concurs with other respondents that the moratorium on underserved application approvals is perplexing. The precedent set by the NCUA has been to consider items in process during a comment or transition period as if that period were not occurring, applying the rules and regulations in affect at the time. As has been stated, this moratorium is inconsistent with the Administrative Procedures Act and, honestly, not good business practice. If a member applies for a loan at our institution and the policies or rates change before the loan is closed, we do not increase the rate or apply the new policy, nor do we hold the application in anticipation of these changes. The moratorium is, in effect, ultimately punishing the individuals in the underserved area(s) requested in the application.

Once again, I would like to thank the NCUA Board for the opportunity to comment. I would be happy to further discuss this matter if you so desire.

Sincerely,

Donna J Chardeen

Donna J. Chardeen
Director of Regulatory Compliance

Cc: Michael J. Castellana, President and CEO