



August 18, 2008

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

RE: Proposed Interpretative Ruling and Policy Statement (IRPS) 08-2

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to National Credit Union Administration's (NCUA) request for comment regarding proposed Interpretative Ruling and Policy Statement (IRPS) 08-2. The proposed rule would amend NCUA's Chartering and Field of Membership Manual (Chartering Manual) by revising its provisions on underserved areas.

NAFCU commends the NCUA on its work to propose a detailed rule. We also appreciate NCUA's efforts to achieve regulatory consistency. However, we are concerned that many aspects of the rule unnecessarily increase the regulatory burden on credit unions that seek to offer services in underserved areas. We also believe that the proposed rule is overly complicated and would deter many credit unions from applying to serve such areas. Accordingly, we encourage the NCUA to revise to the proposed rule consistent with the following comments.

Definition of Local Community

By statute, to qualify as an "underserved area," an area must be a local community, neighborhood or rural district that is an investment area as defined by the Community Development Banking and Financial Institutions Act of 1994 (CDFI Act). Under the Chartering Manual, an area can be a "local community" if it is: (1) a political jurisdiction; 2) in multiple contiguous jurisdictions and the population does not exceed 500,000 or (3) in a Metropolitan Statistical Area (MSA), or portion thereof, and its population does not exceed 1,000,000. Where one of the latter two criteria is met, a presumption of local community is

Ms. Mary F. Rupp

August 18, 2008

Page 2 of 4

made and a supporting letter is required. The NCUA is considering incorporating in the underserved areas section of the Chartering Manual the definition of “well defined local community” that governs community chartering. The proposed rule would also apply some of elements required for proving “local community” for community chartering to the counterpart “local community” requirement for underserved areas, including submission of a supporting letter where one of the presumption criteria is used to meet the requirement.

NAFCU does not agree with the proposed incorporation of the definition of “well defined local community.” We also do not believe a supporting letter should be required. We believe that these measures are not only unnecessary, but also would deter credit unions that seek to serve underserved areas. Instead of making it more difficult by requiring additional documentation, the NCUA should ease the burden by streamlining the application process and adopting objective methods. Requiring a supporting letter would have the opposite effect as it would make the process more subjective.

It is apparent that the NCUA is contemplating to incorporate the community charter standards for “local community” to achieve consistency between the requirements for community charters and underserved areas. While we strongly support regulatory consistency, we do not believe that applying the principle in this manner is appropriate or is grounded on a legitimate purpose. A review of an application to serve an underserved area should not be based on similar showings as that involving a community charter application most obviously because the latter does not take into account whether a community is underserved. Indeed, we believe that the proposed rule could serve to undermine the purpose of encouraging credit unions to extend their services to underserved areas.

Accordingly, we urge the NCUA to reconsider the proposed incorporation of the definition of “well defined local community” as set forth for community chartering. Further, we recommend that the NCUA withdraw its proposed addition of a supporting letter.

Criteria of Economic Distress

The proposed rule would also make significant changes to the current determination of whether an area meets the “investment area” requirement for underserved areas. One aspect of meeting this requirement is that the area is one that meets the economic distress criteria as established by the CDFI Fund. A credit union must prove that a proposed area is a geographic unit and meets at least one of the five economic distress criteria that are set forth in the regulations governing the CDFI Fund.

While we understand that the NCUA must make the “investment area” determination as defined by the CDFI Act and established the CDFI Fund, we are concerned that this aspect of the proposed rule would deter many credit unions from applying to served underserved areas because it is far too complicated and would require significant resources to assess whether a specific area would meet the regulatory requirements and thresholds. NAFCU believes that the complexity of the regulations serves to defeat the purpose of making it easier for credit unions to serve underserved areas. Accordingly, we strongly urge the NCUA to work with the CDFI

Fund in order to ease the regulatory burden on credit unions that seek to serve an underserved area.

Unmet Needs Test

The proposed rule would eliminate the current presumption that an area has unmet needs for loans if the economic distress test is satisfied. A “narrative statement of unmet needs” that shows a pattern of unmet needs in the proposed area would be required. The statement must be supported by statistical data (such as financial, demographic and economic data), and at the credit union’s choosing, testimonial evidence.

NAFCU does not agree with the proposal to require a narrative statement that is supported by data. We believe that an area that has been deemed distressed is ample evidence of the existence of unmet needs for loans. While the proposed rule does provide various options that a credit union can choose from to show that an areas has unmet needs, we are convinced that requiring the narrative statement along with extensive supporting data is simply an unnecessary and costly exercise to prove subjectively what can be proven objectively.

Underserved by Other Depository Institutions

The proposed rule would require a showing that is based on matrix that an area is not adequately served by other depository institutions. The approach focuses solely on the presence of other depository institutions in the proposed area.

Here, we caution against equating presence of depository institutions with access to affordable financial products. There’s ample data showing that products and services offered by credit unions are less costly, which should be an important consideration. For example, credit unions offer small dollar loans at low interest rates as an alternative to payday loans. Other depository institutions generally do not offer similar products.

Pending Applications and Grandfathering

We also urge the NCUA to immediately begin reviewing pending applications under the current rules, while also accepting and reviewing new applications under those rules. We are not convinced that a moratorium on accepting new applications is necessary. By imposing a moratorium, the NCUA is preventing or unduly delaying credit unions’ ability to add underserved areas and offering needed services to the underserved.

Lastly, we encourage the NCUA to grandfather underserved areas currently designated as such as well as areas for which the designation is applied before the finalization of the proposed rule. We believe that this approach would be fair to those credit unions involved as well as those they are currently serving or seeking to serve.

Ms. Mary F. Rupp

August 18, 2008

Page 4 of 4

NAFCU appreciates this opportunity to share its comments on the proposed rule. Should you have any questions or require additional information please call me or Tessema Tefferi, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 268.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred R. Becker, Jr.", written in a cursive style.

Fred R. Becker, Jr.

President/CEO

FRB/tt