MATANUSKA VALLEY
FEDERAL CREDIT UNION

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June 25, 2008

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

Subject: Matanuska Valley Federal Credit Union Comments on Proposed Rule Parts 701 and 705

Dear Ms. Rupp:

Following are our comments regarding the proposed rule.

I have no issue with changing the definition of "low-income" from median household income (MHI) to median family income (MFI). However, I am discovering there are multiple sources of MFI data and it is unclear which to use. I recently asked a local consultant to determine whether or not our credit union would meet the "low-income" definition under the proposed rule. The consultant is very familiar with the demographics of the geographic area served by our credit union. Also, she works extensively with U.S. Census data. As you can see from her attached memo, she has more questions than answers.

The proposed rule states that "income standard means the median income for families or median earnings for individuals, as reported by the U.S. Census Bureau." In our research we could not find U.S. Census data for median earnings for individuals. There is data for "per capita income;" however it is not "median" income.

Only two regions in Alaska are cited by the U.S. Census Bureau as a "Metropolitan Area;" they are Fairbanks and Anchorage/Mat-Su. Our charter covers a geographic area within the Mat-Su Borough and part of the Municipality of Anchorage. It is unclear from the proposed rule how we are to evaluate our situation.

Also, U.S. Census data in Alaska comes with a high deviation curve. In 2006, the Mat-Su had a deviation +/- $4,203 in median family income. The Municipality of Anchorage had a deviation of +/- $3,763, and Alaska as a whole had a deviation of +/- $2,371 (for all states, Alaska was the highest, only Washington D.C. had a higher margin for error). This calls into question the reliability of this data when using it to determine the 80% or lower standard.

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Lastly, the proposed rule eliminates the current 36% higher cost of living allowance for Alaska. With Alaska's extreme climate, remoteness and underdeveloped infrastructure, the cost of living is considerably different as compared to most areas in the lower 48 states. As an example, Federal employees living and working in Alaska continue to earn a cost of living allowance (COLA) in recognition of the high costs in Alaska. What is the justification, other than ease, for eliminating adjustments for cost of living?

With the proposed elimination of the 36% higher cost of living allowance for Alaska, our credit union will not qualify when compared to national data. As mentioned above, it is unclear whether or not we will qualify when compared to the Anchorage/Mat-Su Metropolitan area.

Our credit union received a "low-income designation" in January 2007. Our primary goal was to have greater flexibility in serving member business lending needs in our community. In February 2008, we received permission from our Regional Director to grant member business loans in excess of 12.25% of total assets. Just as we are now gearing up to exercise the expanded lending authority, we are faced with the prospect of curtailing this activity to assure compliance in five years. Obviously, this uncertainty makes it difficult, if not impossible for us to create a viable long-term business plan.

Also, I am concerned that the proposed rule will require annual recertification. Part 701.34(a)(2) states that "a regional director <u>will</u> remove the designation if the federal credit union no longer meets the criteria of this section and will give the credit union written notice." The current rule states: "the designation <u>may</u> be removed…" An ongoing recertification process will add continued uncertainty and costs. It is my understanding that the CDFI program has a recertification requirement every three years.

Is it really the intent of the NCUA Board to grant expanded powers, only to take them away if a credit union is successful in serving their community, thus raising family incomes? I strongly encourage NCUA to grant a permanent grandfathering to all low income designated credit unions, unless the credit union initiates a change in field of membership or is involved with a merger.

A stated goal of the proposal is to "eliminate confusion" for credit unions. This goal may be achieved in large urban metropolitan areas; however for Alaska the proposed rule seems to create a high degree of confusion and uncertainty. Our credit union has made a good faith attempt to understand and apply the proposed rule to our situation. As written, it is impossible for us to determine with any degree of certainty how the rule will be applied to the geographic area served by our credit union.

A second stated goal is to "better align the criteria for a low-income designation with criteria for the addition of an underserved area to a federal credit union field of membership and certification as a Community Development Financial Institution (CDFI)." I question if alignment, particularly with CDFI, is desirable. When Congress amended the Federal Credit Union Act, placing restriction on member business loans, they provided a number of exceptions.

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Two of the exceptions are: "an insured credit union that – (A) serves predominantly low-income members, as defined by the Board; (B) is a community development financial institution, as defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994." If Congress intended alignment why did they specify two options? Why did Congress allow the NCUA Board the authority to define low-income? The NCUA Board should use the power granted by Congress to expand the definition of "low-income" to greatly increase the potential number of credit unions who may choose to qualify.

Also, it should be noted that the primary geographic area served by the credit union meets the definition of an "investment area" under the Treasury Department's CDFI program, thus qualifying as an underserved area for purposes of field of membership. While not a qualifying factor to be considered as a low-income designated credit union, it is important to note that the community served by our credit union qualifies as underserved.

In conclusion, I encourage the NCUA Board to reject this proposed rule for the following reasons:

- The proposed rule does not achieve the goal of eliminating confusion.

- The proposed rule will likely result in ongoing recertification, thus increasing costs and creating uncertainty.

  The Board should use the power granted to them by Congress to expand the definition of "low-income" to allow an increasing number of community based credit unions to qualify.

  The Board should make it clear that once a credit union is designated as "low-income" that designation continues indefinitely unless the credit union initiates a change in field of membership or is involved with a merger.

Sincerely,

Al Strawn
General Manager

Attachment

ALASKA UNIVERSAL SERVICES
MANAGEMENT CONSULTING SERVICES

May 28, 2008

To: Al Strawn, General Manager
Matanuska Valley Federal Credit Union

From: Kay Slack, Market Analyst

Re: NCUA Proposed Rule – Designation of Low-income Status

Per your request, I have reviewed the NCUA proposed rule document and researched Median Family Income (MFI) sources. Following are the questions that should be asked regarding this rule revision. I have also included the results of the research in the section that follows: Research Conducted. Please let me know if you would like any additional assistance.

General Observations and Questions

The proposed rule does not specify what MFI schedule is to be used in determining qualification. References provided in the documentation confuse the issue. See Research Conducted.

Questions to ask: What standard is being used to establish low-income status? Specifically, should the 2000 Census MFI be used, an updated schedule provided by HUD, or another source? If the HUD schedule is used, should it be for the most current year?

On page 3 of the proposed rule documentation "income standard" is to rely on MFI or the alternative of median earnings; and, on page 16 it is defined as median income for families or median earnings for individuals. Since specific statistical data is not available between decennial Census years, it is assumed the 2000 Census data is the source for this information and is based on 1999 wages. (See the two charts in the following section for median earnings and per capita income.)

Questions to ask: Is the most current decennial Census data the source for median earnings for individuals? If so, is it data for the population of 16 years and over with earnings (Census Table 85) or per capita income (Census Table 82)?

Some time after 2000 the Mat-Su Borough was reclassified from a non-metropolitan area and included in the Anchorage metropolitan area. On page 6 of the documentation it says MFI is available from the U.S. Census Bureau for both non-metropolitan and metropolitan areas. Since the Mat-Su Borough was not part of the Anchorage MSA in 2000, only Anchorage population is included in the Census data for the metropolitan area.

It is not clear in the documentation or in other reference materials how to calculate the 80% low-income standard. Additionally, there is confusion between Title 12 Section 1805.201 "Certification as a Community Development Financial Institution" and CDFI certification Web site. The regulation refers to the use of the "most recently completed decennial census published by the U.S. Bureau of the Census" while the Web site refers the user to a 1998 HUD schedule.

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Currently, there is no known source available reporting MFI for the entire Anchorage metropolitan area (which is now Anchorage and Mat-Su). The 2008 HUD MFI schedule of metropolitan statistical areas and non-metropolitan counties lists the Mat-Su in the Anchorage MSA, but the MFI for the MSA is the same as Anchorage. There appears to be no adjustment for the lower Mat-Su MFI.

Anchorage MSA Median	$77,700
Anchorage only Median	$77,700
Mat-Su only Median	$68,600

Questions to ask: What is the formula to determine whether or not an area within a metropolitan area meets the low-income standard to qualify for certification? If MFI for the entire metropolitan area (Anchorage and Mat-Su combined) is a factor in the formula, what MFI should be used?

Research Conducted

Refers to questions regarding MFI source: Unless the following Section of Title 12 has been revised and is not reflected in the CFR, there appears to be a conflict between the regulation and the CDFI Fund Website. While the Website links you to HUD's income limits, the regulation specifically refers to decennial census.

Following is the section from Title 12 addressing the criteria of economic distress. It appears this Section points to the "most recently completed decennial census" (which is the 2000 Census, using 1999 income data) as the source for determining eligibility.

TITLE 12--BANKS AND BANKING

CHAPTER XVIII--COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND, DEPARTMENT OF THE TREASURY

PART 1805_COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM--Table of

Subpart B_Eligibility

Sec. 1805.201 Certification as a Community Development Financial Institution.

(D) Distress criteria. An Investment Area (or the units that comprise an area) must meet at least one of the following objective criteria of economic distress (as [redacted]);

(1) The percentage of the population living in poverty is at least 20 percent;

(2) In the case of an Investment Area located:

(i) Within a Metropolitan Area, the median family income shall be at or below 80 percent of the Metropolitan Area median family income or the national Metropolitan Area median family income, whichever is greater; or

(ii) Outside of a Metropolitan Area, the median family income shall be at or below 80 percent of the statewide non-Metropolitan Area median family income or the national non-Metropolitan Area median family income, whichever is greater;

(3) The unemployment rate is at least 1.5 times the national average;

(4) In counties located outside of a Metropolitan Area, the county population loss during the period between the most recent decennial census and the previous decennial census is at least 10 percent; or

(5) In counties located outside of a Metropolitan Area, the county net migration loss during the five-year period preceding the most recent decennial census is at least five percent.

However, on the CDFI Fund site, CDFI Certification page (link follows) the site refers you to the HUDUser site for Median Income by MSA and State. HUD updates Median Family Income (MFI) annually based on results from the American Community Survey performed by the Census Bureau. The most recent data is compiled from 2006 survey results.

http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9

Scroll down to Supplemental Resources and choose Median Income by MSA and State:

Supplemental Resources

- Material Events - Certification of Material Events Form
- Material Events - Frequently Asked Questions on Material Events
- CDFI Certification Guidance - Guidance on the Treatment of General Partners
- Revised Interim Regulations
- Median Income by MSA and State ← Choose this option at CDFI Fund site and it refers you to the HUDuser site for 1998 Income Limits. See next link.

Link from CDFI Fund site: http://www.huduser.org/datasets/il/fmr98/

What is curious about this link is it takes you to 1998 MFI tables developed by HUD and not a more current year or even the 2000 Census data which is based on 1999 income. Another interesting item is in 1998, Mat-Su Borough was considered a Nonmetropolitan Area.

HUDUser

fy 1998 median family incomes for states, metropolitan and nonmetropolitan portions of states

	FY 1998			1989		
	TOTAL	METRO	NONMETRO	TOTAL	METRO	NONMETRO
ALASKA	53900	59200	50100	46580	50109	44045

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2 AK  20      Anchorage Borough        380 MSA: Anchorage, AK

MED AREA MEDIAN FAMILY INCOME (EFFECTIVE 1-7-98):  $ 59200

L50 VERY LOW INCOME (1-8 PER.) 20700 23700 26650 29600 31950 34350 36700 39050

L80 LOW INCOME (1-8 PERSON)    31700 36250 40750 45300 48900 52550 56150 59800

FMR FAIR MARKET RENT(0-4 BEDRM EFFECTIVE 10-1-97)  487   575   763  1061  1253

2 AK 170      Matanuska-Susitna Boro      0 MSA     (NONMETROPOLITAN AREA)

MED AREA MEDIAN FAMILY INCOME (EFFECTIVE 1-7-98):  $ 55600

L50 VERY LOW INCOME (1-8 PER.) 19450 22250 25000 27800 30000 32250 34450 36700

L80 LOW INCOME (1-8 PERSON)    31150 35600 40050 44500 48050 51600 55150 58700

FMR FAIR MARKET RENT(0-4 BEDRM EFFECTIVE 10-1-97)  457   619   697   946  1117
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Refers to question regarding median earnings of individuals:

P85. MEDIAN EARNINGS IN 1999 (DOLLARS) BY SEX FOR THE POPULATION 16 YEARS AND OVER WITH EARNINGS [3] - Universe: Population 16 years and over with earnings
Data Set: Census 2000 Summary File 3 (SF 3) - Sample Data

	Anchorage Municipality, Alaska	Matanuska-Susitna Borough, Alaska
Median earnings in 1999 --		
Total	27,793	25,191
Male	32,596	33,452
Female	23,141	17,951

P82. PER CAPITA INCOME IN 1999 (DOLLARS) [1] - Universe: Total population
Data Set: Census 2000 Summary File 3 (SF 3) - Sample Data

	Anchorage Municipality, Alaska	Matanuska-Susitna Borough, Alaska
Per capita income in 1999	25,287	21,105

Refers to questions regarding MFI for entire Metropolitan area:

HUD site with FY 2008 Income Limits: http://www.huduser.org/datasets/il.html
The chart is Family Income by Metropolitan Statistical Areas and Non Metropolitan Counties.