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Highlights

Highlights of GAO-07-29, a report to the Chairman, Committee on Ways and Means, House of Representatives

November 2006

CREDIT UNIONS

Greater Transparency Needed on Who Credit Unions Serve and on Senior Executive Compensation Arrangements

Why GAO Did This Study

Legislative and regulatory changes have blurred distinctions between credit unions and other depository institutions and raised questions about the tax-exempt status of credit unions. This report (1) assesses the effect of the Credit Union Membership Access Act on credit union membership and charters, (2) reviews the National Credit Union Administration's (NCUA) efforts to expand services to low- and moderate-income individuals, (3) compares rates offered by credit unions with comparably sized banks, (4) discusses unrelated business income tax issues, and (5) assesses transparency of credit union senior executive compensation. To address our objectives, we obtained NCUA data on credit union membership, charter changes, efforts to target those of modest means, and executive disclosure requirements. We also analyzed Federal Reserve Board's Survey of Consumer Finances and Internal Revenue Service data.

What GAO Recommends

To improve transparency, GAO recommends that the NCUA Chairman systematically track and monitor the progress of federal credit unions in serving those of modest means and require disclosure of credit union senior executive compensation. NCUA agreed with our recommendations but had some concerns with the report. GAO addressed these concerns in the agency comments section of the report.

www.gao.gov/cgi-bin/getrpt?GAO-07-29.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov.

What GAO Found

Since the passage of the Credit Union Membership Access Act (CUMAA) in 1998, larger community-based credit unions have constituted a much greater proportion of the industry. NCUA has approved federal community charters with increasingly larger geographic areas and potential for economically diverse membership. Much of the shift toward the larger community-based credit unions was due to conversions from other charters. NCUA's approval of these charters appears to have been triggered by changes in the economic environment and financial services industry and to diversify membership to accomplish goals such as increasing service to those of modest means.

NCUA has established the low-income credit union program and allowed adoption of "underserved areas" to increase credit union services to individuals of modest means. Despite increased credit union participation in these programs and the expansion of community charters, the 2004 and 2001 Survey of Consumer Finances indicated that credit unions lagged behind banks in serving low- and moderate-income households. NCUA officials told GAO that, given the nascent nature of its two initiatives and the relatively recent shift to community charters, they did not yet expect observable changes in the data. Also, NCUA recently has undertaken a pilot effort to collect data on the income characteristics of credit union members. Because limited data exist on the extent to which credit unions serve those of modest means, any assessment would be enhanced if NCUA were to move beyond its pilot and systematically collect income data.

Based on GAO analysis, credit unions typically had more favorable rates than banks, particularly for consumer loans. For example, credit unions auto loans were 1 to 2 percentage points lower than similarly sized banks, on average. However, it was not clear the extent that the more favorable rates fully reflected the tax subsidy that credit unions receive by tax-exemption.

The Internal Revenue Service (IRS) has been reviewing state-chartered credit union activities (federal credit unions are exempt) to determine compliance with unrelated business income tax (UBIT) requirements, but such determinations are difficult due to complicated criteria and because many credit unions file group rather than individual returns. IRS stated that it plans to issue technical guidance in the first quarter of 2007 that the agency believes will help ensure credit union compliance with UBIT.

Finally, credit union executive compensation is not transparent. Federal credit unions, unlike other tax-exempt organizations, do not file information returns, which contain data on executive compensation, with IRS. NCUA is collecting compensation data as part of its pilot, but it is unclear whether NCUA will conduct future reviews. NCUA officials noted a number of alternatives that could be used to increase transparency, such as requiring federal credit unions to provide compensation information in call reports or require that credit unions disclose compensation data at annual meetings.