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Highlights

Highlights of GAO-04-91, a report to the Ranking Minority Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate.

Why GAO Did This Study

Recent legislative and regulatory changes have blurred some distinctions between credit unions and other depository institutions such as banks. The 1998 Credit Union Membership Access Act (CUMAA) allowed for an expansion of membership and mandated safety and soundness controls similar to those of other depository institutions. In light of these changes and the evolution of the credit union industry, GAO evaluated (1) the financial condition of the industry and the deposit (share) insurance fund, (2) the impact of CUMAA on the industry, and (3) how the National Credit Union Administration (NCUA) had changed its safety and soundness processes.

What GAO Recommends

With respect to the share insurance fund, GAO recommends that the Chairman of NCUA explore developing a risk-based funding system, improve the process for allocating overhead expenses, and refine the process for estimating future losses. To improve reporting, the Chairman should also use tangible indicators to determine whether credit unions are serving people in underserved areas. To help ensure safety and soundness, Congress may wish to consider making credit unions subject to internal control reporting and attestation requirements applicable to banks and thrifts and providing NCUA legislative authority to examine third-party vendors.

www.gao.gov/cgi-bin/getrpt?GAO-04-91.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-9073 or hillmanr@gao.gov.

October 2003

CREDIT UNIONS

Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management

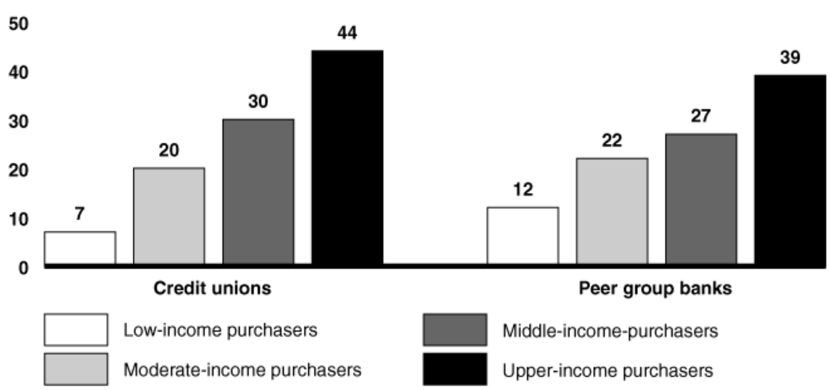
What GAO Found

The financial condition of the credit union industry has improved since GAO's last report in 1991, and the federal share insurance fund appears financially stable. However, a growing concentration of industry assets in large credit unions creates the need for greater risk management on the part of NCUA. The question of who benefits from credit unions' services has also been widely debated. While it has been generally accepted that credit unions have a historical emphasis on serving people of modest means, our analysis of limited available data suggested that credit unions served a slightly lower proportion of low- and moderate-income households than banks.

CUMAA and subsequent NCUA regulations enabled federally chartered credit unions to expand their membership, serve larger geographic areas, and add underserved areas. According to NCUA officials, these changes were necessary to maintain the competitiveness of the federal charter with respect to state-chartered credit unions. While NCUA has stated its commitment to ensuring that credit unions provide financial services to all segments of society, NCUA has not developed indicators to determine if credit union services have reached the underserved.

In response to the growing concentration of industry assets and increased services offered by credit unions, NCUA recently adopted a risk-focused examination and supervision program but still faces a number of challenges, including lack of access to third-party vendors that are providing more services to credit unions. Further, credit unions are not subject to internal control and attestation reporting requirements applicable to banks and thrifts. GAO also found that the insurance fund's rate structure does not reflect risks that individual credit unions pose to the fund, and NCUA's estimation of fund losses is based on broad historical analysis rather than a current risk profile of insured institutions.

Mortgages Made by Credit Unions and Banks, by Income Level of Purchaser, 2001
Percentage of loans



Source: 2001 HMDA database.