NATIONAL CREDIT UNION ADMINISTRATION

Report to the NCUA Board on the Member Service Assessment Pilot Program (MSAP)

Member Service Assessment Pilot Program

A Study of Federal Credit Union Service

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Executive Summary

Congress and the Government Accountability Office (GAO) raised a number of important questions relative to whether federal credit unions (FCU) continue to serve their mission and purpose. In response to these questions, the National Credit Union Administration (NCUA) designed the Member Service Assessment Pilot Program (MSAP) to collect data on the membership profile of FCUs, the types of services FCUs provide their membership, and the total compensation of FCU executives. This project was completed within the Office of Management Budget's (OMB) imposed deadline of August 31, 2006, at a cost of over $1.1 million.

MSAP member income analyses encompassed analyzing 14 million member account records from 448 randomly selected FCUs. The data collected provided statistically valid results for the entire FCU system, and for FCUs grouped by asset size (i.e., FCUs with less than $50 million in assets, and for FCUs with greater than or equal to $50 million in assets).[1]

Because of time and resource constraints, it was not possible to conduct a survey that would have provided statistically conclusive results for the different FCU charter types (occupational, associational, and community). However, the data collected allowed for descriptive analyses, strengthened by the proportionality of the sample.

Overall, MSAP provides the most conclusive data to date available on the membership profiles of FCUs. Importantly, MSAP:

- Demonstrates that FCUs are serving those they have been chartered to serve – working individuals.

- Confirms the expectation that FCUs designated as low-income, with underserved areas, or with a community base have better opportunities to serve lower income groups and individuals and generally have more diverse membership profiles as compared to FCUs with more restrictive common bonds and fields of membership (FOM).

- Strengthens NCUA's previous position that changes in membership profiles do not occur immediately – they take time. Consequently, while the percent of FCUs now serving a community base has recently increased, the membership profiles can not be expected to differ from the traditional occupational or associational charter until a considerable period of time has elapsed that allows for the new market penetration.

[1] Statistical validity has to do with basing conclusions on proper use of statistics. To obtain statistically valid results for a normally distributed population, at a specified confidence level and interval, a sample of a required size has to be randomly selected from that population. If the underlying population is not normally distributed, various statistical techniques, such as stratified random sampling, can be used to obtain statistically valid results for the population. MSAP's methodology satisfied these requirements, enabling statistically valid conclusions.

Additionally, MSAP bolsters NCUA's long standing view that the FCU common bond limitation is the overriding factor that impacts membership demographics. Interpreting MSAP data or any other data developed purporting to define the membership of FCUs is best understood and applied within the context of whom FCUs can legally serve, i.e., those within a specified FOM. Relevant to this discussion, it is essential to have an understanding that:

- The common bond constraint, imposed by statute, limits NCUA's flexibility. As a result, the ability of FCUs to serve groups not included in the traditional membership base is also restricted.

- Developing FCU chartering policies that not only comply with the statutory common bond requirement, but also encourage and permit reaching out to those outside the traditional membership base, has been a regulatory challenge.

- Congress has recognized the inherent conflict of trying to reach out to less advantaged individuals and groups within a statutory framework that clearly defines who FCUs can serve. As a result, some flexibility has been legislated. But, the essential characteristics of common bond have been steadfastly retained since 1934. Consequently, the primary membership nucleus for FCUs remains those who historically avail themselves of the financial services offered by FCUs -- working individuals. Who FCUs can serve is a critical factor that must be considered along with other available data in assessing whether they continue to serve their mission and purpose.

It should also be noted that while the issues addressed in this Report are in response to the questions raised by Congress and GAO, this Report does not directly respond to any findings or opinions that may be expressed in GAO's 2006 study on the same topic. Additionally, this Report does not make comparisons with other financial institutions and their deposit base. The objective of this Report was to gather and analyze data on FCUs in order to provide meaningful information to Congress and GAO. The data will also be useful to the NCUA Board in making policy decisions on the issues that gave rise to the Report.

Chapter I -- Overview

Background

With the enactment of the Federal Credit Union Act (FCU Act) in 1934, Congress expressed an overall purpose that FCUs should "make more available to people of small means credit for provident and productive purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."[2] This language from the preamble of the FCU Act, although dropped from the codified version in 1959, has remained an essential mission objective at NCUA.

In passing the Credit Union Membership Access Act of 1998 (CUMAA), Congress used a different term to describe who credit unions should serve. The preamble to CUMAA referred to credit unions meeting "the credit and savings needs of consumers, especially persons of modest means."[3] While CUMAA does not define the meaning of "modest means," the Senate Report describing the legislation refers to serving people of "modest means, ***including those with low- and moderate-incomes, within the field of membership of such credit union.***"[4] The House Report has similar language. This reflects the clear understanding that "modest means" has a broader meaning beyond just low- and moderate-income individuals. Equally important, the language also reflects the limitation that those being served must be within the FOM.

The expressions by Congress about whom FCUs <u>should</u> serve are framed by an important, and often overriding, limitation about whom they <u>can</u> serve. This structural limitation is the statutory common bond, or the legally authorized FOM.[5] Every FCU has an FOM which requires that membership services be limited to those who (1) are within the FOM, and (2) become a member of the FCU.[6]

Congress and GAO have recently questioned whether FCUs are continuing to serve, as part of their overall mission and purpose, people of small means or, as more recently clarified in CUMAA, people of modest means. In GAO's October 2003 Report on Credit Unions, two of the stated objectives of the study were to evaluate "the extent to which credit unions 'make more available to people of small means credit for productive purposes'" and "the impact, if any, of CUMAA on credit unions field of membership requirements for federally-chartered credit unions." [7] Not clear,

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[2] Pub. L. No. 467, C. 750, 48 Stat. 1216 (June 26, 1934).

[3] Pub. L. No. 105-219, § 2(4), 112 Stat. 913 (August 7, 1998).

[4] S. REP. NO. 105-193, at 11 (1998)(emphasis added).

[5] 12 U.S.C. §§ 1757 and 1759.

[6] The recently enacted Financial Securities Regulatory Relief Act of 2006 provides for limited service (i.e., check cashing and money transfers) to nonmembers who are within a FCU's field of membership. Pub. L. No. 109-351, 120 Stat. 1966 (October 13, 2006).

[7] GAO, *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to enhance Oversight and Share Insurance Management*, GAO-04-91 (October 27, 2003) at 2.

however, is whether in asking these questions the implications of FOM statutory requirements were appropriately considered.

GAO's October 2003 Report recommended NCUA "use tangible indicators, other than 'potential membership,' to determine whether FCUs have provided greater access to credit union services in underserved areas."[8] In commenting on NCUA's objection to the recommendation, GAO stated:

> *This type of information, collected uniformly by a federal agency like NCUA, could serve as [a] first step towards documenting the extent to which credit unions have reached* ***for members outside of their traditional membership base.*** *Finally without this information, it will be difficult for NCUA or others that are interested to determine whether credit unions have extended services of any kind to underserved individuals as authorized in CUMAA.*[9]

In responding to the issues raised by Congress and GAO, NCUA carefully detailed the common bond restrictions imposed by the FCU Act and, in particular, the difficulties of reconciling who credit unions "can" serve with the congressional intent of whom they "should" serve. Although NCUA had no empirical data to demonstrate the profile of credit union membership, it was argued that recent growth data, historical information, experience, and NCUA policies supported the position that FCUs are serving those they were chartered to serve. Examples of the different types of FCU charters and fields of membership (e.g., associational, occupational, or community) were provided to demonstrate not only the difficulty of comparing credit unions with other types of financial institutions, but also comparing membership and services among different credit unions.

Absent NCUA data, however, GAO primarily relied on the Federal Reserve's Survey of Consumer Finance to determine whether FCUs were fulfilling their mission and purpose. GAO's reliance on this data led to misleading conclusions and failed to take into full account the extensive information on the unique differences of FCUs. Although GAO recognized the field of membership limitations imposed on FCUs, it did not fully elaborate on the legal and operational impediments encountered in expanding service to groups outside the traditional membership base. Without question, understanding the statutory limitations on who can become members of FCUs is critical in conducting an objective assessment of any public policy consideration of the status of FCUs, those who benefit from their services, and their impact on the financial sector.

Since 1934, FCUs have been defined, in part, by whom they can serve. This characteristic (i.e., common bond), creates an inherent conflict and places limitations on the congressional intent to reach out to underserved groups and individuals.

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[8] Id. at 83.

[9] Id. at 86 (emphasis added).

Recognizing the challenges of operating a credit union with a primarily low-income based field of membership, Congress directed NCUA to establish a low-income designation for credit unions in 1970.[10] The low-income designation provided credit unions primarily serving low-income members with expanded authority to accept shares from nonmembers. However, it was not until 1998 with the enactment of CUMAA that Congress enabled FCUs to expand their FOM to reach out beyond their traditional FOM limitations, authorizing FCUs with multiple common bond charters to adopt "underserved areas." Importantly, Congress has not eliminated or substantially altered the requirement for FCUs of maintaining a common bond of association, occupation, or community. Consequently, while some flexibility was realized in legislation authorizing low-income designation and the adoption of underserved areas, the limiting common bond structure remains the predominant defining feature for FCUs relative to whom they can serve. As a result, statistical data noted for all FCUs will be heavily influenced by the most prevalent common bond charter type -- those that are or were originally chartered as occupational based to serve working people.

GAO's recognition and use of the language "traditional membership base" succinctly and accurately underscores the primary issue confronting NCUA. It has been a regulatory challenge developing sound chartering policies reflecting the traditional limitations of association, occupation and community, while at the same time providing FCUs with the flexibility to reach out to those outside the traditional membership base. In considering any actions on chartering policies, NCUA must also ensure those actions are driven by Congress' expectation that NCUA maintain a safe and sound FCU system.

In September 2005, GAO initiated a follow-up audit to its 2003 Report. While the follow-up audit covers a number of issues, relevant to this discussion were several questions related to NCUA's efforts to address the recommendations in the 2003 Report. For example, in its preliminary questions dated September 2005, GAO asked: "What information does NCUA collect on the extent to which credit unions have been successful in reaching out to low income or underserved communities?" They also inquired if the "NCUA conducted any studies or obtained information on the social and economic characteristics of credit union members?"

In January 2006, GAO formally notified NCUA that it was "beginning work examining several areas within the credit union industry." Four objectives were listed, including "updating our [GAO's] 2003 report on credit union membership and service to low and moderate income consumers."

NCUA Initiates Member Service Assessment Pilot Program

In response to the issues raised by GAO, as well as the questions posed by the House Ways and Means Committee in November 2005, NCUA initiated MSAP in March 2006 to conduct a survey of FCU member income distribution. MSAP

[10] Pub. L. No. 91-468, 84 Stat. 994 (October 19, 1970).

accessed the share and loan account information of all members within 448[11] randomly selected FCUs which included more than 14 million member account records.

MSAP provided statistically valid results for the entire FCU system and for FCUs with less than and greater than or equal to $50 million in assets although not by charter type. This information was considered critical to fully address the issues raised by Congress and GAO. The data also enabled descriptive analyses[12] of different FCU charter types for a more in-depth understanding of the FCU system.

As will be detailed later in this report, the findings are consistent with the information and generalized assumptions previously provided to Congress and GAO that FCUs are serving those they were chartered to serve. The gathered data also strengthen the argument that absent consideration of the statutory limitations, it is unfair to draw any definitive conclusions about the success of FCUs in serving individuals and groups outside their traditional membership base without fully focusing on whom they can legally serve. This one fact provides the foundation for understanding and placing in proper context any statistical data profiling the membership of FCUs. A failure to consider the implications of common bond undermines the interpretation of the data, which may lead to unwarranted conclusions.

In conjunction with MSAP, NCUA also conducted a historical and legislative review of the development of credit unions in the United States. This review has been used to appropriately assess the results from MSAP and provide an understanding of congressional intent when it expressed the mission of FCUs in CUMAA as meeting "*the credit and savings needs of consumers, especially persons of modest means.*"[13]

It is important to note that the National Association of State Credit Union Supervisors (NASCUS) is conducting a similar study on the membership characteristics of state-chartered credit unions. Since FOM requirements are less restrictive in many states, the data gathered by NASCUS may provide additional valuable information on how common bond impacts membership diversity.

Data Results

The statistically valid MSAP results can be projected to the entire FCU system but not by charter type. As shown in Table 1, the data collected during MSAP reflect that 60 percent of the membership in the average FCU has a median family income

[11] Of the original 481 FCUs randomly selected to participate in MSAP, the estimated member income data was received for 448 FCUs. This exceeded the minimum of 437 FCUs needed to provide statistically valid results for the entire FCU system and the two sub-populations.

[12] Descriptive statistics focuses on collecting, summarizing, and presenting a set of data. Inferential statistics uses sample data to draw conclusions about a population. Source: Mark L. Berenson et al., "Basic Business Statistics: Concepts and Applications." 10th Edition, Prentice Hall, 2006.

[13] Pub. L. No. 105-219 § 2(4), 112 Stat. 913 (August 7, 1998)(emphasis added).

(MFI)[14] of less than $60,000 annually, 82 percent has less than $75,000, and 96 percent has a median family income of less than $100,000.

Table 1

FCU System Membership Income Distribution (Cumulative Percent)	
Median Family Income < $60,000	60%
Median Family Income < $75,000	82%
Median Family Income < $100,000	96%

The data further demonstrate the income diversity in FCUs. This balance of diverse income levels is important to an economically viable credit union system.

The membership income profiles indicate that FCUs primarily serve those considered to be working individuals, with 44 percent of FCU membership making less than the median family income of their respective metropolitan statistical area (MSA).[15]

Based on the data collected, NCUA developed observations of the membership income distribution by charter type. Although these results were not statistically conclusive, the randomly selected FCUs provided a proportional representation of the different charter types within the FCU system, strengthening the descriptive analyses performed. Table 2 provides an illustration of the impact common bond restrictions have on member demographics.

Compared to single occupation, single association, and multiple common bond charters included in MSAP with more restrictive FOMs, the ninety-seven community credit unions surveyed serve a greater percent of the membership earning less than the median family income.

[14] According to the U.S. Census Bureau, a family is a group of two people or more related by birth, marriage, or adoption and residing together. The Year 2000 Census median family income was $50,732. The data in this report is based on Year 2000 U.S. Census Bureau figures with no inflation adjustment.

[15] An MSA is a core area containing a substantial population nucleus, together with adjacent communities having a high degree of social and economic integration within that core. MSAs comprise one or more counties.

Table 2

Median Family Income (MFI) as a % of MSA MFI	Observation of Membership Income Characteristics [16]					
	Charter Types				Other Characteristics	
	Single Occupation	Single Association	Multiple Common Bond	Community	Underserved Areas[17]	Low Income[18]
< 70%	10.65%	10.63%	10.81%	10.73%	12.74%	11.62%
< 80%	18.37%	14.17%	18.96%	19.13%	21.97%	21.08%
< 90%	29.07%	26.74%	30.11%	32.34%	34.49%	41.03%
< 100%	41.62%	40.04%	44.87%	47.78%	50.22%	61.21%
< 110%	54.45%	56.95%	57.42%	62.81%	63.05%	77.36%
< 120%	67.19%	72.16%	68.99%	73.48%	73.13%	85.72%
<130%	76.61%	82.40%	77.59%	81.73%	80.57%	88.55%

These data bolster NCUA's long-held view that the ***common bond limitation is the overriding factor that impacts membership demographics*****.** The common bond constraint, imposed by statute, limits NCUA's flexibility relative to FOM policies. As a result, the ability of FCUs to serve groups not included in the traditional membership base is also limited.

Importantly, as noted earlier, CUMAA provides an opportunity for multiple common bond FCUs to expand into underserved areas. This increased flexibility offers a greater opportunity to reach individuals in a lower income range. This is reflected in Table 2 for those credit unions in MSAP that have adopted underserved areas.

Although NCUA initially developed policies based on its interpretation of CUMAA allowing the expansion into underserved areas by all charter types, a recent legal challenge from the American Bankers Association and others resulted in a regulation change, significantly curtailing this authority. The new policy permits underserved areas to be added only to multiple common bond FCUs.[19] This action results in single occupation, single association, and community common bond charters being restricted to offering service only to people within their respective membership base. Thus, the increased flexibility initially gained from CUMAA has been curtailed considerably, which will lessen the ability of FCUs to expand into underserved areas and provide service to lower-income individuals. Effectively, this action thwarts

[16] The data presented in this table apply only to FCUs included in MSAP, with the percentages representing the percent of total membership in each FCU charter type included in MSAP. This is discussed throughout the report.

[17] The FCU Act defines an underserved area as a local community, neighborhood, or rural district that is an "investment area" as defined in Section 103(16) of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. § 4703(16)). For example, an investment area can be an area in an MSA where the median family income is at or below 80 percent of the MSA's median family income or an area where the percentage living in poverty is at least 20 percent. The result of recent litigation forced NCUA to limit the addition of underserved areas to multiple common bond FCU charter types only.

[18] A credit union serving predominately low-income members may be designated as a low-income credit union. NCUA's Rules and Regulations defines the term "low-income members" as those members who: (1) make less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics; or (2) whose annual household income falls at or below 80 percent of the median household income for the nation as established by the U.S. Census Bureau. See 12 C.F.R. § 701.34.

[19] 12 C.F.R. § 701.1 (as amended); Interpretive Ruling and Policy Statement (IRPS) IRPS 03-1, Chapter 3, Section III.A (as amended by IRPS 06-1).

congressional intent to increase FCU service to lower income individuals and groups, and can only be reinstated through legislation.

The data also highlight the challenges FCUs face when converting charter types to better reflect their new common bond. This is particularly true when converting to a community charter base or when adding underserved areas. It is unrealistic to expect that a new community charter can immediately change its membership profile, particularly when the nucleus of the new community charter remains occupational and/or associational. Expanding to a community base from an occupational or associational base requires a considerable period of time to effect meaningful membership profiles.

As shown in Table 3, those community credit unions in MSAP operating as community charters for more than five years serve a greater portion of membership earning less than the median family income for their respective MSA. Specifically, for those community credit unions in operation more than five years, 51 percent of the membership earns less than the median family income, while 47 percent of the membership earns less than the median family income for those in operation five years or less.

Table 3

Observation of Membership Income Characteristics Median = 100% of MFI[20]		
	Below the Median	**Above the Median**
Community (>5yrs)	51%	49%
Community (<=5yrs)	47%	53%

This observation pertaining to community charters is especially noteworthy given the recent increase of conversions to community charters from single and multiple common bond. Although many of these conversions were due to industry restructuring and consolidation, they represent a significant new potential to provide financial services to those below the median family income. As Table 4 illustrates, less than 9 percent of FCUs were community charters in 2000. By the end of 2005 almost 21 percent of FCUs were community charters.

Table 4

Year End	Number of Federal Community Charters	Percent of Federal Charters	Number of Federal Charters
2000	517	8.5%	6,079
2001	781	12.8%	6,115
2002	854	14.3%	5,953
2003	986	17.1%	5,776
2004	1,051	18.9%	5,572
2005	1,115	20.7%	5,393

[20] The data presented in this table apply only to FCUs included in MSAP. This is discussed throughout the report.

As a part of MSAP, NCUA collected data on the type of member services offered to their membership. Generally, FCUs are providing a broad range of financial services consistent with the diverse membership they serve. Importantly, more than 83 percent of those FCUs offering share drafts[21] or Automated Teller Machines (ATMs) provide these services free to their members. Similarly, 60 percent of FCUs offer financial counseling.

As an adjunct to MSAP, NCUA collected information on the total compensation provided to the executive staff of the average FCU.[22] Although NCUA examiners review FCU staff compensation within the context of the safety and soundness examinations, the data were collected to address the questions raised by the House Ways and Means Committee and GAO concerning executive compensation on a systemic basis. Executive salaries are established by a volunteer board of directors elected by the membership. The data collected show the average 2005 compensation of the chief executive officer (CEO) [23] in the average FCU to be $77,490, with median compensation of $58,860.

Sixty-six percent of FCUs had total CEO compensation of $75,000 or less, while 80 percent had total CEO compensation of $100,000 or less.

Summary

Since 1934, FCUs have been defined, in large part, by whom they can serve. This characteristic creates an inherent conflict between the statutory FOM requirements and the congressional intent to reach out to underserved individuals and groups. The tension between the FOM requirement and the congressional expectation has been difficult to reconcile.

Overall, FCUs are serving those they are chartered to serve. MSAP data suggest that FCUs are also making progress in achieving congressional intent. This is most evident in those FCUs that have added underserved groups, are low-income designated, or who serve a community base. These trends are encouraging and consistent with expectations that broader and more diverse FOMs will create new opportunities to serve lower-income individuals and groups.

Additionally, MSAP provides a clearer picture of the membership profile for the average FCU. This membership profile is consistent with the fact that approximately 80 percent of FCUs still have a limited occupational or associational base, which is reflective of working individuals.

[21] Share drafts are equivalent to bank checking accounts but are designed to recognize the unique nature of credit union member ownership.

[22] MSAP defined compensation as salary and benefits. Examiners analyzed Year 2005 IRS Forms W-2 and 1099 to obtain the information.

[23] The term CEO is a recent phenomenon for FCUs. Prior to a change in title designation in the early 1990s, the term mostly used by FCUs for the individual responsible for oversight of operational staff was the term “manager.” In a FCU with all-volunteer staff, the Treasurer on the board is generally responsible for operational oversight and therefore would not be considered a chief executive officer.

Chapter II -- Federal Credit Unions (FCU) in Historical Context

Achieving an understanding of MSAP data requires a historical insight into the legislative framework in which FCUs have operated. Critical to this understanding is an appreciation for the conflict inherent in the statutory constraint on whom FCUs can serve, and the congressional expectation on whom they should serve: that is, their mission to provide services to all persons, including those of small or modest means, and the constraint that limits their service to those persons sharing a common bond of occupation, association or community. Reconciling how these concepts work together and how they have evolved and changed with time necessitates a full consideration of the historical context, the evolving demographics of the United States economy, and the meaning inherent in the statutory language. Additionally, integral to the analyses is an awareness of the cooperative, not-for-profit, democratic structure of FCUs. These unique characteristics must be considered in conjunction with membership profile data and the limitations on whom FCUs can serve before assessing any public policy consideration of the status of FCUs, those who benefit from their services, and their impact on the financial sector.

Timeline of Credit Union Development in the United States

Date	Event
1909	The first credit union in the United States is established in New Hampshire; State of Massachusetts enacts the Massachusetts Credit Union Act.
1917	The U.S. Attorney General issues opinion confirming credit unions, as cooperatives, are exempt from federal income taxes.
1934	Congress passes FCU Act, and establishes regulatory oversight of FCUs in the Farm Credit Administration.
1937	Congress amends FCU Act that expressly exempts FCUs from federal and state income tax.
1941	President Roosevelt issues an Executive Order transferring FCU oversight to the Federal Deposit Insurance Corporation (FDIC).
1949	Congress transfers the oversight of FCUs to the Federal Security Agency (FSA) and establishes the Bureau of Federal Credit Unions (BFCU).
1951	Revenue Act of 1951 expressly designates, for the first time, state credit unions as exempt from federal income taxes.

Date	Event
1956	BFCU (under FSA), commissions a study to assess the objectives and principles guiding the FCU program.
1960s	BFCU, together with the Office of Economic Opportunity (OEO), charters FCUs focused on bringing cooperative financial principles to the impoverished.
1970	Congress creates NCUA, the National Credit Union Share Insurance Fund (NCUSIF) providing federal insurance for member shares, and the low-income designated credit union program.
1979	Congress creates the Community Development Revolving Loan Fund (CDRLF), to provide low interest loans and grants to low-income designated credit unions.
1982	NCUA uses its regulatory authority to permit the "multiple common bond" charter for federal credit unions.
1998	Supreme Court rules multiple common bond credit unions are not authorized by the FCU Act. In response to the Court's ruling, Congress passes CUMAA.

Principal FCU Characteristics

The preamble to the FCU Act of 1934 describes the mission Congress intended in creating the FCU system: "to make more available to people of small means credit for provident and productive purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."[24] The FCU Act prescribed the structure of the institutions charged with accomplishing this objective and included the following requirements and limitations:

- Democratically controlled, with each member having one vote. Each member is an equal owner regardless of the dollar amount of shares owned.
- Managed by a volunteer board of directors elected by and from the membership.
- Not-for-profit, designed to provide a safe, convenient place for members to receive prudent and productive financial services.
- ***Limited to serving people within a defined FOM based on a common bond of employment, association, or community.***

Each of these structural limitations, designed to assure the successful accomplishment of the mission, survives and is exhibited in today's FCU system. For present purposes, the most significant is the common bond limitation.

[24] Pub. L. No. 467, c. 750, 48 Stat. 1216 (June 26, 1934).

Rationale and History of the Common Bond

A review of legislative history leading to the enactment of the FCU Act shows that the principle of common bond was both consciously adopted and intended specifically to contribute to the success of the credit union movement. The express notion was that individuals sharing some common interest or other characteristic would be more likely to work together to make the credit union succeed. In the same vein, such persons would be more inclined to fulfill their financial obligations to the institution if they knew that failure to repay a loan would potentially cause harm to others with whom they worked or associated.

Limiting membership to individuals who share some distinct, objective common bond is not typical of most cooperative societies. It is, however, a principal feature of all FCUs, and most, if not all, state credit union statutes incorporate similar constraints. In testimony before the Senate Banking and Currency committee in 1933, Roy Bergengren, a founder of the North American credit union movement, explained the significance and practical importance of this feature in enabling many credit unions to survive without loan losses during some of the most difficult financial times ever seen in the United States:

> *We have been through these 3 years of terrible and trying time with no very serious loss in our small-loan business. . . . That the determination of whether the man shall have that loan or not is such a personal matter that if he withdraws from the group and goes off yonder somewhere, he is supposed to withdraw from the credit union, because it is too difficult to follow him. They predicate so much on their personal knowledge of the man that if he withdraws from the sphere of operation of the union, they appreciate that they cannot continue thereafter to have that personal knowledge of his which they need.*[25]

Statements and observations like these led directly to the enactment of the common bond constraints that characterize the FCU Act.[26]

Today, participation in FCUs remains restricted to persons who share a common bond:

- Single common bond charters limit credit union membership to individuals who qualify under discrete, relatively narrow criteria. A single common bond can be classified as occupational or associational.
    - Occupational common bonds relate to employment, including employees of schools, textile plants, government, automobile manufacturers, or the military.

[25] *Credit Unions:* Hearing before the Subcommittee of the Senate Committee on Banking and Currency, 73d Cong. 35 (1933) (statement of Roy Bergengren).

[26] 12 U.S.C. § 1759(b).

- Associational common bonds relate to participation in associations, including participants in professional societies, labor unions, and religious organizations.

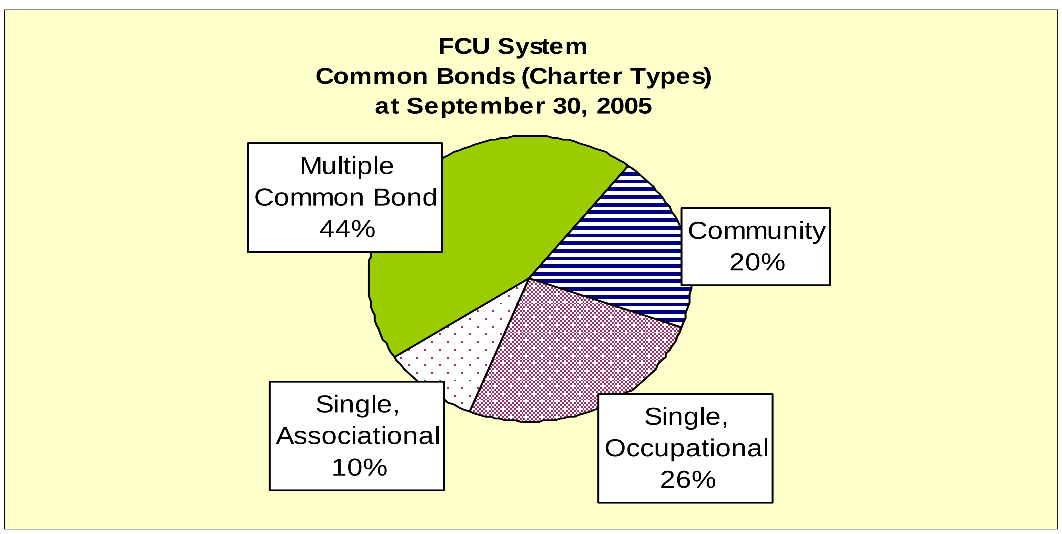
- Multiple common bond FCUs include two or more single common bond groups. They generally occur when a single common bond FCU elects to add a second single group to its field of membership. The majority of groups added to multiple common bond charters have been small businesses and associations, which would likely not have otherwise had credit union service. Since January 2000, multiple common bond FCUs added 75,969 groups. Of these, 66,921 groups (88 percent) had less than 200 people.

  - Absent multiple common bond authority, a group consisting of less than 200 people generally does not have an opportunity for FCU service since an FCU of this size is most often not viable.

- Community charters are based on a single, geographically-defined, local[27] community where individuals have common interests and/or interact. Some occupational and/or associational based FCUs converted to community charters to compensate for the closure of sponsors. For example, in Michigan, FCUs that originally provided service to the autoworkers converted to community charters when the automobile industry declined.

Chart 1 reflects the percent of FCUs by charter type at September 30, 2005.[28] Eighty percent of all FCUs still share a common bond of occupation or association.

Chart 1



[27] The term "local," in referring to community charters was introduced by CUMAA in 1998. Pub. L. No. 105-219, 112 Stat. 914 (codified at 12 U.S.C. § 1759(b)(3)).

[28] This date reflects the most current 5300 call report data available at the initiation of MSAP.

"Small Means" in Historical Context

In his 1933 Senate testimony, Roy Bergengren also explained the philosophy of Edward Filene in organizing credit unions and described the types of individuals who are the intended beneficiaries of credit unions and how they are served:

> *Also he [Filene] is establishing a plan whereby this small-loans evil, which is a terrible burden on the workingman and workingwoman and on small farmers, is being eliminated. And, above all, he is teaching people what dividends are, what interest is, what money is all about, how to manage it conservatively and for their own best interests. Mr. Filene's theory in financing the work is, I repeat, that he is thereby promoting the public good by developing thrift through the credit unions, solving the short-term credit problems of the workingman, the small business man, and the farmer, freeing them from the usurious money lenders, and teaching sound economic lessons at a time when such teaching is very essential*.[29]

At the time of the enactment of the FCU Act of 1934, demographics in the United States were such that the vast majority of citizens were working class, employed in blue collar, agricultural or service jobs that did not require higher education or training, but which typically paid enough for a single wage-earner to support his family in reasonable comfort. References to the working class were clearly understood to be references to this large group, which had been in part shunned by the commercial banking sector. Credit unions were established and were fully capable of existing as financial institutions devoted to discrete groups of these types of persons, with the classic example being the employees of a specifically identified manufacturing plant or factory. Collectively, these were the types of persons identified as "persons of small means." In its historical context, the term refers to working or employed individuals; persons who naturally comprise an FCU's intended membership.

During the formative years of the FCU system in the 1930s through the 1950s, a majority of FCUs chartered were based on an occupational FOM with membership comprised of the employees of the sponsoring organization. As reported in FDIC's 1941 Annual Report for Federal Credit Unions, of the 4,793 FCU charters issued since 1934, federal employee groups comprised the single largest category, with 392 FCUs. The other largest sponsoring organizations represented at this time were educational institutions, the petroleum industry, wholesale and retail stores, and railroads.[30]

In 1956, NCUA's predecessor, the Bureau of Federal Credit Unions (BFCU), commissioned a study by University of Notre Dame Economics Professor John T.

[29] *Credit Unions:* Hearing, supra at note 25.

[30] *Federal Credit Unions*, Annual Report on Operations, December 31, 1941, issued by the Federal Deposit Insurance Corporation, page I.

Croteau to assess the objectives and principles guiding the FCU program. BFCU posed eleven questions for Croteau to address in his study. Several of the questions asked are pertinent to MSAP now conducted by NCUA, including whether credit unions had departed from their original purpose.[31]

In his summary of findings, Croteau described persons traditionally served by credit unions. He stated:

> *[T]he credit union serves the American consumer, not the rich nor the very poor, especially during the difficult years of the family life cycle. It was this class of working people that the Federal credit union was designed to serve – people of 'small means' in the archaic terminology of the Federal Credit Union Act.*[32]

Croteau concluded that his study should serve to clear up what was then a popular misunderstanding, i.e., that credit unions were designed to serve, almost exclusively, the lowest income classes. His study highlighted that FCU fields of membership consist primarily of members of the middle-income classes rather than the lowest classes.[33]

Common Bond and Small Means – Historical Complements

As previously stated, the FCU system was created as a vehicle to provide credit for provident and productive purposes to people of small means. Although the term "small means" was not defined, as outlined above, it was understood to be a reference to the working class. By design, FCUs were organized around the principle of common bond, which typically took the form of employees of a specific employer or members of specific, discrete organizations, most commonly a labor union. Though typically not wealthy, FCU members were almost always employed. The arrangement worked very well, with both the institutions and their members gaining in prosperity, partaking in the post-war growth of the great American middle class. Throughout this time, the constraint reflected by the common bond served as an organizing principle by which groups of working class individuals (people of small means) established credit unions. In a very real sense, the reference to persons of small means was simply a shorthand reference to a credit union's natural constituency. In this regard, the concepts are complementary and mutually supportive.

Congress Enhances FCU Outreach to Low Income and Underserved

By the 1960s, it became increasingly apparent that a significant portion of America's population had somehow missed the economic benefits associated with the rise of the middle class. Since inception, however, there have been a small number of "de

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[31] Study of the Basic Objectives and the Principles Guiding the Federal Credit Union Program, John T. Croteau's transmittal memo to Mr. J. Deane Gannon, Director, Bureau of Federal Credit Unions, August 31, 1956, page VIII-28.

[32] Id. at I-1

[33] Id.

facto" limited-income credit unions, built around a membership of migratory laborers, low-income workers, etc.[34] By and large, the credit union establishment in the United States was not geared toward relief of the lowest income classes. Beginning around the mid-1960s, a deliberate effort was made to use the credit union concept and structure to affirmatively address the problems of poor persons living in America. BFCU, acting in concert with the Office of Economic Opportunity (OEO), chartered hundreds of credit unions in the 1960s focused on bringing cooperative financial principles to low-income individuals.

Importantly, by law FCUs were still constrained by FOM and common bond restrictions and existing credit unions were not expected to (indeed, were not able to) reach out to specific groups of low-income individuals under their existing charters. As explained in a 1969 survey by the Urban Coalition, such an outreach under then-prevailing rules was impractical:

> *The more affluent, existing Federal credit unions often did not meet the needs of the very limited income groups due to location and/or job-related membership requirements, among other factors.*[35]

Accordingly, the approach taken was to charter credit unions specifically to serve low-income groups (as opposed to an effort to graft such groups onto existing charters). This avoided any conflict with the statutory constraints governing FOM.

Representative chartering decisions from that era include credit unions devoted to serving residents of specific low-income neighborhoods and credit unions chartered to support members of associations or other groups comprised of low-income individuals. BFCU also sponsored consumer education programs to supplement and support the newly chartered institutions and their membership, such as Project Moneywise, funded through grants from OEO. The program consisted of a series of training classes that were provided in 1966 to local leaders in limited-income areas. The reported objective of this program was "to provide the participants with the expertise necessary for the successful operation and management of credit unions in their local communities."[36]

In all, BFCU chartered approximately 700 low-income FCUs through these poverty initiatives. By 1969, it was evident these initiatives would not achieve the anticipated results. FCUs established in low-income areas, solely dependent on self-generated capital, proved less viable as a cooperative structure. Virtually all were closed or merged out of existence.[37] This experience demonstrated the difficulty of sustaining

[34] *Consumer Credit and the Low Income Consumer*, A Study of Selected Activities by Commercial Banks, Credit Unions and Retailers to Make Consumer Credit, Consumer Counseling and Consumer Education Available to Low Income Persons, Prepared for The Urban Coalition, Researched and Written by: William G. Kaye & Associates, November 1969, page 28.

[35] Id.

[36] Id. at 2.

[37] Of the initial 700 of these credit unions, less than twenty remain in existence today.

a credit union structure in which the membership consists exclusively of low-income individuals. It also demonstrated a financially diverse membership provided a much better opportunity for continued success.

Congressional Action Resulting in Low-Income Designation for Eligible FCUs

The failed BFCU/OEO initiative led directly to the enactment of legislation in 1970 that provided a new approach to creating a low-income credit union program, one that continues in an evolved form to this day. On May 27, 1969, Senator Hugh Scott of Pennsylvania, along with several other prominent co-sponsors, introduced S. 2259, "to Establish Credit Unions in Low-Income Areas." As Senator Scott stated, the purpose of the bill was to:

> *[E]ncourage saving and provide access to credit for low-income persons, and to bring consumer education into poverty areas. Although my bill will permit the poor to expand their incomes, it is not a welfare proposal. It opens the door to the poor – who want more money and credit – to help themselves*.[38]

Senator Scott's bill was incorporated into another bill (S. 3822), which subsequently was enacted in 1970 as an amendment to the FCU Act.[39] This 1970 amendment marked the beginning of a separation of the perceived expectations about whom credit unions can and should serve. It provided the context and limitations of low-income designated credit unions. For example, low-income designated credit unions can accept nonmember deposits to ensure an adequate deposit base. For the purpose of implementing the amendment, Congress specifically directed NCUA to define "low income." NCUA's definition of a low-income individual is one who earns less than either 80 percent of the average for all wage earners, as established by the Bureau of Labor Statistics, or whose household income is at or below 80 percent of the median household income[40] as established by the U.S. Census Bureau.[41] Since inception, the low-income designation for credit unions has been viewed and accepted as a subset of the broader "small means" characterization of FCU membership.

NCUA has administered the program devoted to the support of these credit unions for more than thirty years. As of December 31, 2005, there were 879 FCUs designated as low income. These credit unions represent 16.3 percent of the total

[38] 115 CONG. REC. S13997 (May 27, 1969)(statement of Sen. Scott).

[39] Pub. L. No. 91-468, 84 Stat. 994 (October 19, 1970).

[40] According to the U.S. Census Bureau, a household consists of all people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. The Year 2000 Census median household income was $41,994.

[41] See 12 C.F.R. § 701.34(a)(2). As originally implemented, NCUA's rule used 70% of national median household income as the relevant percentage indicator of "low income." The rule was changed to its current usage of 80% of national median household income in 1993.

number of FCUs and held $20.8 billion in assets, which is just over 5.5 percent of the total assets in the FCU system.

In 1979, Congress created the Community Development Revolving Loan Fund (CDRLF) to provide low interest loans and grants to low-income designated credit unions.[42] The creation of this fund recognized the financial assistance low-income designated credit unions required to be successful.

Other Consequences of Changing Demographics and Economic Evolution

Since 1934, dramatic changes in the overall economic environment in which credit unions must operate have occurred. These changes have required that credit unions adapt in order to meet the financial needs and expectations of their members. Specifically, in the last forty years, changing demographics in the United States were characterized both by the loss of numerous well-paying blue collar jobs in the manufacturing sector and an increasing disparity in the income range between persons in the working class and the upper class. Operational evolution can be seen at several levels, including the offering of a wider range of services to a more broadly defined FOM. Fundamentally, however, even though some FOMs are broader today, FCUs have adhered to and preserved the integrity of both the common bond and their cooperative structure, which is reflected in regulatory policies. In addition, the types of services FCUs now increasingly offer have changed. As with the common bond, FCUs have found it necessary to adapt in order to meet member expectations and demand for products and services.

These changes in the overall economy and demographic makeup of the United States have required that NCUA make adjustments to its own policies vis-à-vis the system it regulates. In 1982, driven by the need to safeguard the NCUSIF and to handle the resolution of failing single common bond FCUs, NCUA authorized the establishment of multiple common bond FCUs. NCUA Interpretative Ruling and Policy Statement (IRPS) 82-3 established that multiple common bond FCUs could be created through: (1) the addition of new, but different common bond groups to a single common bond credit union; and (2) through the merger of occupational credit unions into other occupational credit unions, new charters, amendment or conversion.

Credit Union Membership Access Act (CUMAA)

The policy reflected in IRPS 82-3, although primarily designed to assure the continued viability of FCUs confronting dramatic change in the economic landscape, attracted opposition from the commercial banking sector. Litigation challenging the legitimacy of the policy was filed by banking interests and ultimately reached the U.S. Supreme Court. In 1998, the Court determined that NCUA's multiple common bond policy was not supportable by the FCU Act.[43] In reaction to the Court ruling,

[42] Pub. L. No. 96-124, 93 Stat. 927 (November 20, 1979).

[43] NCUA v. First National Bank & Trust Co., 522 U.S. 479 (1998).

Congress enacted CUMAA, partially reestablishing NCUA's Multiple Common Bond policy initiative.

CUMAA is also instructive as the most current reflection of the view of Congress with respect to the mission of FCUs. The term "modest means" was first introduced in proposed amendments to the FCU Act in 1998 describing the mission of credit unions. Although these amendments were not adopted in the final version of CUMAA, the House Report accompanying the proposed bill in describing the mission noted: ***"Section 204 reaffirms the continuing and affirmative obligation of insured credit unions to meet the financial services needs of persons of modest means, including those with low- and moderate-incomes, consistent with safe and sound operation."***[44]

The Senate Report followed a similar usage in referring to section 204 of the bill. In this reference, the Senate Report also discussed the calling of credit unions to serve the entire range of membership and to provide ***"affordable credit union services to all individuals of modest means, including those with low- and moderate-incomes, within the field of membership of such credit union.***"[45]

The important point to note is that these congressional views reflect the clear understanding that the term "modest means" indicates a meaning broader than individuals with low- and moderate-income, and those that meet the definition of modest means must be within the FOM. In this respect, the term, though not specifically defined, conforms explicitly with its earlier counterpart, "small means," as a shorthand reference to members of the broad American working class. The preamble to the bill ultimately enacted makes this connection clear:

> *The Congress finds the following: (1) The American credit union movement began as a cooperative effort to serve the productive and provident credit needs of individuals of modest means. (2) Credit unions continue to fulfill this public purpose … (4) Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because they are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means*.[46]

CUMAA served notice that outreach programs, of the type begun during the BFCU/OEO initiatives of the 1960s and the support for credit unions designated to serve low-income memberships commencing in the 1970s, should still continue. CUMAA authorized low-income designated credit unions to accept contributions of

[44] H.R. REP. NO. 105-472, at 22 (1998)(emphasis added).

[45] S. REP. NO. 105-193, at 11 (1998)(emphasis added).

[46] Pub. L. No. 105-219, §2, 112 Stat. 913 (August 7, 1998).

secondary capital and authorized those credit unions to obtain a waiver of the limitations that typically apply to FCU member business lending programs.[47] These new authorizations reflect a continued awareness by Congress that the low-income segment of the population is less financially capable, without assistance or special consideration, of supporting a credit union bound by the traditional constraints of common bond.

CUMAA also specifically authorized certain federal credit unions to add geographically based "underserved areas" to their fields of membership.[48] The concept reflects recognition that geographic areas exist in the United States that exhibit certain criteria, such as a declining population base or increasing rate of unemployment, that can result in diminished access by residents and businesses to financial products and services. Although the "underserved" designation is not strictly a function of income level of the residents, it is expected that over time broader demographic representation among the membership will occur in FCUs that have added underserved areas.

CUMAA partially reconciled the constraints of the working class common bond with the expectation that FCUs should more affirmatively reach out to individuals who are underserved or lack access to financial services. Specifically, CUMAA provided a mechanism by which certain, but not all, FCUs may fulfill that aspiration. It allowed multiple common bond FCUs to add members outside their traditional FOM, while preserving the overall integrity of the common bond principle. This change allowed such FCUs to provide valuable products and services to those who were otherwise excluded from membership. It also partially corrected the flaw that was exposed with the BFCU/OEO experiment by allowing for this outreach in the broader credit union sector, thereby avoiding the constraints and income limits inherent in the low-income designated credit union program.

In an effort to assure maximum ability to provide services to lower-income individuals, NCUA initially allowed all charter types of FCUs to add underserved areas to their FOM. Since the adoption of the law, 641 FCUs have added 1,414[49] underserved areas to their fields of membership. It is noteworthy, in this respect, that the banking sector has opposed NCUA's efforts to enhance or expand FCU outreach in underserved areas. Litigation filed by the American Bankers Association, the Utah Bankers Association and three Utah banks challenged that determination. In response to the litigation and after review of the underserved area policy, NCUA limited the ability to expand into underserved areas only to FCUs with multiple common bond charters, as explicitly authorized by CUMAA.

[47] 12 U.S.C. §§ 1757(6), and 1757a(b)(2)(A).

[48] 12 U.S.C. § 1759(c)(2).

[49] This number includes underserved areas adopted by Multiple Common Bond, Single Common Bond, and Community Charters through December 31, 2005. Prior to a moratorium issued by the NCUA Board in December 2005, formalized in June 2006 by IRPS 06-1, all charter types were authorized to adopt underserved areas.

Thus, NCUA's ability to provide greater flexibility for all FCUs to serve individuals outside their traditional membership base is now limited to only one charter type. This limitation appears to be a direct contradiction of congressional intent to reconcile the constraints of the working class common bond with the expectation that all FCUs should more affirmatively reach out to individuals who are underserved or lack access to financial services. This apparent conflict can only be corrected by Congress.

Outreach Initiatives by NCUA to Increase Service to the Underserved

Over the years NCUA, and its predecessor agency, initiated several programs focused on assisting low-income designated credit unions and on providing all credit unions with best practices to consider when converting to community charters or adding underserved areas.

Since 1987, NCUA has administered the CDRLF. This program, which is available to low-income designated credit unions, provides technical assistance grants and low-cost loans to those low-income designated credit unions interested in enhancing service to their membership.[50] Since inception, the CDRLF has granted 273 loans totaling $40.5 million, and 1,923 grants totaling $5.8 million.

In addition to the CDRLF, the Access Across America initiative, announced in February of 2002, incorporated the agency's activities for low-income designated and small credit unions, as well as FCUs expanding into underserved areas. The program has been designed to partner with federal government agencies and other organizations to identify and facilitate use of resources available for credit unions to assist in their efforts to serve individuals in underserved areas. Workshops continue to provide partnering opportunities with federal government agencies, as well as non-profit and private organizations. This initiative has resulted in NCUA entering into Memoranda of Agreement with the Internal Revenue Service, Operation Hope, and the Department of Agriculture, each of which committed to provide assistance in sharing opportunities with participating credit unions. Moreover, NCUA maintains good working relationships with the Department of Health and Human Services, Treasury Department's Community Development Financial Institution Fund, and Fannie Mae to provide opportunities for credit unions to expand the products and services particularly useful to those members with lower incomes.

As an adjunct to the Access Across America initiative, the Partnering and Leadership Successes program was introduced in 2003 to provide best practices in serving members and marketing to potential members in underserved areas and communities. The agency coordinated widely attended workshops where a mix of credit unions presented programs focused on serving those in the lower economic strata. A few of these programs included partnering opportunities with the

[50] NCUA Letter to Federal Credit Unions 02-FCU-06, *Credit Union Development Program & Activity* Report, April 2002.

Neighborhood Reinvestment Corporation, Latino outreach, and micro-business lending opportunities with the Small Business Administration.

In conjunction with these workshops, numerous Letters to Credit Unions have been published that augment the workshops, providing information to the credit union system about opportunities available to enhance service and marketing to individuals in underserved areas.[51] Two early examples of these letters include the February 2002 Letter to Federal Credit Unions, Letter No. 02-FCU-02 titled *Partnership Opportunities with IRS,* which introduced the credit union system to the Volunteer Income Tax Assistance program, and the September 2001 Letter to Federal Credit Unions, Letter No. 01-FCU-06 titled *Financial Education Curriculum,* which announced FDIC's new Money Smart Financial Education Curriculum.

The objective of NCUA's initiatives is to provide increased opportunities for FCUs to diversify their membership profile and to assist low-income designated and small credit unions as they manage their operations in accordance with ever increasing and complex laws and regulations. The ultimate objective is to increase the number of low-income individuals joining credit unions and receiving valuable, affordable services.

The above initiatives were in direct response to CUMAA. But these types of initiatives have long been a part of the regulatory fabric. There have been others, such as the OEO initiative, the drive to increase the number of low-income designated credit unions, and the regulatory encouragement to add underserved areas.

In 1993, NCUA created the Office of Community Development Credit Unions dedicated to ensuring the long-term viability of small and low-income designated credit unions. Today this activity is handled by the Office of Small Credit Union Initiatives (OSCUI), which has expanded considerably in terms of staff, resources, and programs.

OSCUI conducts regional and national training workshops on a variety of topics to help small and low-income designated credit unions to succeed. For example, for 2006 to date, OSCUI held fifteen national workshops covering subjects such as establishing financial literacy programs, disaster recovery planning, and compliance with the Bank Secrecy Act. In addition to the national workshops, OSCUI coordinates with NCUA's regional offices to conduct smaller roundtable training sessions focused on the needs of small and low-income designated credit union officials.

Summary

The FCU system was created to provide members of the working class, who were historically excluded from access to banks, with valuable financial products and services. These individuals, referred to as people of "small means" and later "modest

[51] NCUA Home Page – http://www.ncua.gov – Letters to Credit Unions, 2001 to 2005.

means," have always primarily been working or employed individuals, such as small business owners, entrepreneurs, blue collar workers in manufacturing jobs, laborers, employees in service positions, military personnel, members of labor unions and farmers. The system, characterized by membership constraints in the form of common bond requirements and a not-for-profit cooperative structure, succeeded. Although the FCU system has evolved to meet changing economic and demographic conditions in the United States, its success has not come at the expense of fidelity to its founding principles, which remain unchanged. As discussed in CUMAA, FCUs remain "member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors."[52]

CUMAA provided a mechanism by which multiple common bond FCUs may deliver their unique brand of financial services to individuals and families living in areas traditionally underserved by other financial institutions. Although this important authority only applies to multiple common bond FCUs, it nevertheless, will allow for expansion into underserved areas by 44 percent of FCUs. An expanded implementation of this authority will require further action by Congress. Also, conversions of single and multiple common bond FOMs to broader-based community charters are expected to enhance this outreach, since communities encompass a relatively more diverse income population than the more traditional membership base.

[52] Pub. L. No. 105-219, § 2(4), 112 Stat. 914 (August 7, 1998).

Chapter III -- Member Service Assessment Pilot Program (MSAP)

To assess FCU membership income distribution, NCUA staff analyzed 14 million member account records from 448 randomly selected FCUs. [53] MSAP provided statistically valid results for the entire FCU system, and for FCUs grouped by asset size (i.e., FCUs with less than $50 million in assets, and FCUs with greater than or equal to $50 million in assets). The data also enabled descriptive analyses[54] of different FCU charter types for a more in-depth understanding of the FCU system.

Income estimates were derived by matching member addresses with U.S. Census Bureau data. Rather than actual member income, MSAP used the Year 2000 median family income (MFI)[55] for each member's respective census tract[56] to estimate the membership income. Additionally, the data collection software compared the member's estimated income to the median family income of the local MSA as follows:

Estimated Membership Income Calculation

$$\frac{\textbf{Census Tract Year 2000 MFI}}{\textbf{Metropolitan Statistical Area's Year 2000 MFI}} = \textbf{Estimated Year 2000 Membership Income as a \% of the MSA's Median Family Income}$$

This methodology adjusted for the differences between salaries in high- and low-cost geographic areas. Fifteen percent of the member addresses analyzed were located outside the MSA boundaries. In these cases, the data collection software estimated the median family income by comparing the median family income of all non-MSA census tracts in the particular state. The estimated membership income calculation is similar whether the member address is within or outside the MSA boundaries. Therefore, for simplicity, the term MSA's median family income is used throughout

[53] *Fair Lending Wiz*, the third party software used to estimate FCU member median family income as a percent of the metropolitan statistical area in which the member resides, did not have the capability to aggregate multiple accounts for one member. Thus, income estimates are based on the number of share accounts rather than the number of members. The term "membership" is used interchangeably with member share accounts throughout this document. See Appendix 2 for additional information.

[54] Descriptive statistics focuses on collecting, summarizing, and presenting a set of data. Inferential statistics uses sample data to draw conclusions about a population. Berenson, supra note 12.

[55] According to the U.S. Census Bureau, a family is a group of two people or more related by birth, marriage, or adoption and residing together; and, the national median family income for the Year 2000 was $50,732. Median family income is also available and varies by metropolitan statistical area. The data in this report is based on Year 2000 U.S. Census Bureau figures with no inflation adjustment.

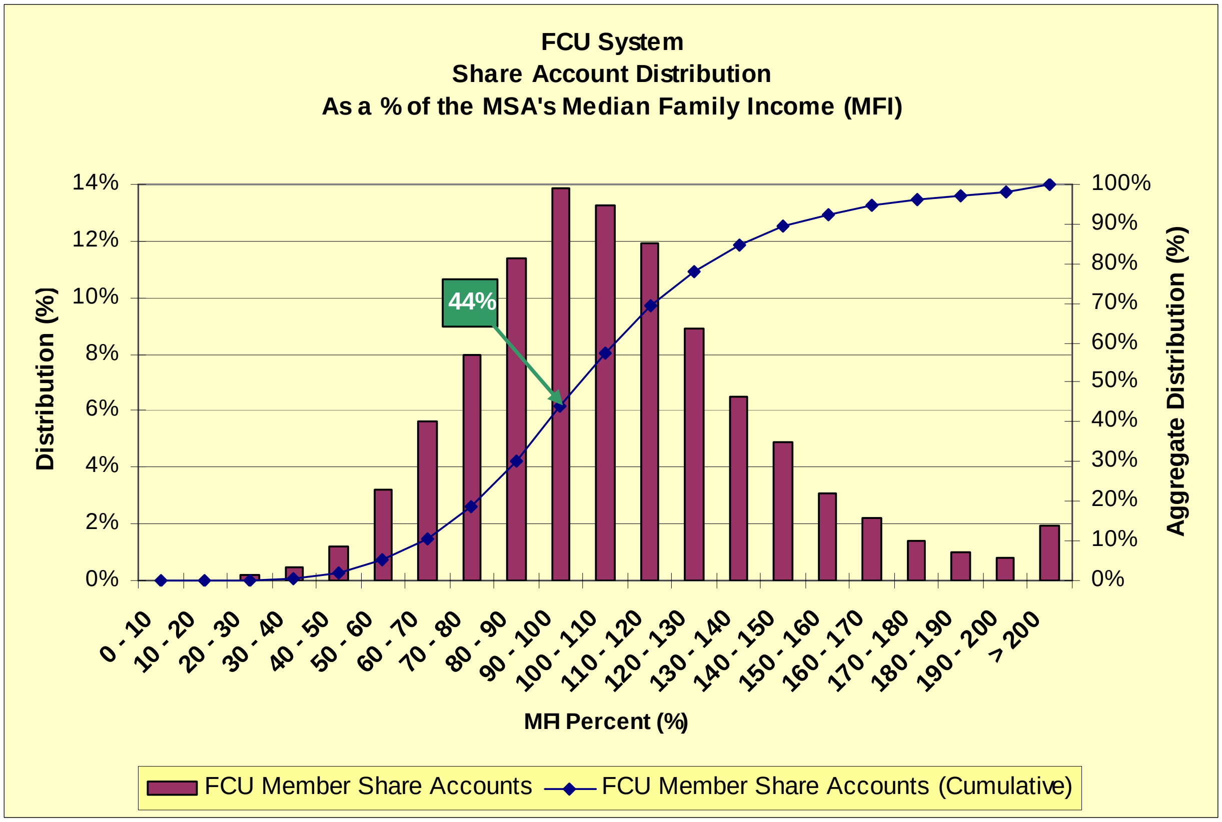
[56] Census tracts are small, relatively permanent statistical subdivisions of a county. Census tracts are designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions, census tracts average about 4,000 inhabitants.

this report. Appendix 2 contains a complete description of the data collection methodology.

MSAP Results

It is useful to analyze FCU membership income data in terms of the median.[57] For simplicity of discussion, 100 percent of the median family income for an MSA is hereafter referred to as the median. As shown in Chart 2, in the average FCU, 44 percent of the membership earns less than the median and 56 percent earns more than the median.

Chart 2



In Chart 2, FCU member income distribution is displayed in ranges of ten percent of the median family income for the applicable MSA. The columns represent the percent of FCU member share accounts within these income ranges. The line represents the cumulative percent of member share accounts within these income ranges. For example, about 14 percent of FCU membership earns between 90 and

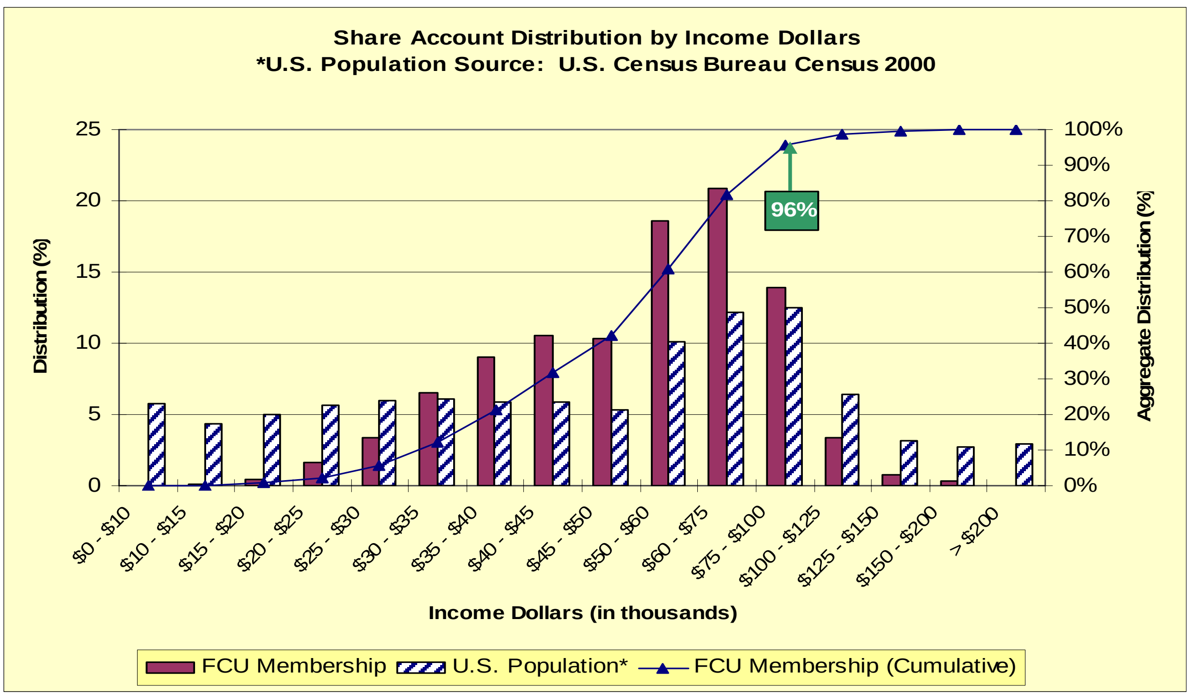
[57] Although other statistics were considered for the analyses, using medians allowed for a better description of the general tendency in the data. Use of averages, for example, may have skewed the results, as the data analyzed was not symmetrically distributed and was characterized by extreme values. As stated by Berenson, "a mean will be greatly affected by any value that is greatly different from the others in the data set. When you have such extreme values, you should avoid using the mean.... The median is not affected by extreme values, so you can use the median when extreme values are present." Medians are also commonly used by other governmental agencies, such as the U.S. Census Bureau, in their income analyses. Although the mode, like the median, is not affected by extreme values "you should use mode only for descriptive purposes as it is more variable from sample to sample than either the mean or the median…[o]ften there is no mode or there are several modes in a set of data. Berenson, supra note 12, at 73-76.

100 percent of the median family income for their MSA; while about 44 percent of FCU membership cumulatively earns less than 100 percent of the median family income for their MSA.

Income of FCU Membership Compared to the United States Population

Although MSAP results are reported in terms of the median family income as a percent of the MSA's median family income, to compare the data to the United States population, it had to be converted to income dollars. The U.S. Census Bureau analyzes the income distribution of the United States population in the income ranges provided in Chart 3. Thus, for purposes of comparison, the income of FCU membership is also displayed in these income ranges.

Chart 3



The solid columns represent the percent of the average FCU's membership within these income ranges. The striped columns represent the percent of the United States population in the same ranges. The line represents the aggregate distribution of the average FCU's membership within these income ranges. For example, about 9 percent of the membership in the average FCU earns $35,000 to $40,000 annually, while about 6 percent of the United States population falls in this income range. About 96 percent of the membership in the average FCU earns less than $100,000 annually, as compared to 85 percent of the United States population. The bulk of FCU membership (about 90 percent) earns between $30,000 and $100,000 annually.

Table 1[58] reflects the cumulative percent of membership in the average FCU earning less than the stated annual income ranges.

Table 1

FCU System Membership Income Distribution (Cumulative Percent)	
Median Family Income < $60,000	60%
Median Family Income < $75,000	82%
Median Family Income < $100,000	96%

In the average FCU, 60 percent of the membership earns less than $60,000 annually, about the same as the United States population in general.

FCU Membership Income Distribution Based on FCU Asset Size

As of September 30, 2005, FCUs with less than $50 million in assets comprised 80 percent of all FCUs. The sampling methodology used for this study allows for statistically valid conclusions for those FCUs with less than $50 million in assets, as well as those FCUs with assets of $50 million or more.

Table 5 displays the cumulative income distribution of the membership of an average FCU in ranges of 10 percent of the median family income for the applicable MSA. The column titled *All FCUs* represents the results for the FCU system collectively. Of the other two columns, the first represents the results for FCUs with assets less than $50 million and the second represents FCUs with assets $50 million or greater.

Table 5

Median Family Income (MFI) as a % of MSA MFI	FCU Membership Income Distribution (cumulative)		
	All FCUs	FCUs assets less than $50 million	FCUs assets $50 million and greater
< 70%	10.72%	10.96%	10.68%
< 80%	18.68%	19.00%	18.65%
< 90%	30.08%	31.55%	29.89%
< 100%	43.96%	49.35%	43.28%
< 110%	57.21%	64.49%	56.28%
< 120%	69.15%	77.08%	68.14%
<130%	78.07%	85.12%	77.17%

As shown, FCUs with less than $50 million in assets serve more members below the median than the FCU system as a whole while FCUs with at least $50 million in assets closely mirror the FCU system. The results for all FCUs are heavily influenced by the membership in FCUs with assets $50 million or greater, as these institutions served 79 percent of FCU membership as of September 30, 2005.

[58] Table 1 previously shown on page 7.

Chart 4 illustrates the income distribution of the membership of FCUs with assets less than $50 million (solid columns) compared to all FCUs (striped columns).

Chart 4

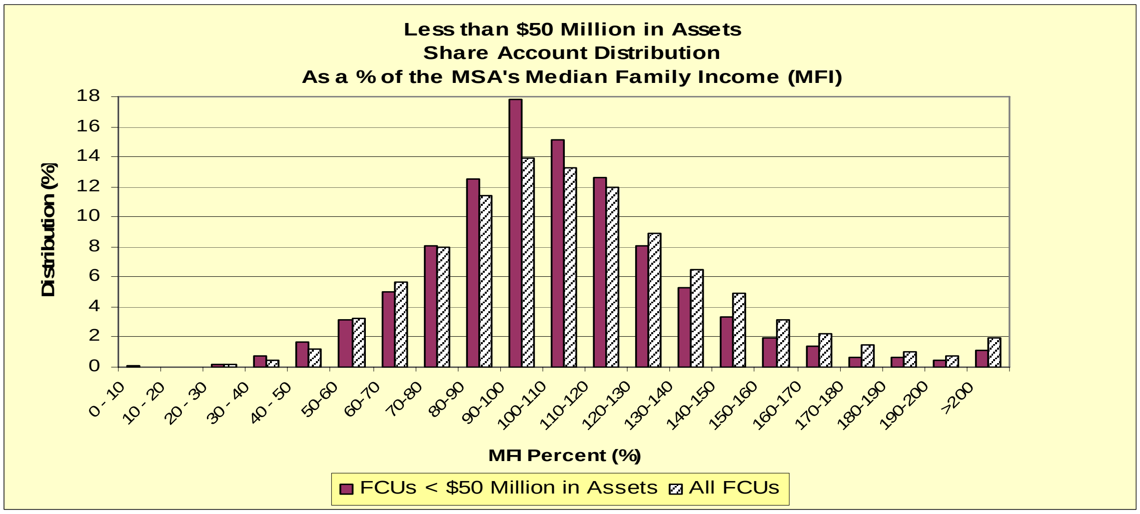
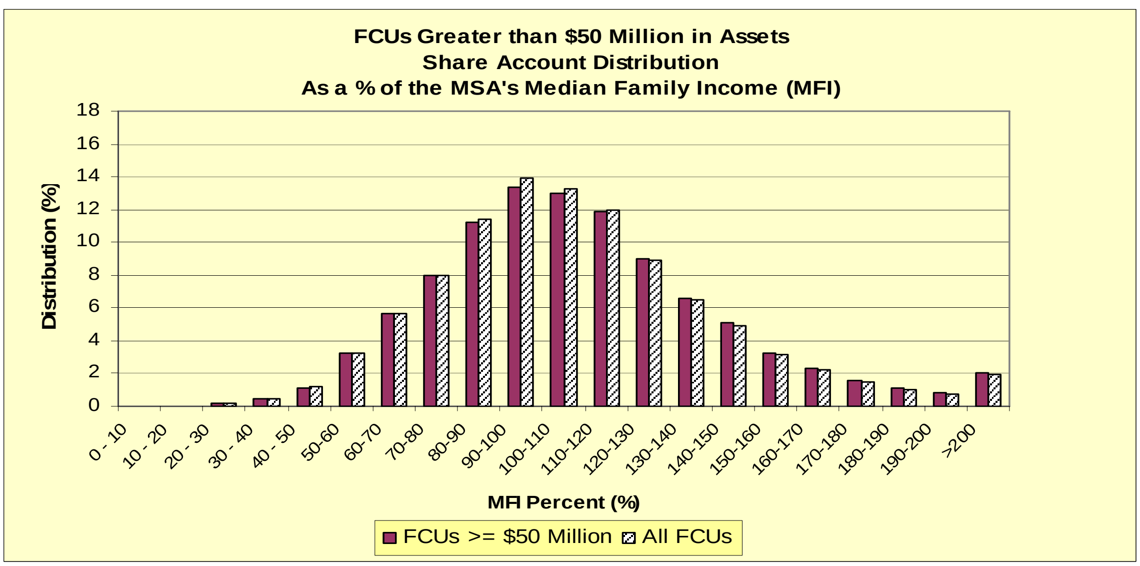


Chart 5 illustrates the income distribution of the members at FCUs with at least $50 million in assets (solid columns) compared to all FCUs (striped columns).

Chart 5



Descriptive Analyses

MSAP did not provide statistically-conclusive results for FCUs of different charter types and other characteristics. However, descriptive analyses, pertaining only to the 448 FCUs in the sample, can be performed to acquire a more in-depth understanding of the FCU system. Proportionality of the sample provided additional strength to the descriptive analyses performed.

FCU Membership Income Distribution by Charter Type

As shown in Table 6, the selected sample proportionally represented all FCU charter types at September 30, 2005.

Table 6

As of September 30, 2005				
	MSAP Sample		**All FCUs**	
Field of Membership Type	**Number**	**Percent**	**Number**	**Percent**
Single Association Common Bond	29	6%	530	10%
Single Occupation Common Bond	122	27%	1,399	26%
Multiple Common Bond	200	45%	2,426	44%
Community Common Bond Charter	97	22%	1,094	20%
Total	**448**	**100%**	**5,449**	**100%**

Table 7 displays the cumulative income distribution of the membership of an average FCU with various charter types and other characteristics in ranges of 10 percent of the median family income for the applicable MSA. The column titled *All FCUs* represents the results for the FCU system collectively. The four columns underneath the header *Field of Membership* represent observations by charter type. The two columns underneath the header *Other Characteristics* represent observations related to FCUs in the sample that had added underserved areas and those designated as low income.

Table 7

Median Family Income (MFI) as a % of MSA MFI	**Aggregate Percent of FCU Membership**[59]						
		Field of Membership (Charter)				**Other Characteristics**	
	All FCUs	Single Occupation Common Bond	Single Association Common Bond	Multiple Common Bond	Community Common Bond	Underserved Areas[60]	Low Income[61]
< 70%	10.72%	10.65%	10.63%	10.81%	10.73%	12.74%	11.62%
< 80%	18.68%	18.37%	14.17%	18.96%	19.13%	21.97%	21.08%
< 90%	30.08%	29.07%	26.74%	30.11%	32.34%	34.49%	41.03%
< 100%	43.96%	41.62%	40.04%	44.87%	47.78%	50.22%	61.21%
< 110%	57.21%	54.45%	56.95%	57.42%	62.81%	63.05%	77.36%
< 120%	69.15%	67.19%	72.16%	68.99%	73.48%	73.13%	85.72%
<130%	78.07%	76.61%	82.40%	77.59%	81.73%	80.57%	88.55%

MSAP Observations Based on Charter Type

- Single occupation FCUs serve a greater percentage of the membership below the median than the membership of single association FCUs; both single common bond charters serve a lower percentage of the membership below the median than the FCU system collectively.

[59] The data in "All FCU" column apply to the entire FCU system, while the rest of the data apply to FCUs in MSAP only. This is discussed throughout the report.

[60] See supra note 17.

[61] See supra note 18.

- Multiple common bond FCUs serve more of the membership with income below the median than the FCU system collectively and both types of single common bond FCUs.
- Community charter FCUs serve more of the membership with income below the median than all other charter types and the FCU system collectively.
- FCUs with underserved areas and low-income designated FCUs serve more of the membership with income below the median than the FCU system collectively.

Descriptive Analysis of Community Charters by Age

Reaching the membership of the community in all economic ranges is, in part, a function of time. Results are not immediate. Serving the needs of a community presents an opportunity and a challenge to management previously focused on serving occupational and/or associational groups. It takes time for the new business model to be understood and absorbed into the fabric of the new community charter.

Chart 6 compares the membership income ranges of MSAP community FCUs in existence more than five years (solid columns) and less than or equal to five years (striped columns). It shows that as an FCU operates as a community charter for an extended period, a greater percent of the membership has an median family income below the median. As an FCU with a community charter seasons, participation by the membership in all economic ranges increases.

Chart 6

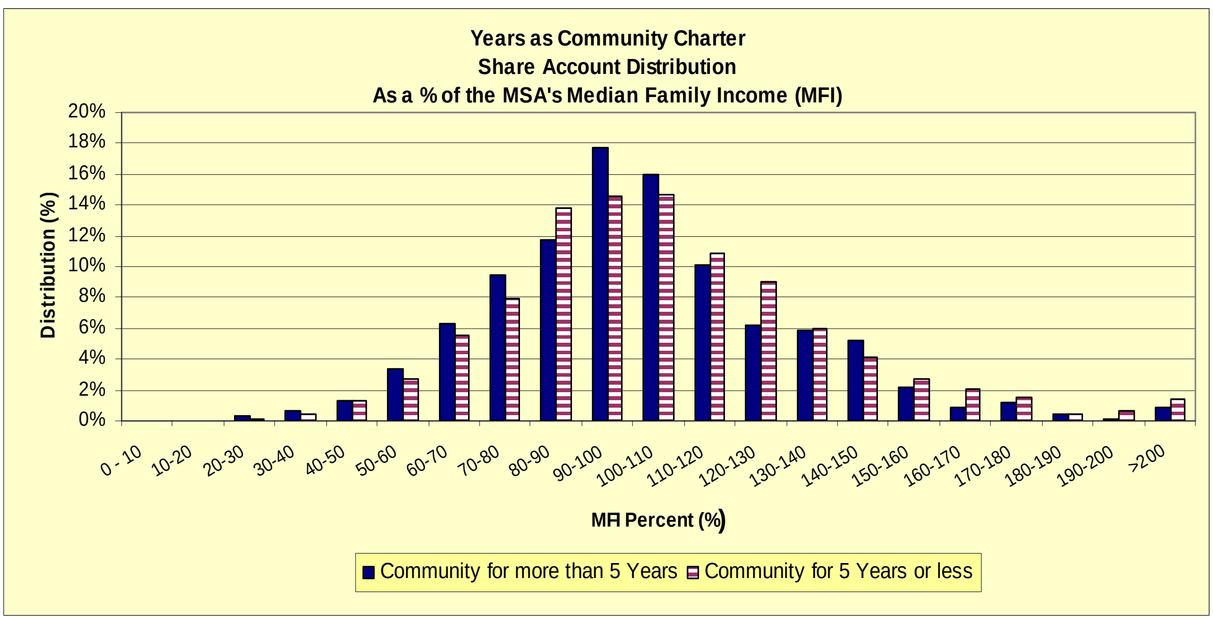


Table 3[62] compares the percent of the membership above and below the median for those FCUs which have operated with a community FOM longer than five years, and those operating with a community FOM for five years or less. MSAP sample included forty-two community FCUs that are more than five years old, and fifty-five community charters five years or less.

Table 3

Comparison of Community Charters Median = 100% of MFI		
	Below the Median	Above the Median
Community (>5yrs)	51%	49%
Community (<=5yrs)	47%	53%

As Table 3 illustrates, 51 percent of the membership in MSAP's community FOMs that have been in existence longer than five years earns less than the median, compared to 47 percent of the community FOMs in existence five years or less. These observations indicate that as community charters age, they become more successful in penetrating the potential membership at all economic ranges.

FCU Membership Income Distribution with Low-Income Designation or Less Restrictive FOM for Serving the Underserved

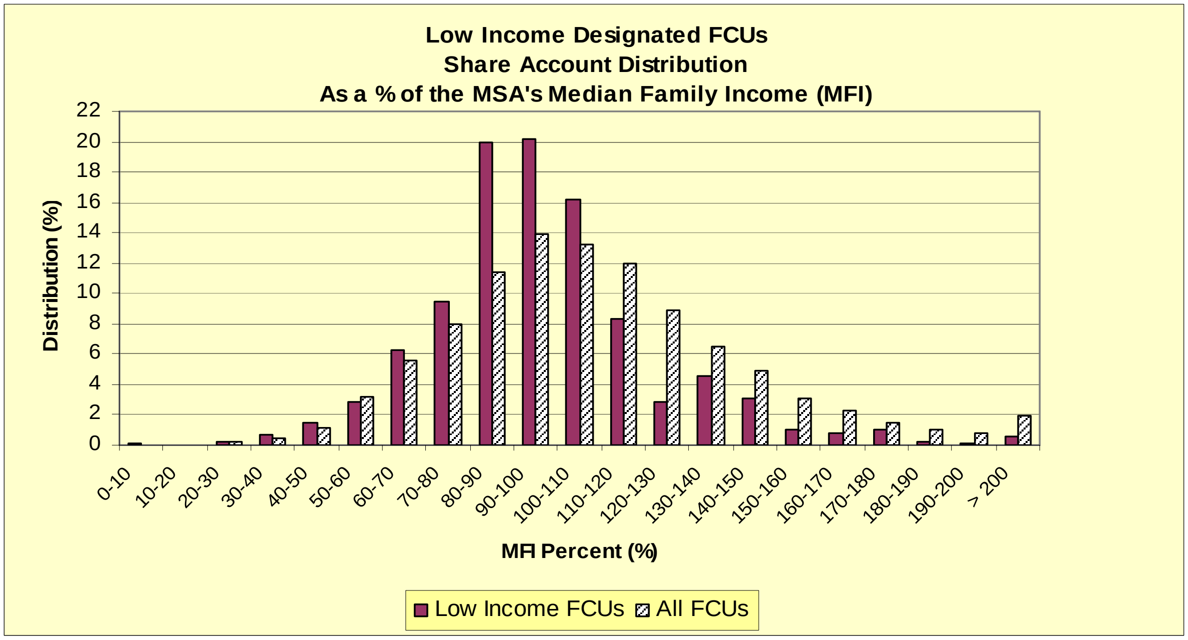
Analysis of Low-Income Designated FCUs

The data collection study included 69 low-income designated FCUs, or 16 percent of the total sample, proportionately representing the entire FCU system. Chart 7 displays the membership income ranges of FCUs with low-income designations[63] (solid columns) compared to membership income ranges of the FCU system collectively (striped columns).

[62] Table 3 previously shown on page 9.

[63] The results are not directly comparable to NCUA's definition of "low-income" in 12 C.F.R. § 701.34, because the income estimates are not based on the same U.S. Census data. In addition, § 701.34 includes adjustments for 11 high-cost geographic areas of the country that are not comparable to the MSA's median family income upon which the data collection results are based.

Chart 7



As Table 8 indicates, low-income designated FCUs in MSAP serve more of the membership in income ranges below the median and less of the membership in income ranges above the median than the FCU system collectively.

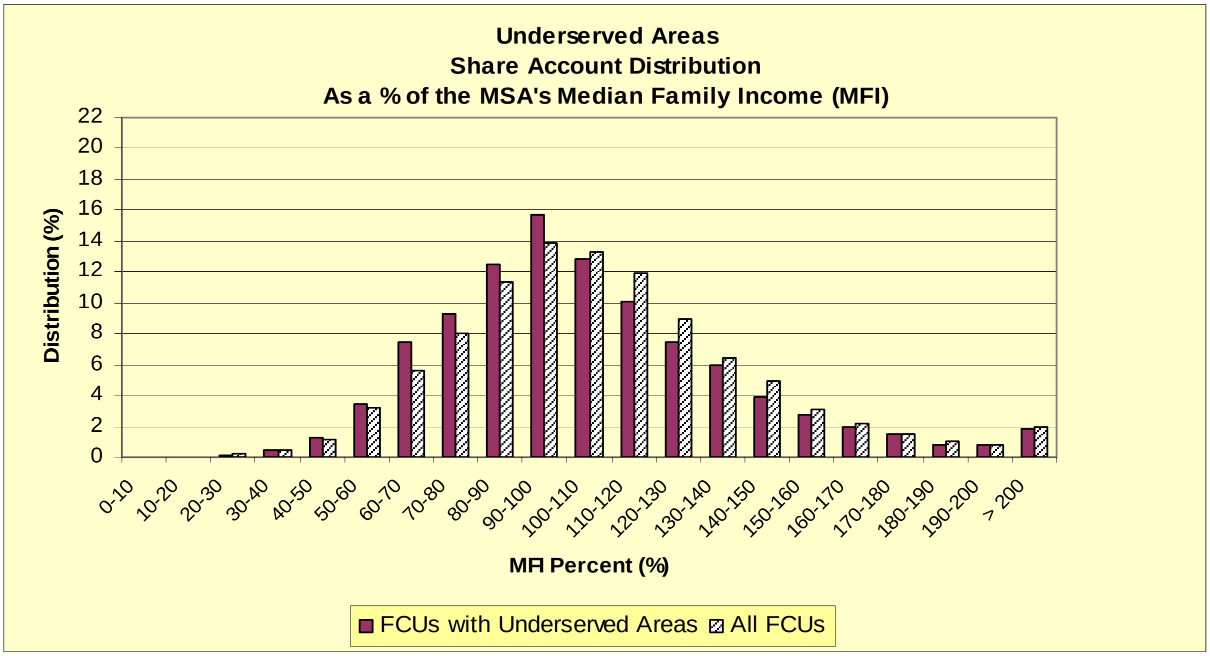
Table 8

Comparison of Low-Income Designated FCUs to All FCUs Median = 100% of MFI		
	Below the Median	**Above the Median**
Low Income	61%	39%
All FCUs	44%	56%

Analysis of FCUs with Underserved Areas

The data collection study included 102 FCUs, or 23 percent of the total sample, that had added underserved areas to their fields of membership, proportionately representing the entire FCU system. Chart 8 displays the income distribution of FCUs with underserved areas added to their field of membership (solid columns) compared to the FCU system collectively (striped columns).

Chart 8[64]



Similar to the low-income designated FCUs, as indicated in Table 9, FCUs in the sample with underserved areas serve more of the membership in income ranges below the median and less of the membership in income ranges above the median than the FCU system collectively.

Table 9

Comparison of Underserved Areas to All FCUs Median = 100% of MFI		
	Below the Median	**Above the Median**
Underserved Areas	50%	50%
All FCUs	44%	56%

Summary

FCUs predominately serve a membership with earnings in the range of $30,000 to $100,000 annually. With 80 percent of FCUs restricted by common bond of occupation and/or association, these results are consistent with a membership base comprised primarily of employed individuals. Furthermore, as the descriptive analyses indicate, the less restrictive community charters serve more of the membership earning less than the median than any other charter type. MSAP results also indicate community charters in existence greater than five years serve a higher percent of the membership earning below the median than those community charters less than or equal to five years in existence. Finally, FCUs in MSAP that added underserved areas, as well as those designated as low income, serve more of the membership earning less than the median than the FCU system collectively. For additional data results, refer to Appendix 1.

[64] See supra at note 49.

Chapter IV -- Services Federal Credit Unions Offer Their Membership

FCUs provide valuable services to participating members within their FOM, regardless of the membership income level. The service survey responses, collected as a part of MSAP, were received from 472[65] randomly selected FCUs, providing statistically valid results for the entire FCU system.

The survey answers are subjective, however, because they are based on the interpretations of NCUA examiners and FCU officials. During the interview process used to collect survey data, NCUA staff noted a lack of common language about service within the FCU system. For example, an FCU responded that it did not provide financial counseling due to a lack of a formal program. That FCU, however, provides members with guidance on how to improve credit scores, balance checkbooks, and set up personal budgets. In another example, an FCU stated that it did not offer formal student financial education. The same FCU provided financial education materials to schools in the local area, offered kids club accounts, and awarded student scholarships.

FCUs often do not track the member usage rate for each type of product and service offered. Therefore, the survey focused on specific services and the level of assistance provided among all FCUs.

Share Products and Services

The average minimum balance required to maintain a share draft (checking) account in the average FCU is $17, with both the median and the mode[66] at zero dollars. The most frequently reported amount required for FCU membership was $5.

As shown in Table 10, the majority of FCUs that offer share drafts, ATM, and bill pay services do not charge for these services. For example, on average 70 percent of FCUs offer share draft accounts. Of these FCUs, 83 percent offer these accounts free of charge. While 55 percent of FCUs provide ATM service, 83 percent of them offer this service free of charge. And, for FCUs that provide bill pay services, 81 percent offer this service free to the membership. Of FCUs offering these services, 70 percent or more had over $50 million in assets.

[65] See Appendix 3 for a copy of the survey.

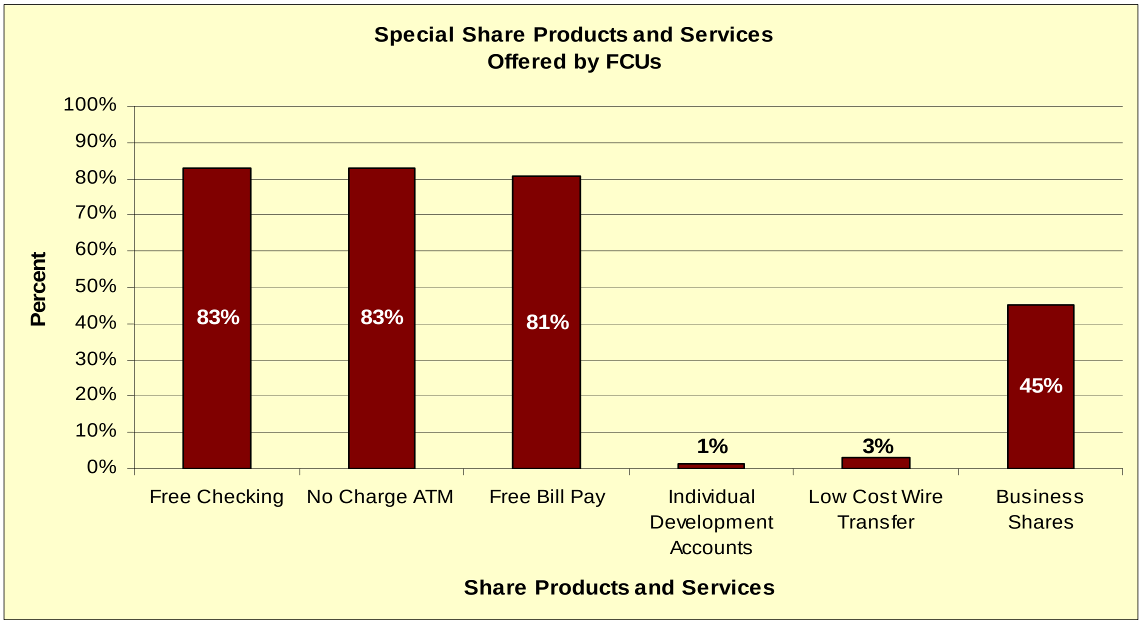
[66] The mode is the value in a set of data that appears most frequently. Berenson, supra note 12.

Table 10

Survey Question	Associated Product	Percent Offering
Free Checking	Share Drafts	83%
No Charge ATM	ATM Services	83%
Free Bill Pay	Bill Pay	81%

As shown in Chart 9, 45 percent of FCUs offer business share accounts, 3 percent offer low cost wire transfers, and 1 percent offer Individual Development Accounts (IDAs).[67]

Chart 9



Since the majority of FCUs lack international correspondent accounts, wire transfer services are usually offered through third parties, such as a local bank or corporate credit union. As a result, third party costs are passed to individual members requesting wire transfer services. This limits the ability of FCUs to offer low cost wire transfers. While FCUs may choose to offer IDAs to their members, these matched savings accounts can be labor intensive. In addition to tracking member contributions to IDAs, FCUs must locate a source for matched funds and complete any necessary paperwork. This may explain why only 1 percent of the responding FCUs choose to provide IDAs.

[67] IDAs are savings accounts established for lower income individuals. An IDA is used for a specific purpose such as education, purchasing a first home, or starting a business. Contracts are entered into between the lower income individuals and the financial institution, and savings are matched to a certain limit, by private or public funds, if the terms of the contract are met.

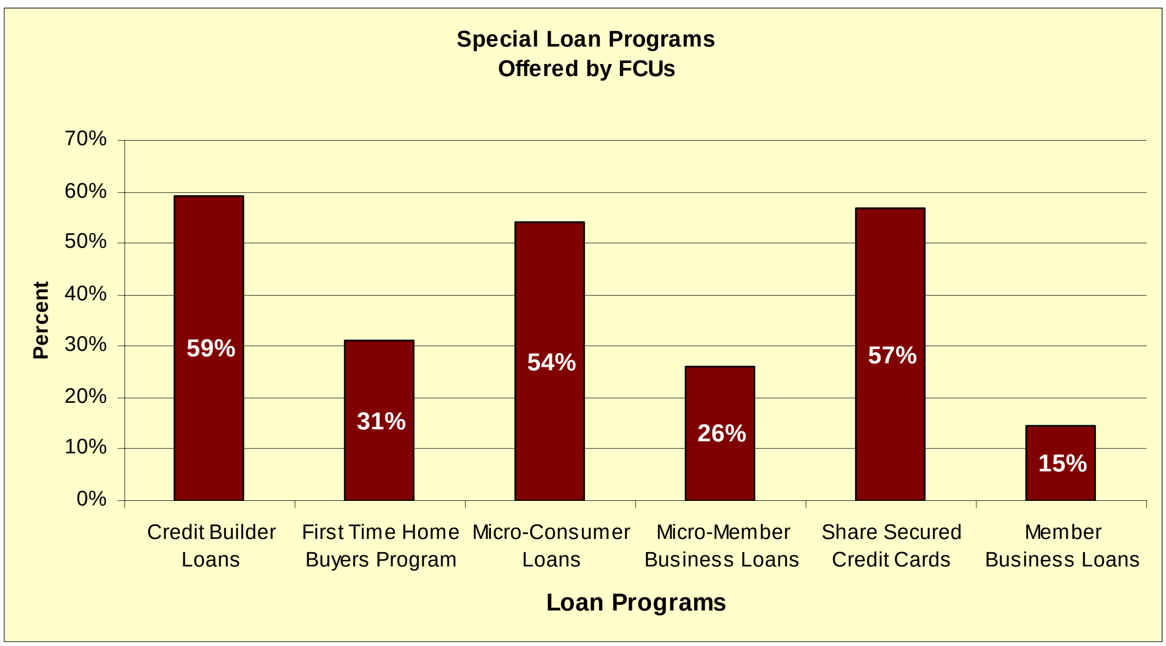
Loan Products and Services

Of the loan products included in the survey, the most frequently offered is the credit builder loan. On average, 59 percent of FCUs offer this type of loan. Credit builder loans are used to build a positive credit history, when a member has no credit history or a negative history.

Consumer loans of less than $500 are the second most offered product among FCUs. On average, 54 percent of FCUs make this loan product available to the membership. These micro-consumer loans may provide funds for an emergency or hardship, holiday/vacation, medical expense, or other purpose.

Chart 10 provides data on the other loan products included in the survey. Information about First Time Home Buyer Programs was compared to all FCUs offering real estate loans; on average, 66 percent of FCUs offer real estate loans. All other information is compared to all FCUs, as any FCU could choose to offer these types of loan products.

Chart 10

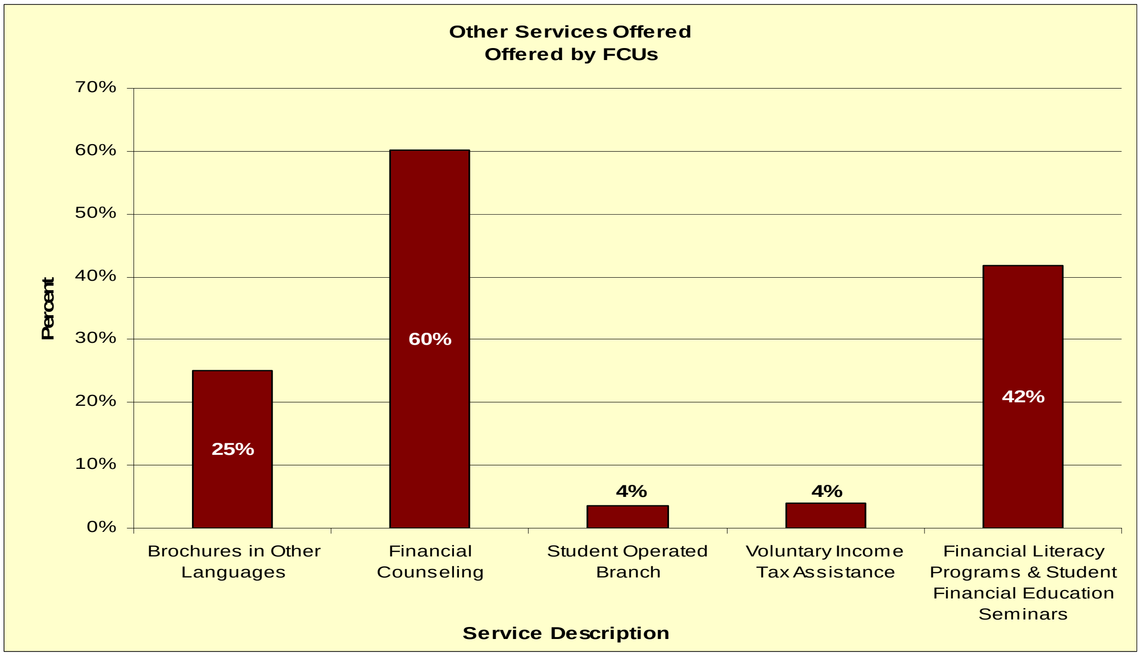


The smallest unsecured loan amount granted in the past year by the surveyed FCUs averaged $436. Likewise, the smallest secured loan amount granted in the past year averaged $1,048.

Other Services Offered

As shown in Chart 11, 42 percent of FCUs, on average, provide financial literacy programs (including programs focused on students), and 60 percent offer financial counseling. As discussed above, the information displayed in the following chart may understate the actual education and assistance provided to FCU membership. On average, only 4 percent of FCUs offer the Voluntary Income Tax Assistance Program (VITA). However, no FCU offered VITA five years ago. The VITA programs offer free tax preparation assistance, a service particularly beneficial to lower income members who may not otherwise realize the full amount of tax refunds due to them.

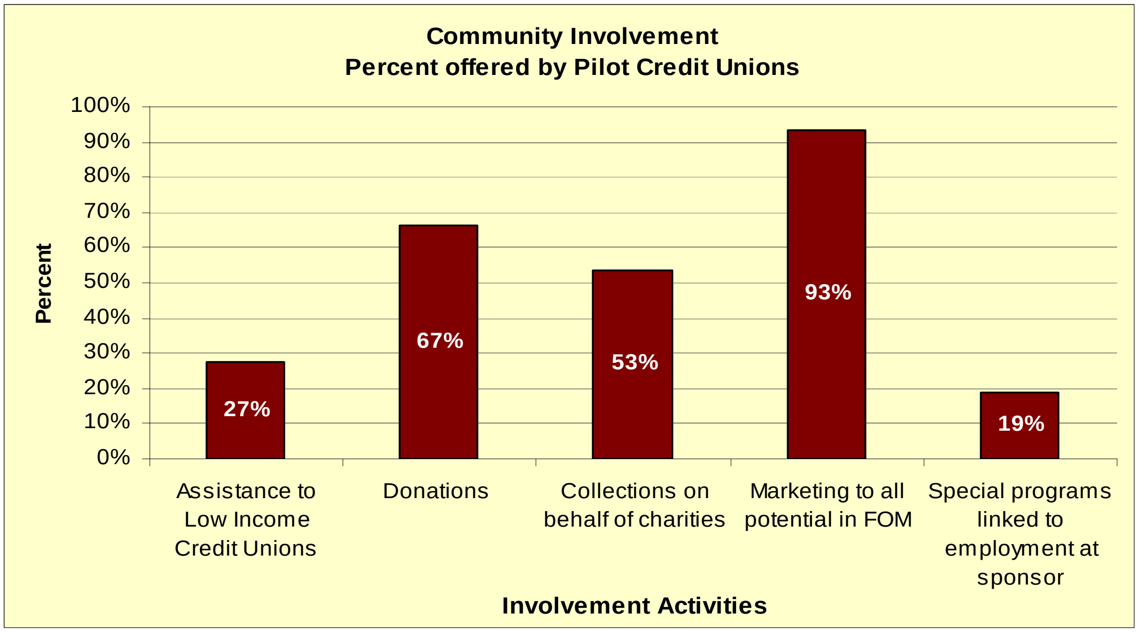
Chart 11



Community Involvement

As part of the survey NCUA asked questions regarding the FCU's involvement in its local community or field of membership. As shown in Chart 12, on average, 67 percent of FCUs surveyed donated funds to one or more charity organizations in their local community or field of membership. A little over half of the credit unions collected funds on behalf of charities. Nineteen percent of FCUs offer programs for employees of their sponsor organizations, such as uniform purchase programs. Finally, 27 percent of FCUs provide financial or operational assistance to low-income designated credit unions.

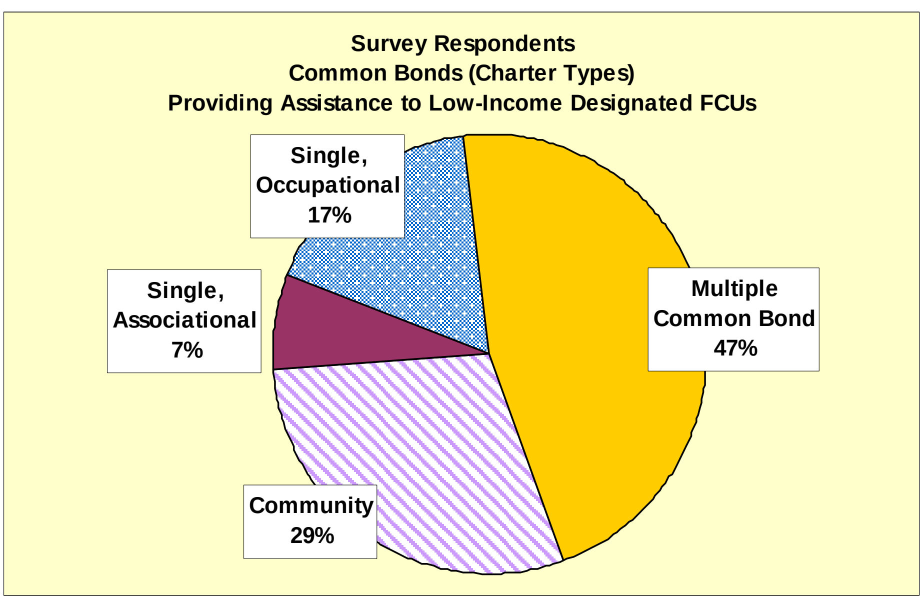
Chart 12



Note: Some FCUs responded that they were not marketing to their entire potential field of membership because they rely on word-of-mouth and do not have a formal marketing program.

Assistance is provided to low-income designated credit unions by a variety of FCUs within the system. Twenty-seven percent of FCUs provide financial or operational assistance to low-income designated credit unions, which can be FCUs or federally-insured state-chartered credit unions (FISCU). As shown in Chart 13, this type of assistance is provided by all charter types with community and multiple common bond FCUs being the most prevalent. Low-income designated FCUs receive significant assistance from the FCU system collectively.

Chart 13



Summary

FCUs offer a wide range of services that would particularly benefit those with lower incomes. On average, 82 percent of FCUs offer at least one of the following programs: credit builder loans, first time home buyer program, micro-consumer loans, micro-member business loans, and share secured credit cards.

As noted herein, experience has shown that FCUs established in low-income areas, solely dependent on self-generated capital, may face greater challenges than other FCUs. For example, the demand for loans and the operational service expected may not be supported by the shares deposited. The viability of low-income designated FCUs is enhanced through the cooperation and partnerships between credit unions, including the deposit of funds that often provides working capital at favorable rates.

Chapter V -- Executive Compensation

FCUs are not required to file IRS Form 990[68] and thus no database exists on executive compensation. To address questions posed by the House Ways and Means Committee and GAO, NCUA collected compensation information as an adjunct to MSAP. More specifically, NCUA collected information on the total compensation and benefits provided to the executive staff of those FCUs surveyed.[69]

FCUs are managed by a board of directors elected by and from the membership. The board is responsible for directing and controlling the affairs of the credit union and establishing policies and procedures for the conduct of credit union affairs. By statute, no member of the board may be compensated as such; however, an FCU may compensate one individual who serves as an officer of the board.[70]

The board selects management to carry out policies and procedures and monitor credit union performance. As stated, NCUA collected compensation and benefit information for senior executive staff. For the purpose of MSAP, senior executive staff included the chief executive officer, chief financial officer (CFO), and chief operating officer (COO). A general conclusion gained from the study is that FCUs do not always staff all three positions. In some cases, one executive officer is responsible for more than one position. In other cases, senior executive officers are not compensated, or are paid by the credit union's sponsor.

For this data collection, compensation is defined as salary and benefits, including deferred compensation, medical and health care payments, debt forgiven, awards or similar income, and rent and legal fees paid. Credit union executives are not eligible for stock options as part of their compensation packages as credit unions cannot issue stock. NCUA examiners obtained compensation data from IRS Forms W-2 and 1099 for calendar year 2005 and completed a standard survey (Appendix 3) for 472 randomly selected FCUs, providing statistically valid results for the entire FCU system. Additional descriptive analyses were performed to acquire a more in-depth understanding of executive compensation.

[68] FCUs are expressly exempt from income tax pursuant to the FCU Act. 12 U.S.C. § 1768. FCUs are also considered "federal instrumentalities," and thus, are also immune from taxation pursuant to the Supremacy Clause of the United States Constitution. U.S. CONST. art. VI, cl.2. Because of their status as federal instrumentalities exempt from taxation by an act of Congress, FCUs are classified by the Internal Revenue Code as 501(c)(1) tax exempt organizations. As a result of this classification, FCUs are not required to file IRS Form 990. IRS Form 990 is an informational filing required by the IRS for the majority of tax exempt organizations. Among other things, IRS Form 990 requires information regarding the compensation and benefits paid to a tax exempt organization's current officers, directors, trustees and key employees.

[69] Collection of this information via MSAP was also necessary because NCUA examiners focus on specific compensation data for senior staff or officials as it relates to safety and soundness. NCUA does not currently collect or aggregate executive compensation information for the entire FCU system.

[70] See 12 U.S.C. §§ 1761(c) and 1761a.

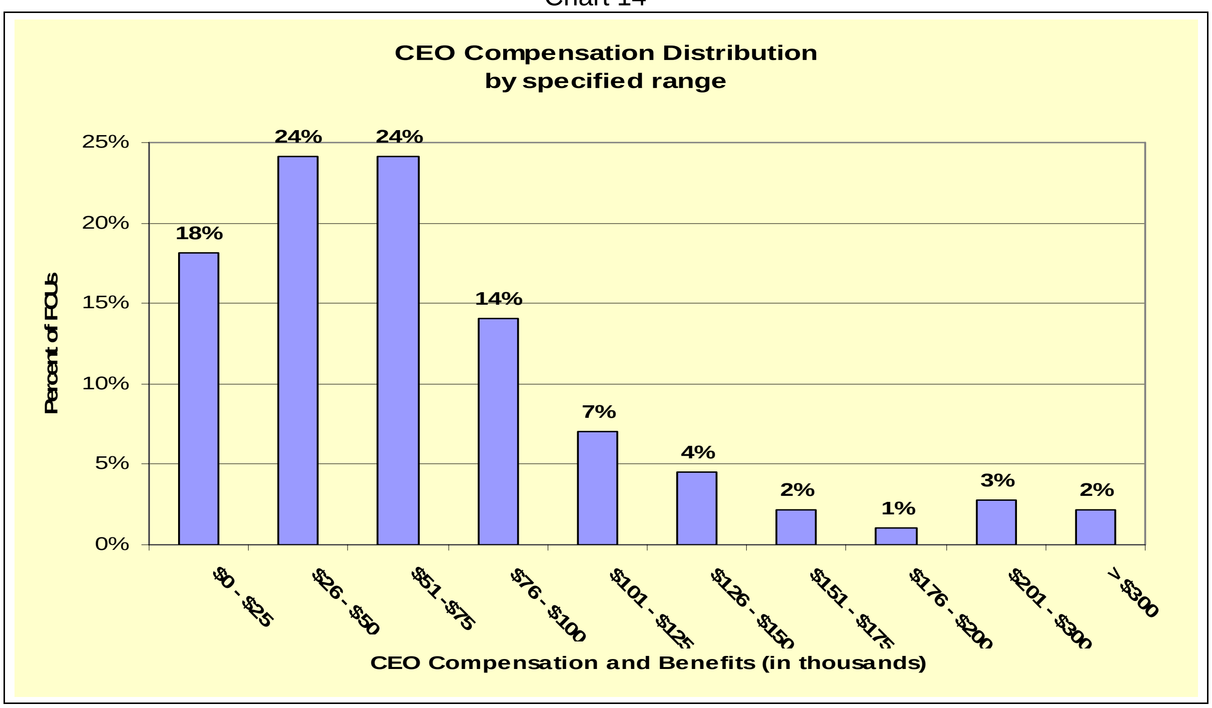
Chief Executive Officer Compensation[71]

The results of MSAP indicate, on average, about 95 percent of FCUs pay CEOs compensation, 4 percent of FCUs are operated entirely by volunteers, and in about 1 percent of FCUs the entire CEO compensation is paid by the credit union's sponsor.[72]

Including all CEO compensation types described above, the average FCU has median CEO compensation of $55,588 and average CEO compensation is $74,020. Excluding FCUs with no CEO compensation expense, the average FCU has median CEO compensation of $58,860 and average CEO compensation is $77,490.

The columns in Chart 14 represent the percent of FCUs, on average, with CEO compensation in specified income ranges. As shown, CEO compensation in 2005 was $75,000 or less in 66 percent of FCUs, and $100,000 or less in 80 percent of FCUs.

Chart 14[73]



Additional descriptive analyses, which apply only to FCUs in MSAP, were performed to acquire a more in-depth understanding of executive compensation.

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[71] Out of 472 MSAP FCUs, 469 provided CEO compensation data, 1 FCU declined to provide the data, and 2 FCUs did not have the CEO position staffed at the time of the data collection. These three FCUs were excluded from the analysis of CEO compensation.

[72] The 5 percent of MSAP FCUs with volunteer and sponsor-paid CEOs reported $0 for CEO compensation expense.

[73] Results may not sum to 100 percent due to rounding.

Table 11 contains the average and median CEO compensation by FCU asset size. The table also includes the count of FCUs in MSAP, grouped within their asset range, and the percentage they represent of the total FCUs in MSAP. As illustrated, average and median CEO compensation increases with the FCU's asset size.

Table 11

2005 CEO Compensation				
Asset Range (millions)	**Average Compensation**	**Median Compensation**	**Count**	**Percent of FCUs with CEO**
$0 - $10	$30,832	$31,000	221	47%
$10 - $50	$75,836	$71,450	151	32%
$50 - $100	$109,547	$103,775	42	9%
$100 - $500	$155,953	$142,500	40	9%
> $500	$374,081	$341,716	15	3%
Total			469	100%

Charts 15 and 16 represent the average and median CEO compensation in different FCU asset sizes. The bars represent the average CEO compensation for FCUs in five asset ranges. The percent values above the bars represent the percent of the total FCUs that participated in MSAP in the applicable asset range.

Chart 15

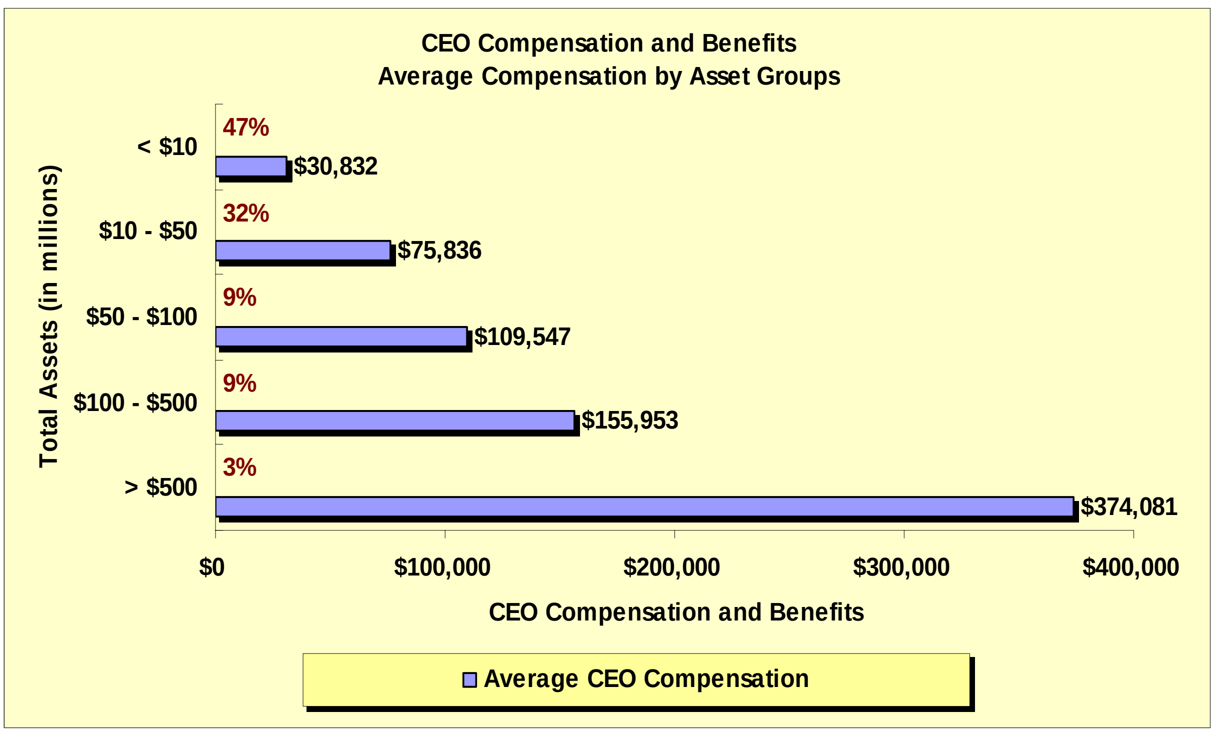
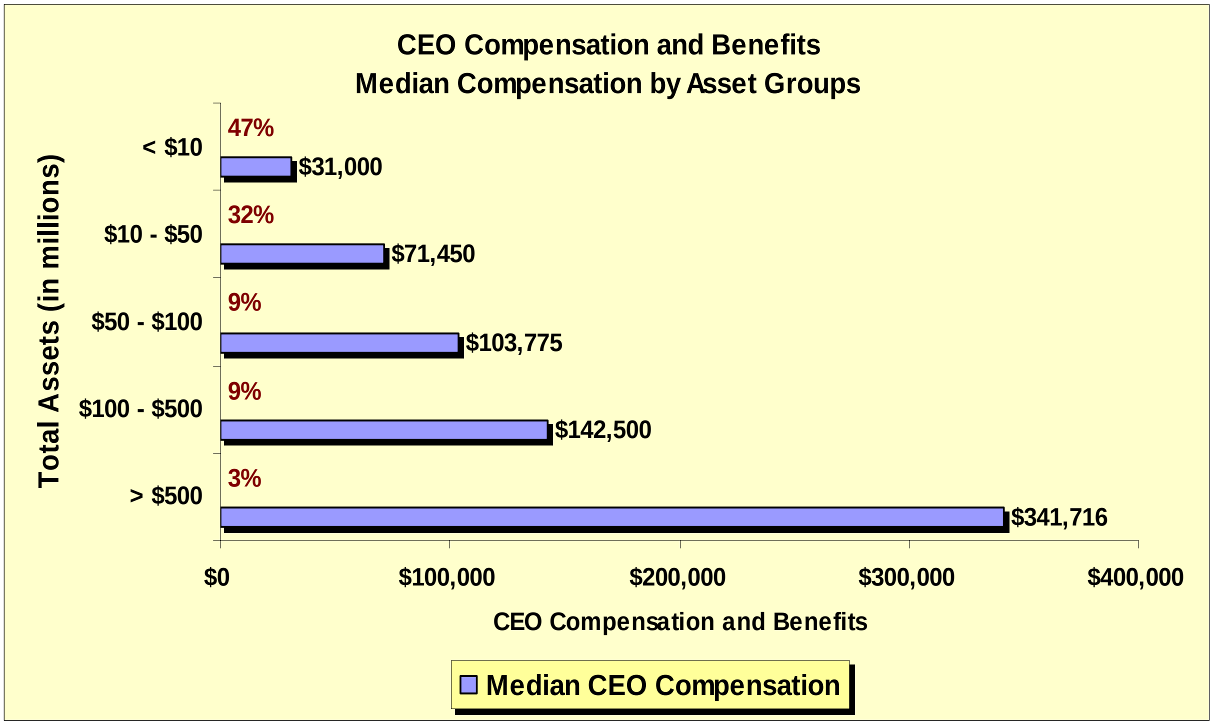


Chart 16



As shown in Chart 15, the average 2005 CEO compensation for the fifteen FCUs with assets over $500 million (3 percent of FCUs in MSAP) was $374,081, while the average CEO compensation for the 221 FCUs with assets less than $10 million (47 percent of FCUs in MSAP) was $30,832.

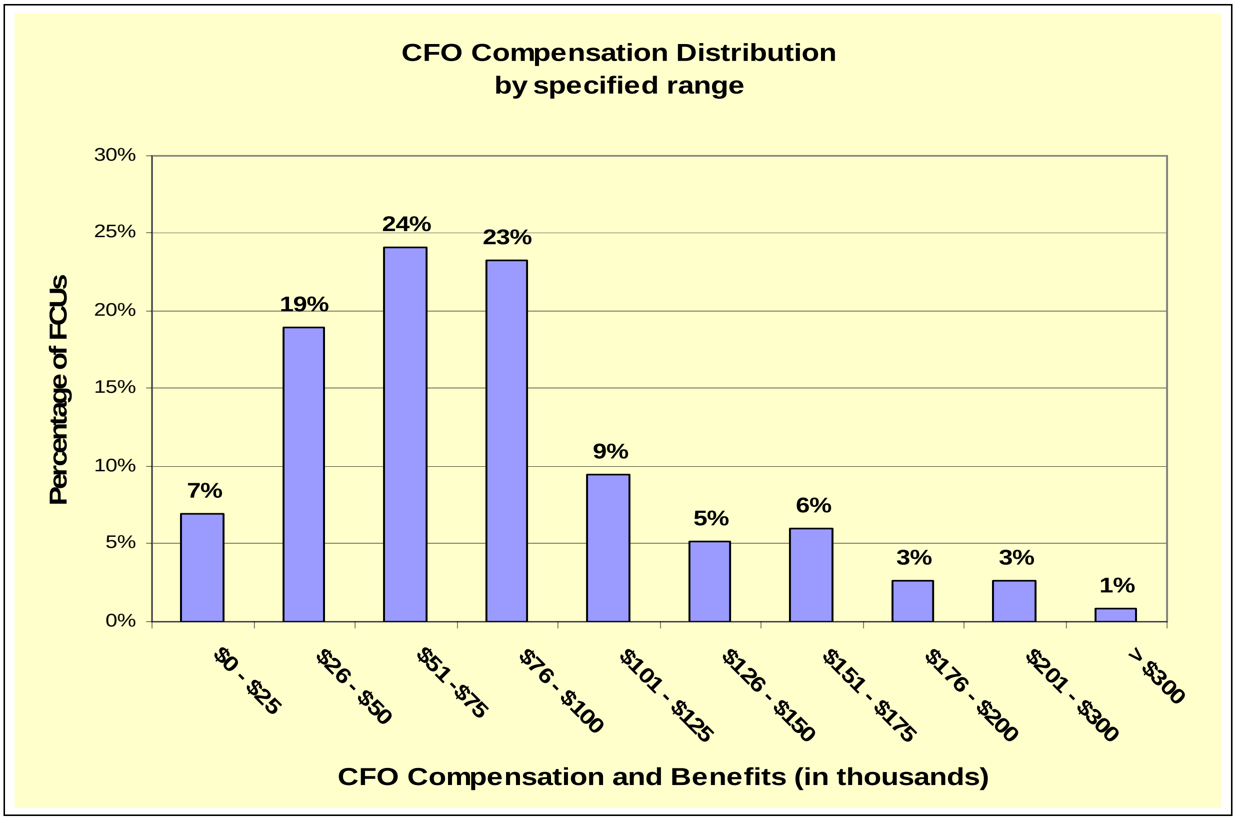
Chart 16 reflects the median 2005 CEO compensation for the fifteen FCUs with assets over $500 million (3 percent of FCUs in MSAP) was $341,716, while the median CEO compensation for the 221 FCUs with assets less than $10 million (47 percent of FCUs in MSAP) was $31,000.

Chief Financial Officer Compensation

On average, about 25 percent of FCUs have a staffed CFO position.[74] For those that do, the median CFO compensation in 2005 was $72,000, and the average CFO compensation was $86,422.

[74] Only 116 of 472 (25 percent) FCUs in MSAP reported having a staffed CFO position.

Chart 17[75]



As shown in Chart 17, 50 percent of FCUs with staffed CFO positions had total 2005 CFO compensation of $75,000 or less, while 73 percent had total 2005 CFO compensation of $100,000 or less. The columns in Chart 17 represent the number of FCUs with CFO compensation in certain income ranges.

Additional descriptive analyses, which apply only to FCUs in MSAP reporting a CFO position, were performed to acquire a more in-depth understanding of executive compensation.

Table 12 contains the average and median CFO compensation by FCU asset size. The table also includes the count of FCUs in MSAP, grouped within their asset range, and the percentage they represent of the total FCUs in MSAP. As illustrated, average and median CFO compensation increases with the FCU's asset size.

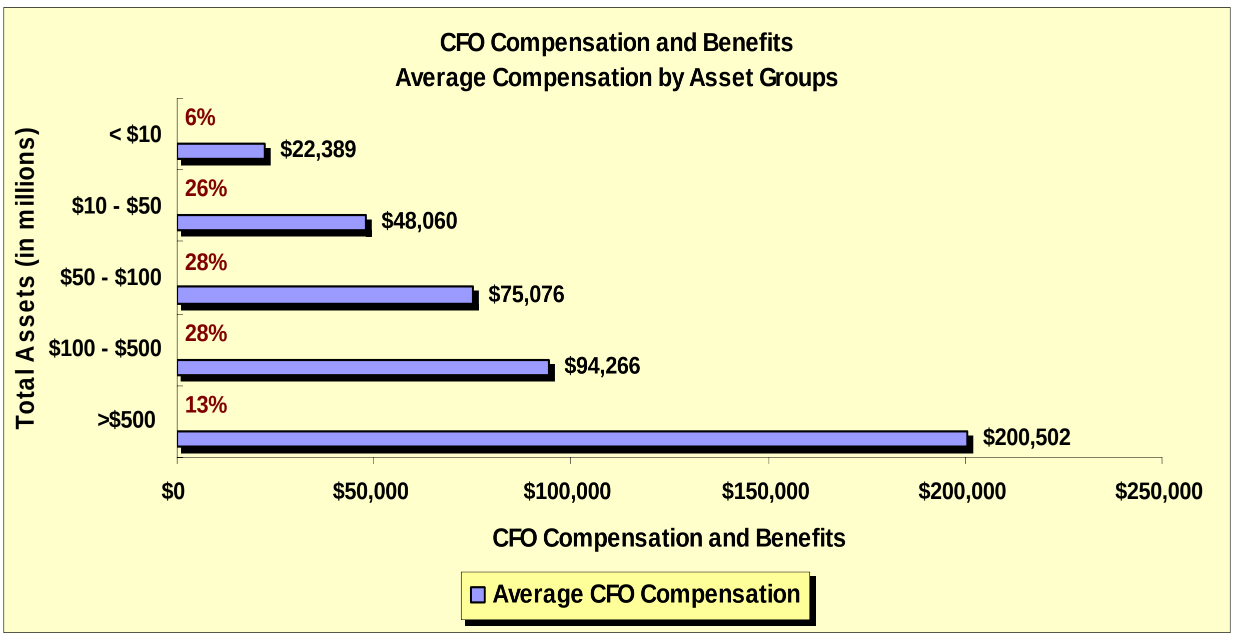
[75] Results may not sum to 100 percent due to rounding.

Table 12

2005 CFO Compensation				
Asset Range (millions)	Average Compensation	Median Compensation	Count	Percent of FCUs with CFO
$0 - $10	$ 22,389	$ 23,100	7	6%
$10 - $50	$ 48,060	$ 48,891	30	26%
$50 - $100	$ 75,076	$ 76,000	32	28%
$100 - $500	$ 94,266	$ 91,018	32	28%
> $500	$ 200,502	$ 173,636	15	13%
Total			116	

Chart 18 represents the average CFO compensation in different FCU asset sizes. The bars represent the average CFO compensation for FCUs in five asset ranges. The percent values above the bars represent the percentage of the total FCUs reporting a staffed CFO position in the applicable asset range.

Chart 18



As shown, the average 2005 CFO compensation for the fifteen FCUs with assets over $500 million (13 percent of the 116 FCUs represented in MSAP) was $200,502, while the average CFO compensation for the seven FCUs with assets less than $10 million (6 percent of the 116 FCUs represented in MSAP) was $22,389.

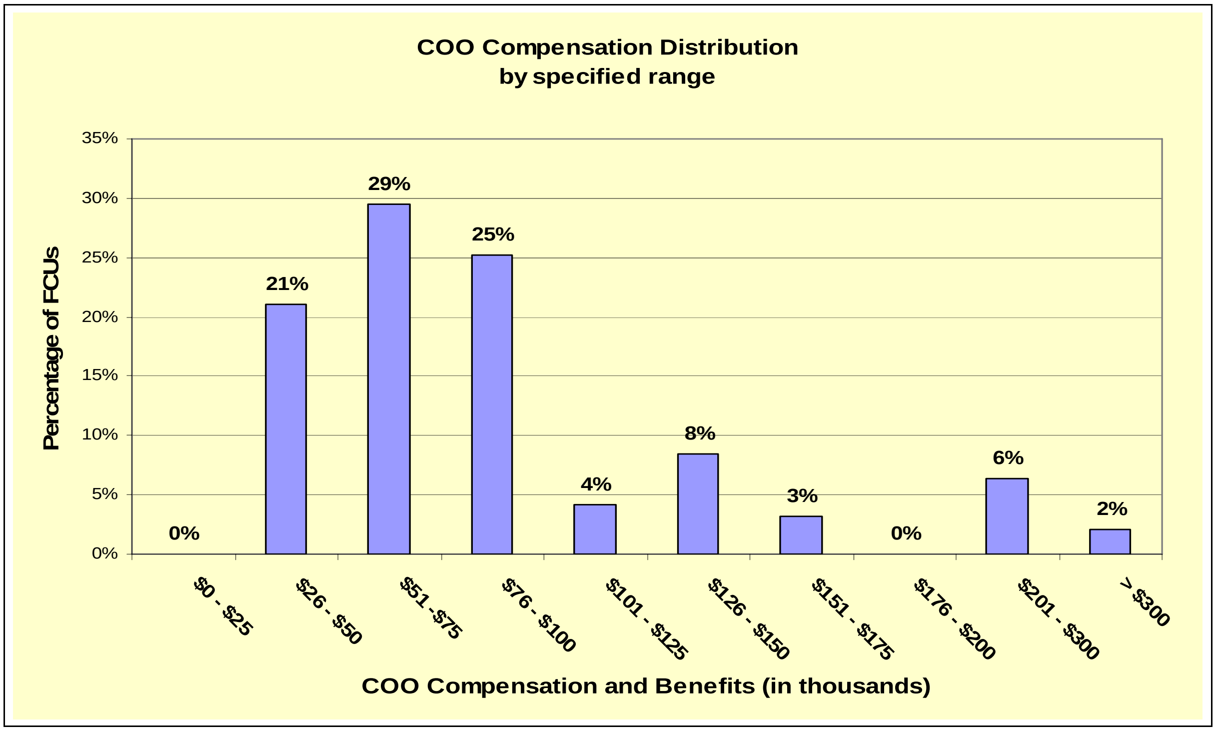
Chief Operating Officer Compensation

On average, only about 20 percent of FCUs have a staffed COO position.[76] For those that do, the median COO compensation in 2005 was $75,000, and the average COO compensation was $91,523.

[76] Only 95 of 472 (20 percent) FCUs in MSAP reported having a staffed COO position.

The columns in Chart 19 represent the percentage of FCUs with COO compensation in certain income ranges. As shown, 50 percent of FCUs with a staffed COO position had COO compensation of $75,000 or less in 2005, while 75 percent of FCUs surveyed reported total COO compensation of $100,000 or less.

Chart 19[77]



Additional descriptive analyses, which apply only to FCUs in MSAP reporting a COO position, were performed to acquire a more in-depth understanding of the executive compensation.

Table 13 contains the average and median COO compensation by FCU asset size. Included also in the table is the count of the surveyed FCUs in each asset range and the percentage they represent of the total surveyed FCUs. As illustrated, average and median COO compensation increases with the FCU's asset size.

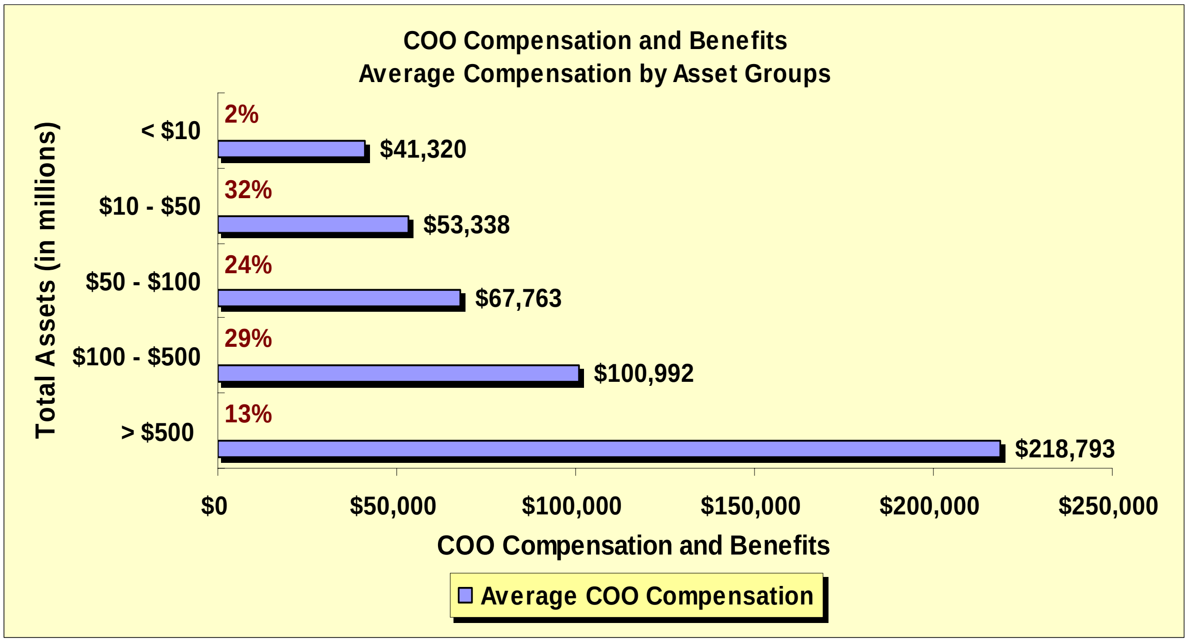
Table 13

2005 COO Compensation				
Asset Range (millions)	**Average Compensation**	**Median Compensation**	**Count**	**% of FCUs with COO**
$0 - $10	$ 41,320	$ 41,320	2	2%
$10 - $50	$ 53,338	$ 45,770	30	32%
$50 - $100	$ 67,763	$ 65,199	23	24%
$100 - $500	$ 100,992	$ 85,680	28	29%
> $500	$ 218,793	$ 227,207	12	13%
Total			95	

[77] Results may not sum to 100 percent due to rounding.

Chart 20 represents the average COO compensation in different FCU asset sizes. The bars represent the average COO compensation for FCUs in five asset ranges. The percent values above the bars represent the percentage of the total FCUs reporting a staffed COO position in the applicable asset range.

Chart 20



As shown, the average 2005 COO compensation for the twelve FCUs with assets over $500 million (13 percent of the ninety-five FCUs represented in MSAP) was $218,793, while the average COO compensation for the two FCUs with assets less than $10 million (2 percent of the ninety-five FCUs represented in MSAP) was $41,320.

Summary

The spirit of volunteerism is still an active part of the FCU business model since all boards and many committees remain volunteers. Additionally, as MSAP indicates, about 4 percent of FCUs are entirely operated by volunteers.

While not all FCUs have staffed CEO, CFO and COO positions, for those that do, the executive compensation tends to increase with the asset size of the credit union, as expected. Overall, total executive compensation appears appropriate for the different asset-sized FCUs.

Chapter VI -- Structure and Purpose of Federal Credit Unions Within the Financial Institution Industry

The predominant characteristic of credit unions relative to tax exemption has been and remains their cooperative structure. This feature serves as the principal foundation on which their tax exemption is based. Despite the changes in the law, the economy, and member demographics over time, credit unions have remained faithful to their originally conceived cooperative, not-for-profit, democratic structure.

Throughout its history NCUA has remained steadfast in its adherence to ensuring the cooperative structure of FCUs is maintained. Although the evolution of the financial service industry has required modification in policies (e.g., service to members, investment authorities, and chartering policies), the cooperative structure of FCUs has remained unaltered since their inception. FCUs continue to be member-owned, democratically operated, not-for-profit cooperatives generally managed by volunteer boards of directors.

History of Tax Exemption

Research into the history of the tax exemption for FCUs confirms the principal foundation on which it is based is the cooperative structure.

1917 -- U.S. Attorney General Opinion

In 1917, the U.S. Attorney General issued an opinion confirming credit unions are exempt from federal income taxes. The opinion concluded that a statutory exemption was available to credit unions because they were organizations conducted principally for the benefit of individuals belonging to them and no part of the net income inures to the benefit of any private stockholder or investor. The opinion characterized credit unions as follows:

> *The fundamental principle underlying the system of credit unions is cooperation. . . The association is one of individuals and not of shares, each shareholder being entitled to only one vote, regardless of the number of shares he may own. . . . It is apparent that the purpose of these financial associations is to help people to save and to assist those in need of financial help . . . They are organized and operated for mutual purposes and without profit*.[78]

1937 -- Amendment to the FCU Act of 1934

In 1937, Congress amended the FCU Act to explicitly exempt FCUs from federal, as well as state income tax, in recognition of their cooperative, democratic and mutual nature.[79]

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[78] 31 Op. Att'y.Gen. 176 (1917).

[79] Pub. L. No. 416, c.3, § 4, 51 Stat.4 (December 6, 1937) (presently codified at 12 U.S.C. § 1768); see S. REP. NO. 1009 at 2 (1937).

1951 -- Revenue Act of 1951

With the Revenue Act of 1951, [80] express statutory tax-exempt status was afforded to state-chartered credit unions, essentially affirming that credit unions remained true to their cooperative nature.

1998 -- CUMAA

Recently, Congress restated its support for the credit union tax exemption and its recognition of the cooperative structure of credit unions:

> *Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because they are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specific mission of meeting the credit and savings needs of consumers, especially persons of modest means*.[81]

FCU Structure and Mission Today

Aside from being member-owned, democratically controlled, not-for-profit financial cooperatives, the following structural features uniquely set FCUs apart from other financial institutions:

- Unlike banks or savings institutions, credit unions cannot issue stock to raise additional capital. An FCU can only build net worth through its retained earnings, unless it is a low-income designated FCU that can accept secondary capital contributions.
- FCUs are managed by a board of directors elected by and from the membership. By statute, no member of the board may be compensated as such; however, an FCU may compensate one individual who serves as an officer of the board.
- FCUs must have a supervisory committee that either performs or contracts with a third party to perform an annual audit of the credit union's books and records. No member of this committee can be compensated. Depending on its bylaws, an FCU's board may also appoint a credit committee to consider loan applications. Members of the credit committee cannot be compensated.

In addition to their unique structure, by virtue of their enabling legislation, FCUs are more restricted in their operations than other traditional financial institutions. For example, FCUs:

[80] Pub. L. No. 82-183, § 313, 65 Stat. 490 (October 18, 1951).

[81] Pub. L. No. 105-219, § 2, 112 Stat. 913 (August 7, 1998).

- May only provide services to members of their defined field of membership.[82]
- Must transfer their earnings to net worth and loss reserve accounts or distribute it to the membership. This distribution can take the form of dividends, relatively lower loan rates, or relatively lower fees.
- Have a federal statutory usury limit of 15 percent, inclusive of all fees, which is unique among federally-chartered financial institutions. The FCU Act permits a higher rate if the NCUA Board adopts a regulation, a matter that it must regularly review and reconsider every eighteen months. The current usury ceiling is 18 percent.
- Have limited lending authority, including a limit on loan maturity and a prohibition on prepayment penalties.
- Have limited investment authority; they are generally limited to investing in government issued or guaranteed securities and cannot invest in the diverse range of higher yielding products, including commercial paper and corporate debt securities.
- Cannot invest in the shares of an insurance company or control another financial depository institution. Thus, they cannot be part of a financial services holding company and cannot become affiliates of other depository institutions or insurance companies.
- Do not have general trust powers.
- Have limited borrowing authority (50 percent of paid-in and unimpaired capital and surplus).
- Have very limited broker-dealer authority.
- Have limited ability to make member business loans; limited to the lesser of 1.75 times net worth or 12.25 percent of total assets.[83]
- Must hold 200 basis points more in capital than banks and savings institutions to be considered "well capitalized" under federal "prompt corrective action" laws.
- Have limited investment and lending authority toward subsidiaries (credit union service organizations), which in turn are indirectly limited in the scope and extent of businesses in which they can engage.

As the discussion above indicates, FCUs have many more restrictions than tax paying financial institutions. Thus, the cumulative impact of the cooperative

[82] The recently enacted Financial Securities Regulatory Relief Act of 2006 provides for limited service (i.e., check cashing and money transfers) to nonmembers who are within a FCU's field of membership. Pub. L. No. 109-351, 120 Stat. 1966 (October 13, 2006).

[83] There are three exceptions to the limitation on member business lending. It does not apply to FCUs 1) having a low-income designation, 2) that have been determined to having been chartered for the purpose of making member business loans, or 3) have been determined to have a history of primarily making member business loans.

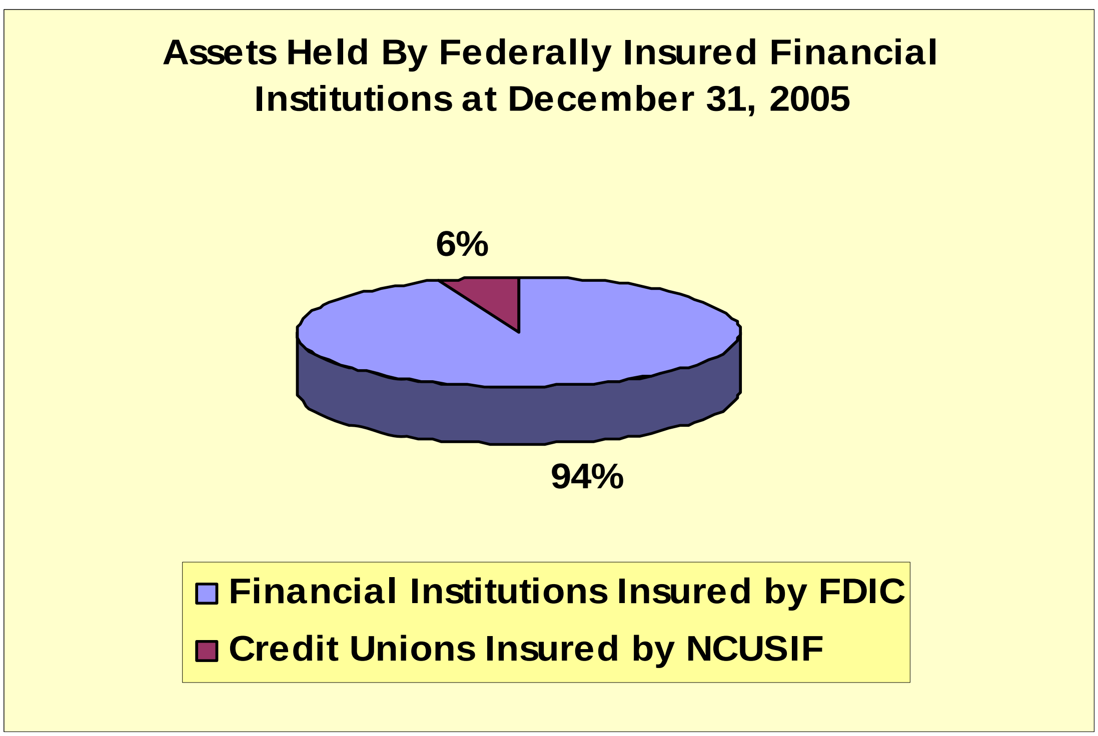
structure, combined with the common bond and other operational limitations, serve to distinguish FCUs.

Comparison with For-Profit Financial Institutions

The services offered by many FCUs have increased since 1934 reflecting changes in society and technology. The services and authorities of taxable financial institutions have also increased significantly during this period. Thus, FCUs have made only modest gains in the breadth of services offered relative to the increasing, broad authorities and services of commercial banks. FCU service remains focused on providing basic financial services to the working class. Of course, the inventory of what is considered basic financial services has evolved since 1934. For example, providing access to accounts via the Internet is a relatively basic service today, but personal computers, let alone the Internet, did not exist in 1934 and the telecommunications infrastructure was very primitive.

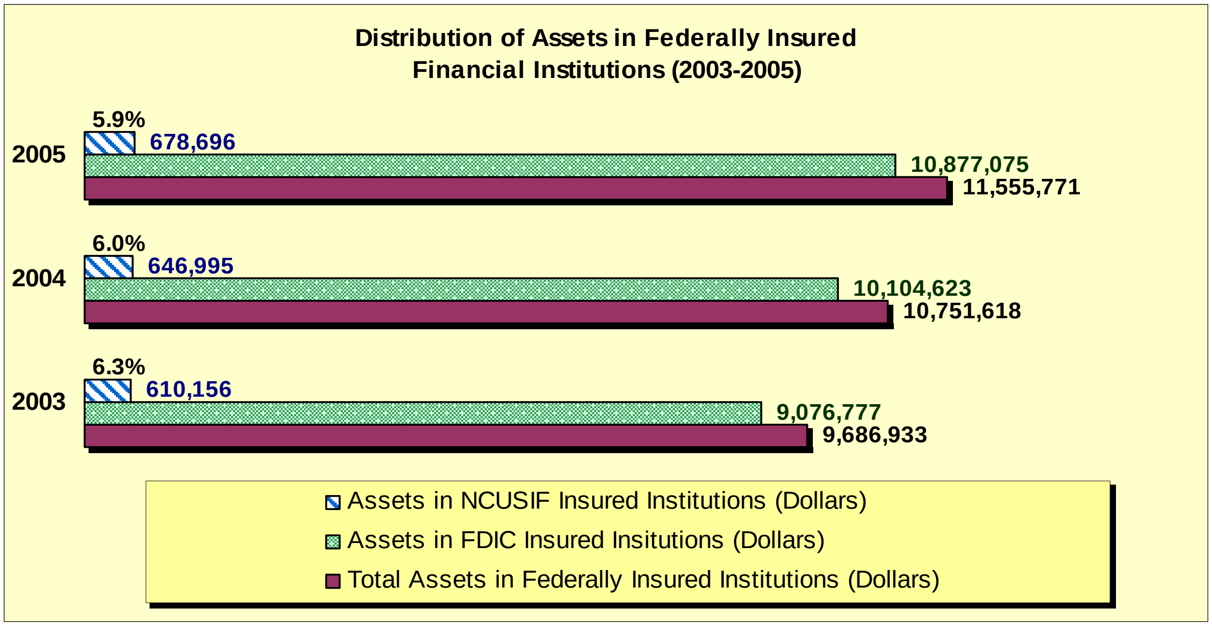
As shown in Chart 21, credit unions are an important, but relatively small, segment of the financial institution industry. As of December 31, 2005, approximately $11.6 trillion in assets were held in federally-insured depository institutions. Banks and other savings institutions insured by FDIC held $10.9 trillion, or 94 percent of these assets. Credit unions insured by the NCUSIF held $678.6 billion, or 6 percent of all federally-insured assets.

Chart 21



Also, as shown in Chart 22, total assets held by federally-insured financial institutions steadily increased from 2003 to 2005. While total assets increased in these institutions overall, the percent of assets held by federally-insured credit unions (FICU) fell from 6.3 percent in 2003 to 5.9 percent in 2005.

Chart 22



As well, as shown in Table 14, the combined federally-insured deposits in commercial banks and savings banks increased from 91.8 percent of all federally-insured deposits in 2003 to 92.5 percent in 2005. This equates to deposit growth of 10.6 percent in 2004 and 8.5 percent in 2005.

Table 14

Year	Total Federally Insured Deposits	Banks and Other Financial Institutions Insured by Federal Deposit Insurance Corporation[84]				Credit Unions Insured by NCUSIF (Federally-Insured Credit Unions)[85]			
		Commercial Banks	Savings Banks	Total FDIC Insured	% of Total	Federal Credit Union	State Credit Union	Total NCUSIF Insured	% of Total
2005	7,718,597	6,073,333	1,067,845	7,141,178	92.5%	321,831	255,588	577,419	7.5%
2004	7,140,323	5,592,825	991,376	6,584,201	92.2%	308,318	247,804	556,122	7.8%
2003	6,482,630	5,028,866	925,423	5,954,289	91.8%	291,485	236,856	528,341	8.2%
Dollars shown in millions									

Comparatively, while member share deposits in FICUs also continued to grow, they grew at a slower rate than customer deposits at commercial and savings banks. FICU share deposits decreased from 8.2 percent of all federally-insured deposits in 2003 to 7.5 percent in 2005. From 2003 to 2005, FICUs experienced average share

[84] Information obtained from FDIC Statistics on Banking: A Statistical Profile of the United States Banking Industry as published by FDIC, Division of Insurance and Research, for 2003, 2004, and 2005.

[85] Information obtained from Yearend Statistics for FICUs as published by the National Credit Union Administration for 2003, 2004, and 2005.

deposit growth of 4.5 percent. Share deposit growth in FICUs was 5.3 percent in 2004 and 3.8 percent in 2005.

Summary

Despite changes over time in the law, the economy, technology, and member demographics, FCUs have remained faithful to their originally conceived cooperative, not-for-profit, democratic structure. Without question, FCUs and their member-owners have enjoyed the benefit of tax exempt status. To a large extent, the tax exempt status has played a critical role in their growth and development, and allowed them to achieve the public policy objectives first envisioned by Congress. As an important, although relatively small, segment of the financial marketplace FCUs are positioned to continue to positively impact public policy considerations, especially reaching out to those of modest means.

Chapter VII -- Conclusions and Recommendations

Membership Profiles

MSAP provided NCUA valuable data on the income profiles of membership in FCUs. It is the most objective comprehensive data available to date addressing who FCUs serve. With this data, it is possible to address with greater specificity the issues that have been raised by Congress and GAO.

Most importantly, MSAP, considered in light of the statutory constraints on common bond, provides a clear picture that FCUs serving an occupational or associational base have greater challenges in reaching out to lower income individuals and groups outside their FOM. These FCU charter types comprise approximately 80 percent of all FCUs. Thus, as reflected in the data, the membership profile for all FCUs is heavily influenced by FOMs limited primarily to working individuals.

MSAP is also important in that it allows for descriptive analyses, strengthened by the proportionality of the sample, of the different types of FOM (occupational, associational and community). Based on these analyses, MSAP strongly suggests that FCUs designated as low-income or with less restrictive FOMs, i.e., those that have added underserved areas, or have converted to a community charter, have more diverse membership income profiles and are better positioned to more aggressively reach out to lower income individuals and groups. For the first time, evidence exists that is supportive of NCUA's expectations that progress can be made in serving lower income individuals and groups outside the traditional FOMs.

Although frequently discussed, NCUA has not had the ability, until the completion of MSAP, to provide data that specifically and objectively address issues and concerns raised by Congress and GAO. In the past, this lack of data forced NCUA to primarily rely on anecdotal and non-conclusive observations. The data provided by MSAP is critical in this respect. However, additional data and analyses will be required to more completely and conclusively address those issues and concerns. A historical baseline for comparison and more conclusive opinions on the differences between FCU charter types are just two of the analyses that would be required. As always, the cost of these additional analyses has to be carefully compared to their benefits. As the total cost of MSAP, over $1.1 million, clearly demonstrates, a more cost efficient method of gathering new data should be explored.

From time to time, it is expected that NCUA will again be requested to provide data on the issues addressed in this Report. Staff believes NCUA may be able to position itself to more efficiently address these and similar issues in a timely manner without unduly placing a burden on FCUs. Accordingly, it is recommended that the NCUA Board evaluate whether it is appropriate to:

(1) Collect FCU member income distribution data as part of NCUA's normal examination program. With the current risk-based exam schedule, NCUA could

obtain this data from nearly all FCUs within a three-year period. Gathering the information routinely may:

- Be more efficient and over time provide a complete data set for all FCUs;
- Allow NCUA and others to study trends in member income distribution over a period of time using MSAP as the baseline;
- Provide a basis for developing strategic goals and objectives that more specifically address any issues that may be identified as necessary to improve service to lower income individuals and groups; and
- Assist in developing legislative proposals based on objective data.

(2) Gather additional information on outreach efforts for certain types of FCUs.

Executive Compensation

NCUA currently reviews executive compensation primarily to determine its reasonableness as it relates to safety and soundness. To date, there have not been any system-wide issues relating to executive compensation. Since executive compensation is set by a volunteer board of directors elected by the membership, NCUA has not gathered or aggregated this type of data.

MSAP clearly suggests that overall FCU executive compensation is appropriate and presents no regulatory concerns. However, transparency of executive compensation for non-profits and tax exempt entities has recently been a major concern, and has been requested by Congress. This type of data can be obtained and aggregated to preserve privacy with little burden on FCUs.

There is the additional issue of whether the FCU membership is entitled to know total compensation paid to those representing their interests. In the past, NCUA, while not objecting to disclosure of this type of information, has deferred to applicable state laws on whether it had to be disclosed. Accordingly, it is recommended that the Board evaluate whether it is appropriate to:

(1) Evaluate alternatives to collect and aggregate executive compensation on a FCU system basis; and

(2) Consider alternatives requiring the periodic disclosure of executive compensation to the membership.

Outreach Efforts

MSAP provided a basis for better understanding and evaluating NCUA's outreach efforts. As with many programs, the ability to measure success of various programs is limited. MSAP underscored the need to review and determine whether the goals of the outreach programs are being met. Specifically, it is recommended that:

(1) The NCUA Board evaluate the effectiveness of NCUA programs focused on assisting low- and moderate-income individuals, such as Access Across America, OSCUI workshops, and The Resource Connection. If deemed appropriate, the NCUA Board should consider ways to improve how these programs are monitored, evaluated and best practices are shared;

(2) The NCUA Board consider the enhancement and full utilization implementation of the system to monitor FCUs receiving benefits under the CDRLF program. Specific points to monitor include whether funds approved for disbursement were actually disbursed, whether they were used as intended, and, most importantly, whether the benefits anticipated were actually achieved; and

(3) The NCUA Board consider reassessment of NCUA's formula for determining if an FCU qualifies for low-income designation. At present, the regulatory formula makes reference to the national median household income, with adjustments reflecting the cost of living in eleven different, static geographic areas. Using median family income, as a percentage of the median family income for specific metropolitan statistical areas, would be more reflective of the regional economic diversity of the United States as it evolves and of the circumstances in which FCUs members actually live. Also, in this regard, the NCUA Board should consider working more closely with the Treasury Department's Community Development Financial Institutions Fund to determine whether revised low-income criteria could help low-income designated credit unions automatically qualify as community development financial institutions.

Legislation

As maintained in this Report, the MSAP data, or any other data purporting to depict who FCUs serve, must be evaluated within the context of their authorized FOM. It has been NCUA's position that FCUs designated low-income or with less restrictive FOMs will, over time, have a more diverse membership income profile. This reasonable expectation is supported by the MSAP data.

Historically, NCUA has endeavored to address the issue of how to best reach out to lower income individuals and groups in its chartering and outreach policies. Although legal challenges have limited the effectiveness of these programs, MSAP indicates the intended results can be achieved. NCUA's ability to provide additional flexibility is limited and is somewhat dependent on FCUs voluntarily changing their charter type to a community base, becoming low-income designated or, if a multiple common bond FCU, adding an underserved area.

A necessary flexibility that would directly impact service to lower income individuals and groups would be the ability for all FCUs, not just those designated multiple common bond, to add underserved areas. In this regard, it is recommended that NCUA consider pursuing this issue with Congress.

National Association of State Credit Unions Data Project

The data being gathered by NASCUS will provide additional valuable information on the credit union system, and will be particularly helpful in assessing the membership income profiles for the different charter types. It is recommended that the NCUA Board study the member services assessment results obtained by NASCUS in its survey of state-chartered credit unions, compare its data with the MSAP results, and coordinate with NASCUS on appropriate follow-up action items.

Appendix 1 – Additional MSAP Membership Income Distribution Results

As noted in Chapter III, income estimates were derived by matching member addresses with U.S. Census Bureau data. Rather than actual member income, MSAP used the Year 2000 median family income for each member's respective census tract to estimate the membership income. Additionally, the data collection software compared the member's estimated income to the median family income of the local MSA.

Table 15 provides examples of the significant variations in the median family income of various census tracts and MSAs. MSAP methodology was adjusted for the differences between salaries in high- and low-cost geographic areas.

Table 15

Example of MFI for MSA calculation[86]					Census Tract MFI as % of MFI for a MSA
Street Address	MSA Code	Census Tract Code	MFI for Census Tract	MFI for MSA	
4 N Capitol St NW Washington, DC 20001	47894	59	$46,250	$71,099	65.05%
Fifth Ave & 42nd St. New York, NY 10018	35644	82	$114,624	$49,461	231.75%
400 Stewart Avenue Las Vegas, NV 89101	29820	7	$24,732	$50,504	48.97%

The median family income for the various census tracts and MSAs shown in Table 15 vary widely. By deriving FCU income estimates using the median family income of the census tract in which the member resides as a percent of the median family income for the MSA in which the census tract is located, MSAP methodology adjusted for the differences between salaries in high- and low-cost geographic areas.

FCU Membership Income Distribution by Charter Type[87]

Analysis of Single Common Bond Charters

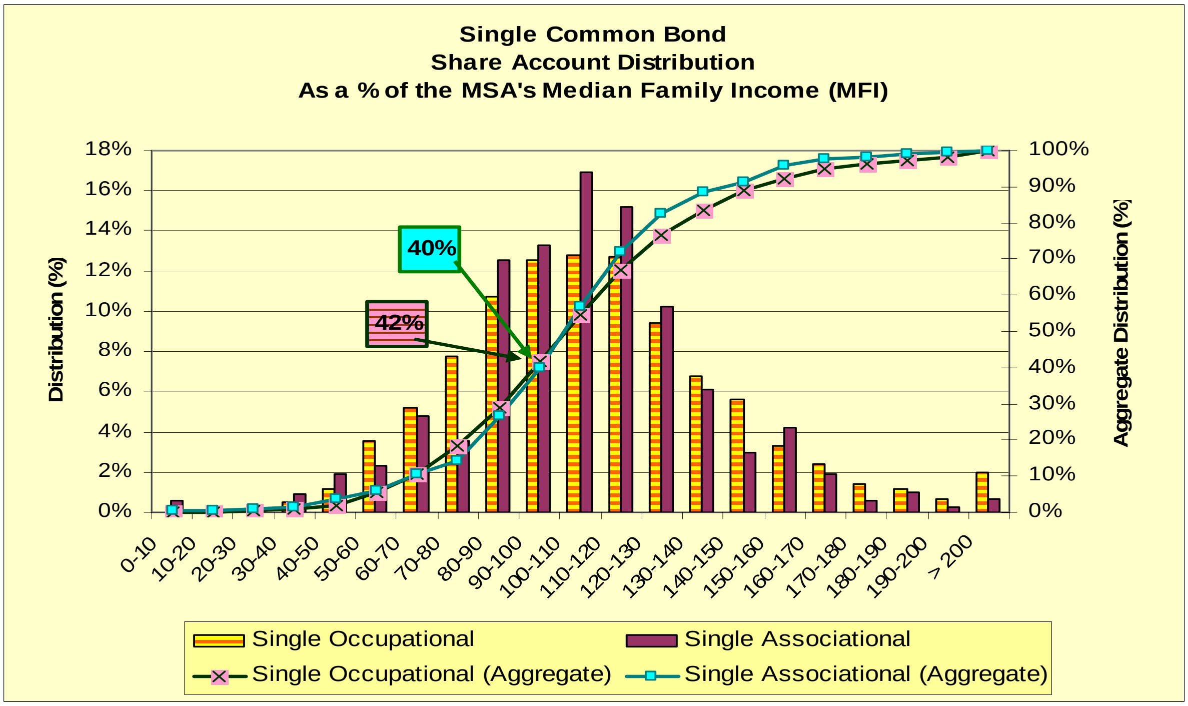
Single common bond charters limit credit union membership to individuals who qualify under discrete, relatively narrow criteria. A single common bond can be classified as occupational or associational. Occupational common bonds relate to employment (e.g., employees of fire departments, government, military, school districts are occupational common bonds). Associational common bonds relate to participation in associations (e.g., participants in professional societies, labor unions, and religious organizations share associational common bonds).

[86] The Federal Financial Institution Examination Committee (FFIEC) geo-coding system was used to obtain census tract, MSA, and median family income information for these street addresses. The street addresses are provided for explanatory purposes; they were not selected from the data sample. The addresses are public buildings associated with federal, state, or local government. The FFIEC geo-coding system is available to the general public at: http://www.ffiec.gov/Geocode/default.aspx

[87] All conclusions drawn in this appendix apply only to FCUs in MSAP.

MSAP included 151 FCUs, or 34 percent of the total sample, with single common bond charters.

Chart 23



As shown in Chart 23 above, there is a difference in the income ranges of membership served by FCUs with different types of single common bonds. This chart displays the income ranges of the occupational FCU membership (striped columns) and the associational FCU membership (solid columns). It also shows the cumulative percent of occupational (line with x) and associational (line with square) membership within these income ranges. For example, in MSAP's occupational FCUs, about 11 percent of the membership earns between 80 and 90 percent of the MSA's median family income, while about 42 percent cumulatively earns less than the median.

As shown in Table 16, single occupational common bond FCUs serve more (42 percent) of the membership below the median than single associational common bond charters (40 percent).

Table 16

Comparison of Single Common Bond Charters to All FCUs Median = 100% of MFI		
	Below the Median	**Above the Median**
Single Associational Common Bond	40%	60%
Single Occupational Common Bond	42%	58%
All FCUs	44%	56%

While membership of single occupational FCUs is more likely to have income below the median than membership of single associational FCUs, both single common bond charters in MSAP serve fewer of the membership below the median than the FCU system collectively.

The difference between the membership below the median at the different types of single common bond FCUs could be due to higher average income among the membership of professional associations. Comparing single common bond FCUs to all FCUs, membership income ranges may be more compressed (and higher) at single common bond FCUs due to the shared professional and associational bonds. However, insufficient information has been gathered to draw a reliable conclusion about the reasons for these differences.

Analysis of Multiple Common Bond Charters

MSAP included 200 FCUs, or 40 percent of the total sample, with multiple common bond charters.

Chart 24

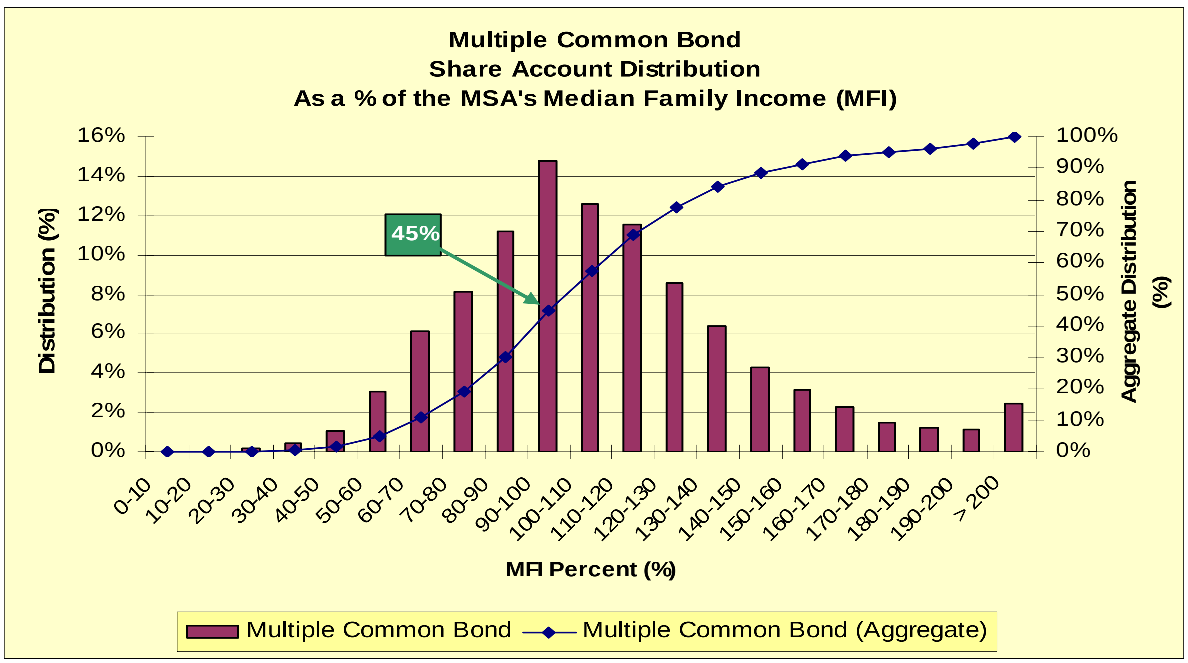


Chart 24 displays the income ranges of multiple common bond FCUs (solid columns) and the cumulative percent of multiple common bond membership (line) in these income ranges. For example, about 15 percent of the membership in the multiple common bond FCUs participating in MSAP earns between 90 and 100 percent of the MSA's median family income, while about 45 percent cumulatively earns less than the median.

Table 17

Comparison of Multiple Common Bond FCUs to All FCUs and Single Common Bond FCUs Median = 100% of MFI		
	Below the Median	**Above the Median**
Multiple Common Bond	45%	55%
All FCUs	44%	56%
Single Common Bond	40% and 42%	60% and 58%

As shown in Table 17, multiple common bond FCUs in MSAP serve more of the membership with income below the median than all FCUs and both types of single common bond FCUs. Greater variation in the income ranges of the membership served by multiple common bond FCUs may contribute to the greater percentage of the membership served below the median. However, insufficient information was gathered to draw a reliable conclusion about the reason for these differences.

Analysis of Community Charters

MSAP included ninety-seven community-chartered FCUs comprising 22 percent of the total sample. Chart 25 compares the income ranges of the membership for these community FCUs (solid columns) with the cumulative percent of the community membership (line) in these income ranges. For example, about 15 percent of community FCU membership earns between 90 and 100 percent of the median, while about 48 percent cumulatively earns less than the median.

Chart 25

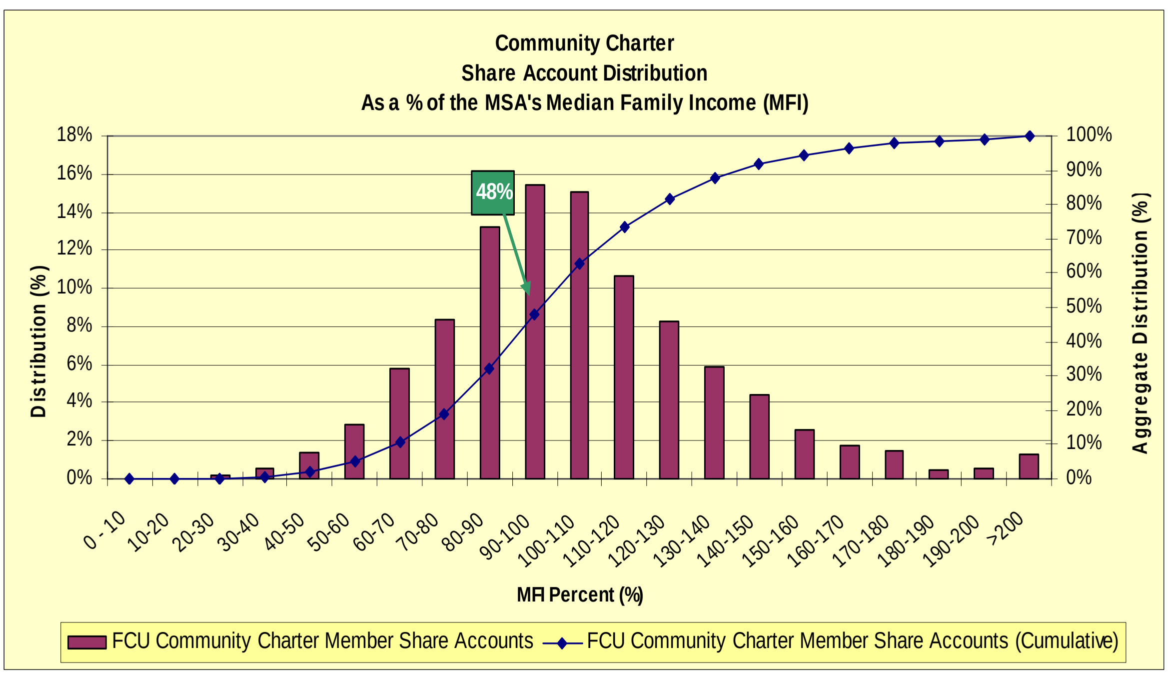


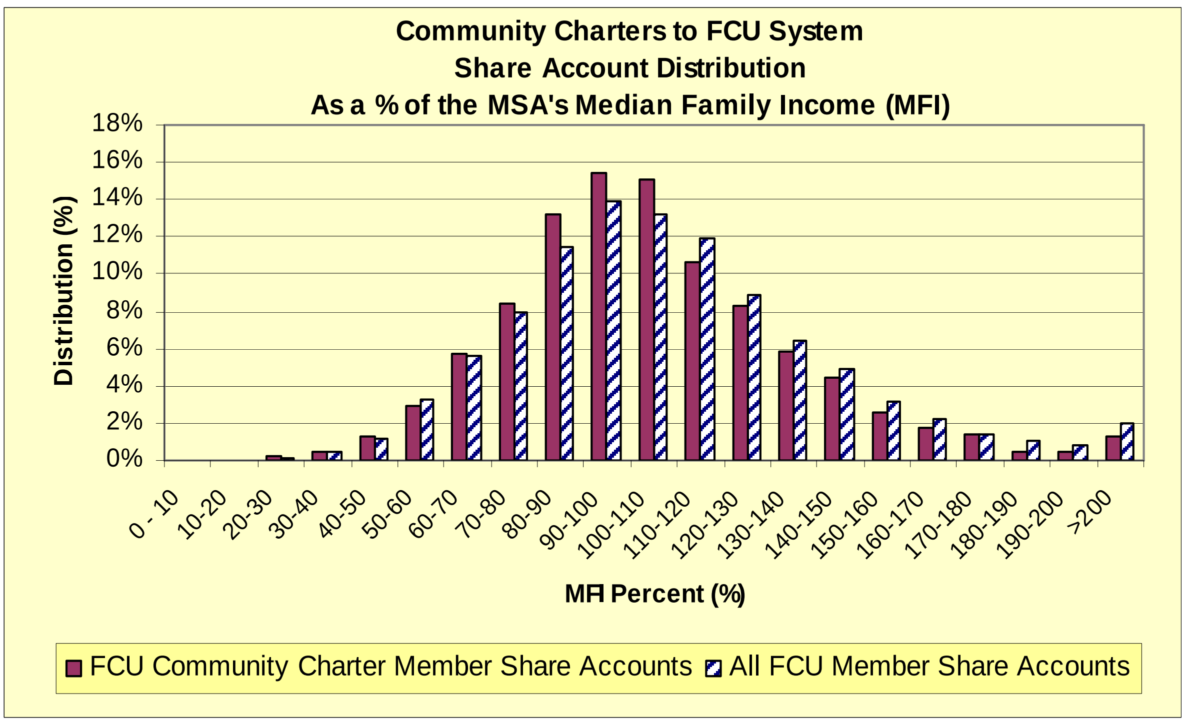
Table 18 reflects the percentage of the membership in these community charters with median family income below and above the median compared to the FCU system collectively.

Table 18

Comparison of Community Charters to All FCUs Median = 100% of MFI		
	Below the Median	Above the Median
Community	48%	52%
All FCUs	44%	56%

In Chart 26, the income ranges of the membership in the community charters participating in MSAP (solid columns) are displayed with those in the entire FCU system (striped columns). The striped columns represent the percent of membership of the entire FCU system within these income ranges. For example, 15 percent of community charter membership earns between 100 and 110 percent of the median family income for their MSA, while 13 percent of the membership in the entire FCU system earns between 100 and 110 percent of the median family income for their MSA.

Chart 26



As depicted in Chart 26, a significant difference exists between income ranges of members being served by the entire FCU system and the community charters participating in MSAP. As discussed below, this difference becomes more vivid when the income ranges of membership at community charters greater than and less than or equal to five years in existence are contrasted.

Appendix 2 – MSAP Methodology

Sampling Methodology

The sampling methodology was based on two principles:

1) Statistical validity of the results.
2) Feasibility constraint.[88]

Guided by these two principles, the samples were selected as follows:

- The sampled population was limited to FCUs, due to the extent of NCUA's regulatory authority. Table 19 shows a total of 5,449 FCUs submitted a call report for the September 30, 2005 reporting cycle, representing 62 percent of the total population of 8,795 federally-insured credit unions.
- To ensure validity of the results and to allow for more in-depth analysis of the FCU system, the total population was divided into sub-populations, using stratified random sampling approach. The sub-populations could be individually tested and their results combined to draw conclusions about the entire population.
- The number of sub-populations was constrained by the amount of time allotted for this phase of the project, its intent of testing methods to achieve the results, and the constraints set by OMB.[89] Several options were considered, including a sub-division by charter type. However, to draw statistically valid conclusions by charter type, a review of an additional 709 FCUs would be required. These additional contacts were not feasible in the amount of time available.
- While feasibility constraint limited the number of sub-populations, historical data suggested the use of two sub-populations: FCUs with asset sizes less than $50 million and FCUs with asset sizes $50 million and greater.

Table 19

Number of Federal Credit Unions
September 30, 2005

Sub-Population Assets	Units	Assets	Members	Percent
=> $50 Million	1,110	$326,582,095,026	37,713,877	79.2%
< $50 Million	4,339	$48,812,542,218	9,928,270	20.8%
TOTAL	5,449	$375,394,637,244	47,642,147	100%

- The minimum number of observations was selected to provide statistically valid results for the entire system, as well as for the two sub-populations. To apply results obtained from the sub-populations to the entire population, each sub-population had to be proportionately represented in its sample size. To ensure that this happens, the minimum sample size required for the smallest

[88] The data collection process was constrained by the availability of time and examiner resources.

[89] On March 7, 2006, Office of Management and Budget (OMB) issued its clearance under the Paperwork Reduction Act enabling NCUA to proceed with MSAP. OMB required the data collection to be completed by August 31, 2006.

sub-population is determined first and its proportion calculated. The obtained proportion is then used to calculate the required sample size for the second (larger) sub-population. Using this rule, the following sample sizes for different confidence intervals and confidence levels were obtained and analyzed using *Raosoft Sample Size Calculator* (Tables 20 and 21).[90]

Table 20

5% Confidence Interval				
		Sample Size Needed		
Sub-population Assets	**Sub-population Size**	**90% confidence level** min # / % of total	**95% confidence level** min # / % of total	**99% confidence level** Min # / % of total
=> $50 Million	1,110	218 / 19.6%	286 / 25.8%	416 / 37.5%
< $50 Million	4,339	852	1,118	1,626
TOTAL:	5,449	1,070	1,404	2,042

Table 21

10% Confidence Interval				
		Sample Size Needed		
Sub-population Assets	**Sub-population Size**	**90% confidence level** min # / % of total	**95% confidence level** min # / % of total	**99% confidence level** Min # / % of total
=> $50 Million	1,110	64 / 5.8%	89 / 8.0%	145 / 13.1%
< $50 Million	4,339	250	348	567
TOTAL:	5,449	314	437	712

- After careful analysis of both the accuracy of the results and the feasibility of the data collection process, a 10 percent confidence interval and a 95 percent confidence level were deemed optimal for MSAP.
- In addition, to account for the possibility that not all credit unions in the sample will have data available, an additional 10 percent of units was added to the minimum sample size for each sub-population, as shown in Table 22.

Table 22

Sub-population	Sub-population Size	Minimum Sample Size	10% Increase	Total Size
=> $50 Million	1,110	89	9	98
< $50 Million	4,339	348	35	383
TOTAL:	5,449	437	44	481

- Once the required sample sizes were obtained, the following steps were performed to obtain random samples for the two sub-populations:

[90] http://www.raosoft.com/samplesize.html

- FCUs were selected from the database of all credit unions reporting for the September 30, 2005 reporting cycle and divided into two sub-populations, as described above.
- Microsoft Excel's randomizer function was used to obtain random samples from the two sub-populations.

Characteristics of the Sample

Of the 481 FCUs randomly selected to participate in MSAP, the estimated member income data were received for 448 FCUs. This exceeded the minimum of 437 FCUs needed to provide statistically valid results for the entire FCU system and the two sub-populations. The data also enabled descriptive analyses[91] of different FCU types for a more in-depth understanding of the FCU system. For example, NCUA used the data collected to develop an assessment of the different charter types based on common bond. Although these results are not statistically conclusive, the 448 randomly selected FCUs provided a proportional representation of the different charter types within the FCU system, strengthening the descriptive analyses performed.

Tables 23 - 26 below compare profiles of the 448 FCUs and of the entire FCU system.

Table 23

	MSAP FCUs		All FCUs	
Field of Membership Type	**Units**	**%Units**	**Units**	**%Units**
Community Charter	97	22%	1,094	20%
Single Association Common Bond	29	6%	530	10%
Single Occupation Common Bond	122	27%	1,399	26%
Multiple Common Bond	200	45%	2,426	44%
Total	448		5,449	

Table 24

	MSAP FCUs		All FCUs	
Asset Size	**Units**	**%Units**	**Units**	**%Units**
<$2 million	56	13%	1,010	19%
$2 - $10 million	143	32%	1,645	30%
$10 - $50 million	151	34%	1,684	31%
$50 - $100 million	43	10%	463	8%
$100 - $500 million	40	9%	520	10%
> $500 million	15	3%	127	2%
Total	448		5,449	

Table 25

	MSAP FCUs		All FCUs	
	Units	**%Units**	**Units**	**%Units**
Low-Income Designated FCUs	69	15%	877	16%

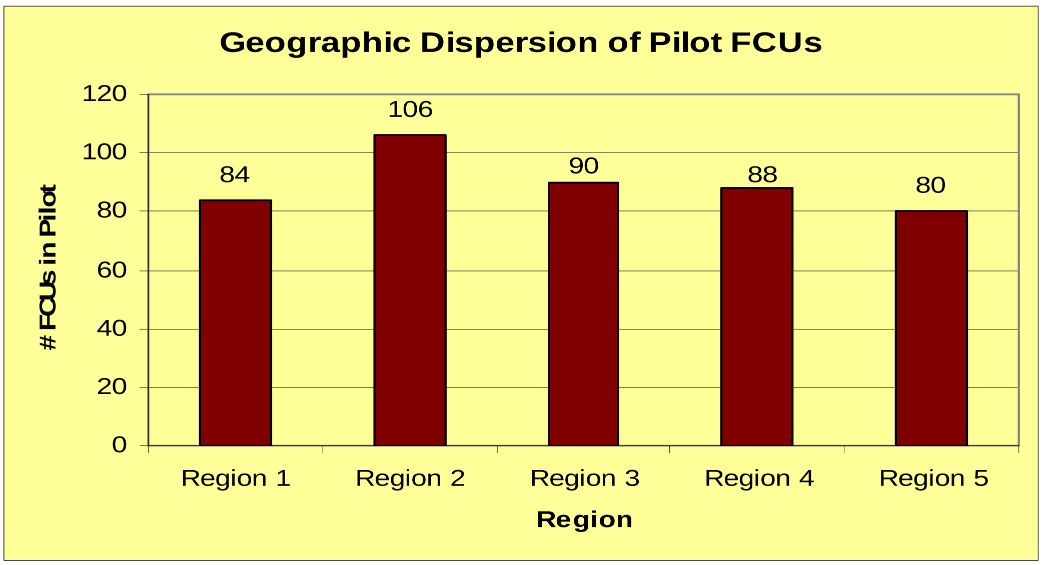
[91] Descriptive statistics focuses on collecting, summarizing, and presenting a set of data. Inferential statistics uses sample data to draw conclusions about a population. Berenson, supra note 12.

Table 26

Community Chartered FCUs	MSAP FCUs		All FCUs	
	Units	%Units	Units	%Units
CC <= 5 years	55	57%	585	53%
CC > 5 years	42	43%	509	47%
Total	97		1,094	

Chart 27 below shows geographic dispersion of the final sample. Regional sample distribution was also proportional to that of the entire FCU system.

Chart 27



Data Collection Methodology

MSAP was designed to provide information about FCUs' member income distribution, member services, and executive compensation and benefits. Using NCUA's examination authority, which is set forth in the FCU Act, NCUA examiners performed contacts to collect the data.

To obtain and record information about FCUs' member services and executive compensation, NCUA examiners interviewed management and completed a standard survey (Appendix 3) for 472 of the 481 FCUs in MSAP. The remaining nine FCUs merged before the data collection began.

Initially, three methods to assess FCU member income distribution were employed, as follows:

1. Reviewing a random sample of loan files;[92]
2. Associating member zip codes from the Automated Integrated Regulatory Examination Software (AIRES) share and loan download files with census data on median household income;[93] and
3. Analyzing the AIRES share and loan download with third-party geo-coding software that tracks the member addresses to census tract median family income.

Two of the three methods required an AIRES share and loan download. Of the 472 active FCUs participating in MSAP, twenty-four were unable or unwilling to provide an AIRES share and loan download. Therefore, the results of FCUs' member income distribution are based on data sets provided by 448 FCUs.

FCU member income distribution results are based on the number of share accounts provided in the AIRES share and loan download. It is important to note, a member may have a single share account or may have several accounts such as a savings, draft, and retirement account. The following factors were considered in this decision:

- AIRES share downloads provided by FCUs in MSAP did not have standard account codes to identify and narrow the download to one share account type (i.e., regular share accounts).
- The Fair Lending Wiz software used to estimate member income could not aggregate member account information into member level data.
- Use of member accounts provided a better measure of members who are making a wider use of credit union services.

The initial use of three methods to collect member income data allowed the comparison of the validity and reliability of each method. Eventually, the labor intensive manual review of loan files was eliminated and the analysis of the AIRES share and loan downloads was relied upon for the remainder of the data collection.

Method #1 - Reviewing Loan Files

Income data recorded in 13,699 loan files from 164 FCUs were analyzed to determine the reliability of this data collection method. The following concerns with data quality obtained via manual loan reviews were noted:

- Exclusion of significant member data.

[92] During the November 3, 2005, U.S. House of Representatives Committee on Ways and Means hearing, GAO Managing Director Richard Hillman testified that reviewing individual loan files was the appropriate method of collecting member income data. To accommodate this position, NCUA included the manual review of loan files as an initial data collection method in MSAP despite NCUA's concerns about the quality and completeness of information contained in loan files.

[93] The AIRES loan and share download contains electronic loan, deposit, and address information for each credit union member. NCUA uses the electronic download in the examination software to expedite credit union examinations. Refer to Letter to Credit Unions, CU 03-CU-05, *Expanded AIRES Loan and Share Record Layout Specifications* for more details.

  - For the 164 FCUs reviewed, loan accounts represented 26 percent of member accounts. Therefore, close to 75 percent of FCUs' members would be excluded from this data collection.
- Inconsistent quality and completeness of information.
  - FCUs use various loan underwriting criteria and loan file documentation requirements. For example, some FCUs base lending decisions on gross versus net or disposable income.
- Resource burden on FCUs.
  - For FCUs without automated loan documentation, credit union staff retrieved and returned loan files.
- Resource burden on NCUA.
  - Examiners spent an average of seven hours per FCU reviewing the random sample of individual loan files versus two hours analyzing AIRES share and loan downloads to obtain member income data.

Based on the results obtained, income estimates using AIRES share and loan downloads provided better quality data that is more current, objective, consistent, reliable, and cost effective to obtain. Thus, on May 26, 2006, data collection from the manual review of loan files was eliminated.

Method #2 - Associating Zip Codes with Census Data

Internally-developed software that matched member zip codes from the AIRES share and loan downloads with Year 2000 U.S. Census Bureau data for median household income was the second data collection method employed. Since census data by zip code are available to the public from the U.S. Census Bureau web-site, this method was quick and inexpensive. Considering there are 31,881 zip codes in the United States compared to 66,438 census tracts, the zip code method of estimating member income is less precise than an analysis using census tracts. If the member lives outside the United States or in a newer zip code, the member's income could not be estimated. This situation occurred with less than 6 percent of the records reviewed.

Method #3 - Geo-coding Street Addresses/Census Tracts

Fair Lending Wiz software, developed by PCi Corporation (now Wolters Kluwer Financial Services), matches member street addresses from the AIRES share and loan download to Year 2000 U.S. Census Bureau median family income by census tract. The use of this software was the third method employed. The software provides greater precision than the zip code method at a greater expense.

If the street address is a P.O. Box, *Fair Lending Wiz* finds the exact midpoint of the related census tract and matches median family income based on the midpoint address. This midpoint or "zip centroid" matching occurred in 12 percent of the accounts. If the street address is outside the United States, the program cannot estimate the member's income. This situation occurred with less than 3 percent of the 16.8 million uploaded account records.

Success Rate Information

The AIRES share and loan downloads obtained from the 448 FCUs in MSAP that were willing and able to provide them contained 16.8 million member account records. Of this number of records, 14 million were in a usable form to assess member income. Table 27 tracks the total records uploaded and the elimination of unusable data. Unusable records resulted from accounts with data that could not be assigned a median family income or accounts without share or original loan amounts.

- About 500,000 records lacked MSA medium family income data once processed by the *Fair Lending Wiz* software. This information could not be estimated in cases where the address was not located in the United States or did not match to a census tract.
- Accounts were also eliminated due to zero balance shares (1.9 million accounts) or from missing original loan amounts (242,000 accounts).

Table 27

Individual Account Data			
	Shares	**Loans**	**Total**
All Uploaded Accounts			16,779,882
Less Those with No Matching Median Family Income			(522,513)
Adjusted Uploaded Accounts	13,357,387	2,899,982	16,257,369
Less Unusable Accounts:	0	0	0
Share Balance = $0	1,944,649	0	1,944,649
Original Loan Amount = $0	0	241,784	241,784
Usable Accounts	11,412,738	2,658,198	14,070,936
Usable Rate	85%	92%	87%

Table 28 below provides the success rate of the Fair Lending Wiz software to match member street address to a census tract to estimate median family income.

Table 28

Geo Coding Methods	**Shares**	**Loans**	**Total**	**Percent**
Total Street Address Matching	9,999,047	2,324,595	12,323,642	88%
Zip Centroid Matching	1,413,691	333,603	1,747,294	12%
Total Accounts	11,412,738	2,658,196	14,070,934	100%

Member Income Distribution - Validity of Methods/Results Comparison

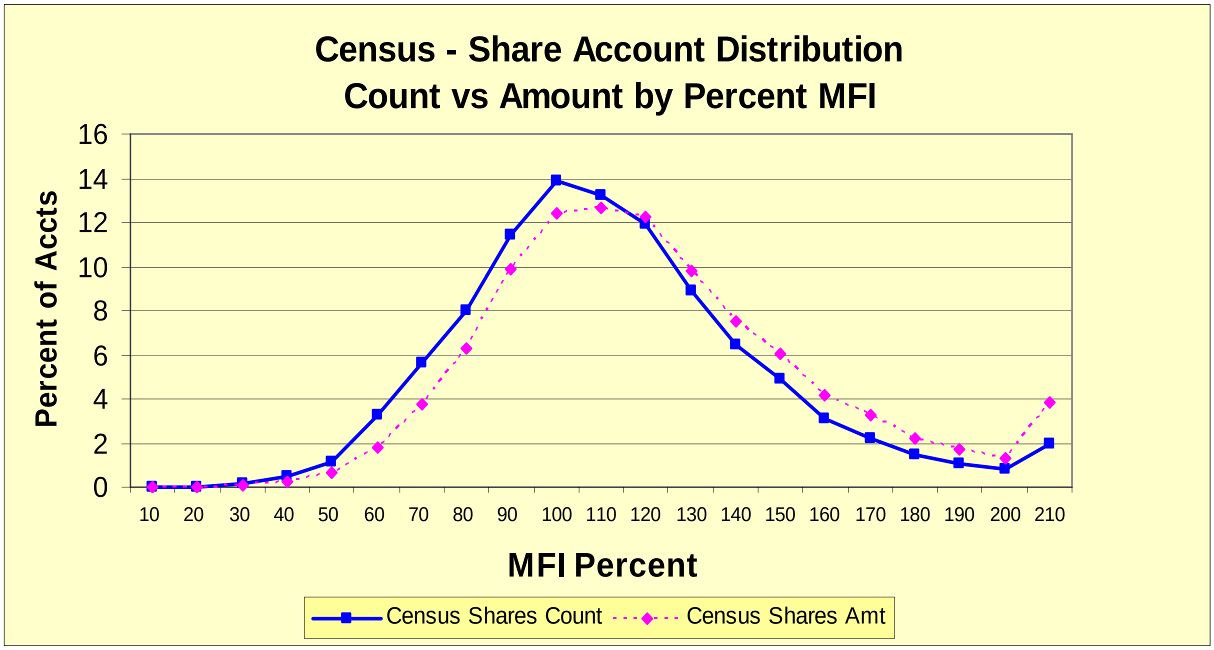
NOTE: *NCUA compared and analyzed the results obtained using different methods. Generally, the different methods tracked closely and the difference in the results was not statistically significant.*[94]

[94] Statistical significance of the differences in the results of different methodologies described below was determined using t-tests.

Number of Accounts versus Dollar Amount in Accounts

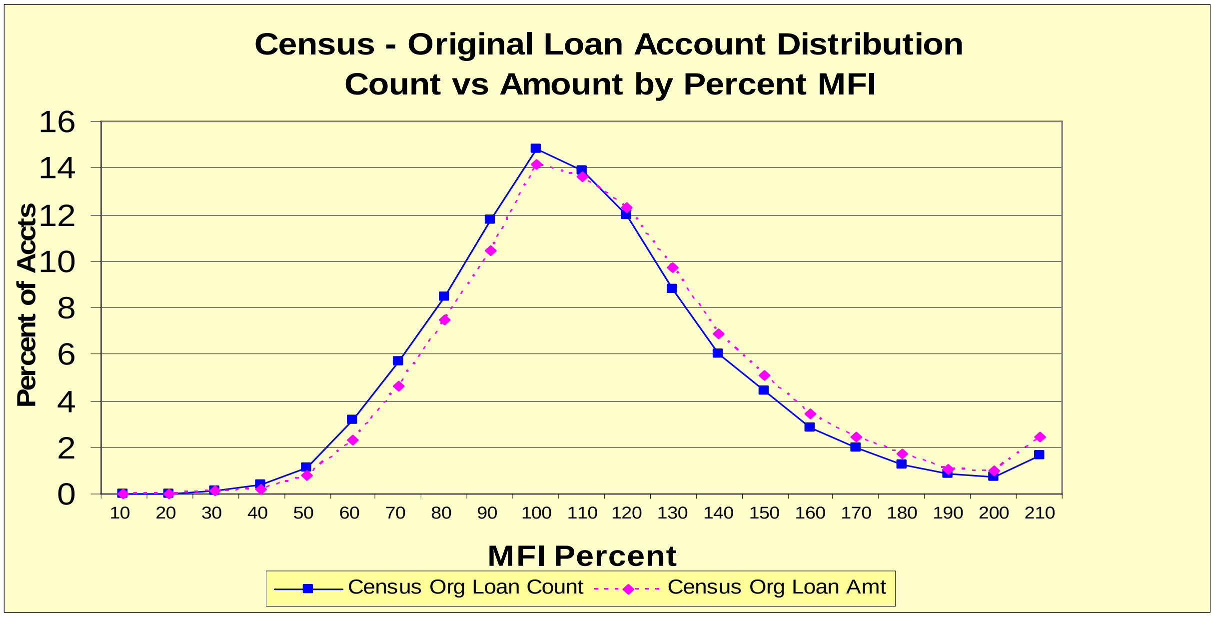
After comparing the analyses using number of accounts versus the dollar amount in the accounts, NCUA determined that both methods tracked very closely. Using median family income for the census tract as a percent of the metropolitan statistical area's median family income, NCUA found the results to be similar whether using the number (solid line) or dollar amount of share accounts (dotted line), as illustrated in Chart 28.

Chart 28



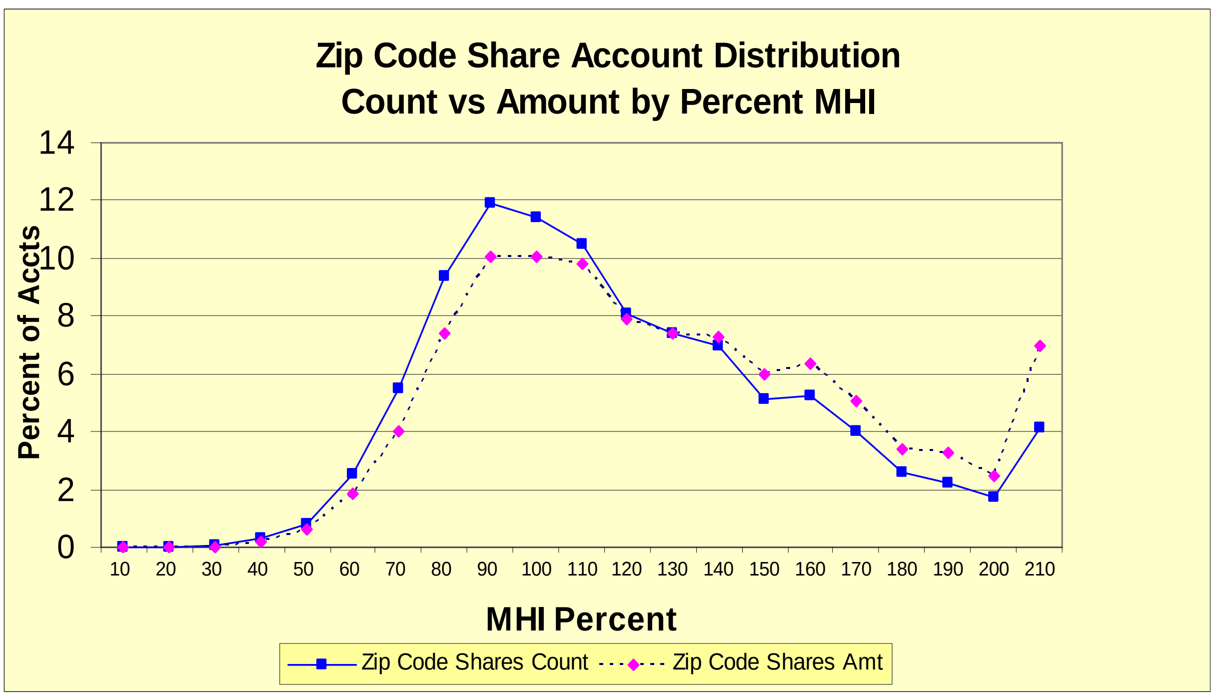
Similarly, the number of loans (solid line) and the dollar amount of the original loan (dotted line) tracked closely using the same estimated member income distribution, as illustrated in Chart 29.

Chart 29



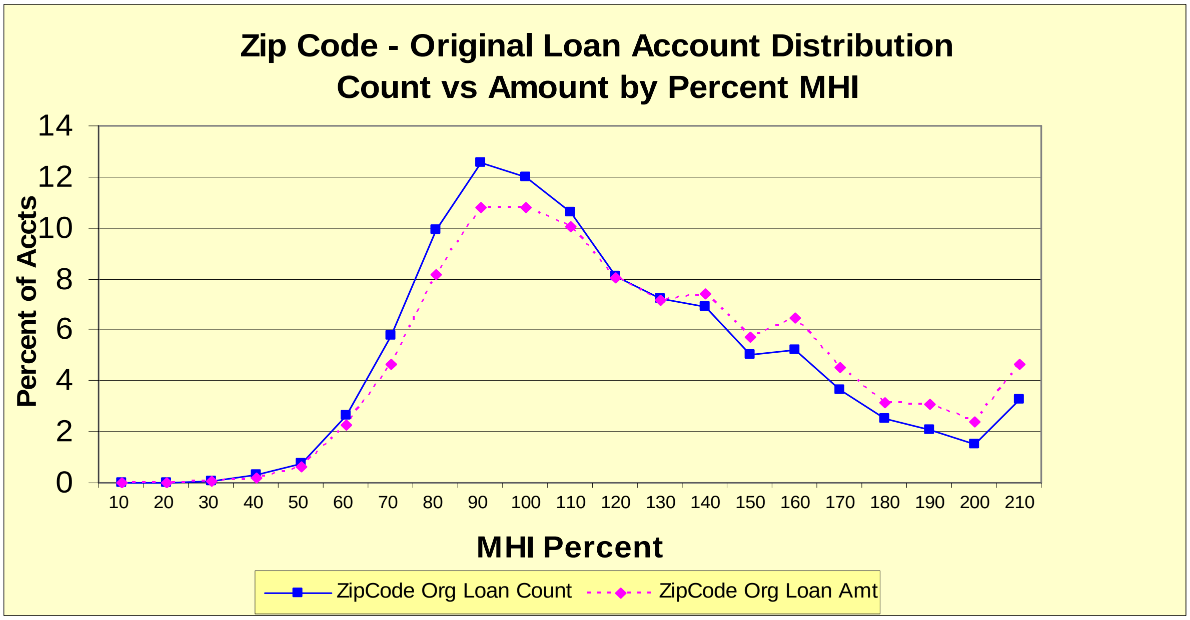
Using the estimated median household income based on zip code as a percent of the national median household income, NCUA obtained similar results when comparing number of share accounts (solid line) to dollar amount in the accounts (dotted line), as shown in Chart 30.

Chart 30



Likewise, NCUA had similar results comparing the number of original loans (solid line) to the dollar amount of the original loans (dotted line), as illustrated by Chart 31.

Chart 31

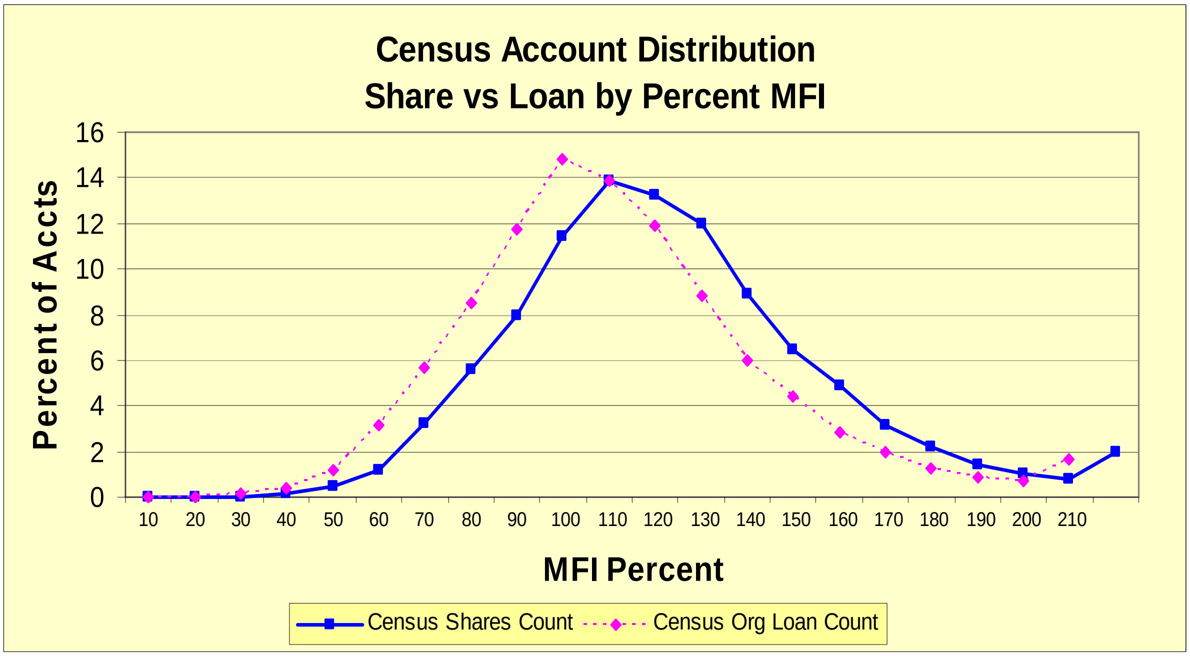


Therefore, for simplicity, NCUA focused on the analysis of the member income distribution by number of share accounts and number of original loans.

Share Accounts versus Loan Accounts

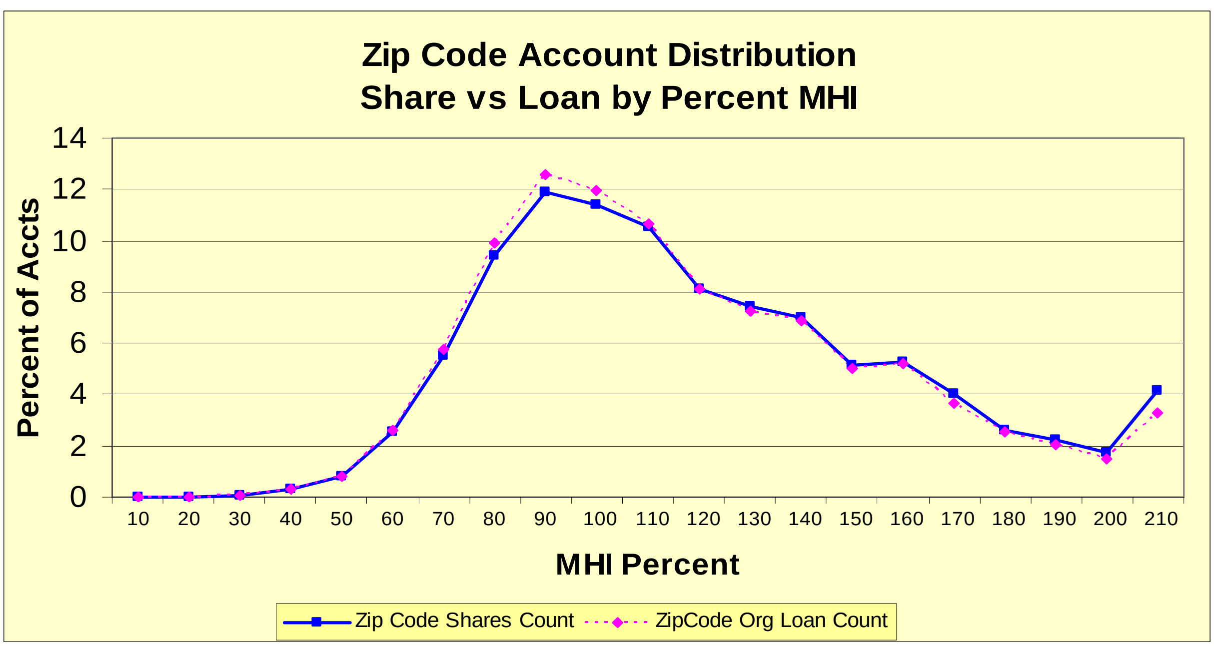
After comparing results using the number of share accounts and number of original loan accounts, NCUA determined that both methods tracked very closely. Using the median family income for the census tract as a percent of the metropolitan statistical area's median family income, NCUA found the results to be similar whether using the number of share accounts (solid line) or the number of original loan accounts (dotted line), as illustrated in Chart 32. However, the results using the number of original loan accounts slightly shifted the income distribution to the left, indicating lower estimated incomes.

Chart 32



Using the estimated median household income based on zip code as a percent of the national median household income, the results using the number of share accounts (solid line) and number of original loan accounts (dotted line) track even closer as shown in Chart 33. NCUA did not see the same slight shift in results using the number of original loan accounts.

Chart 33

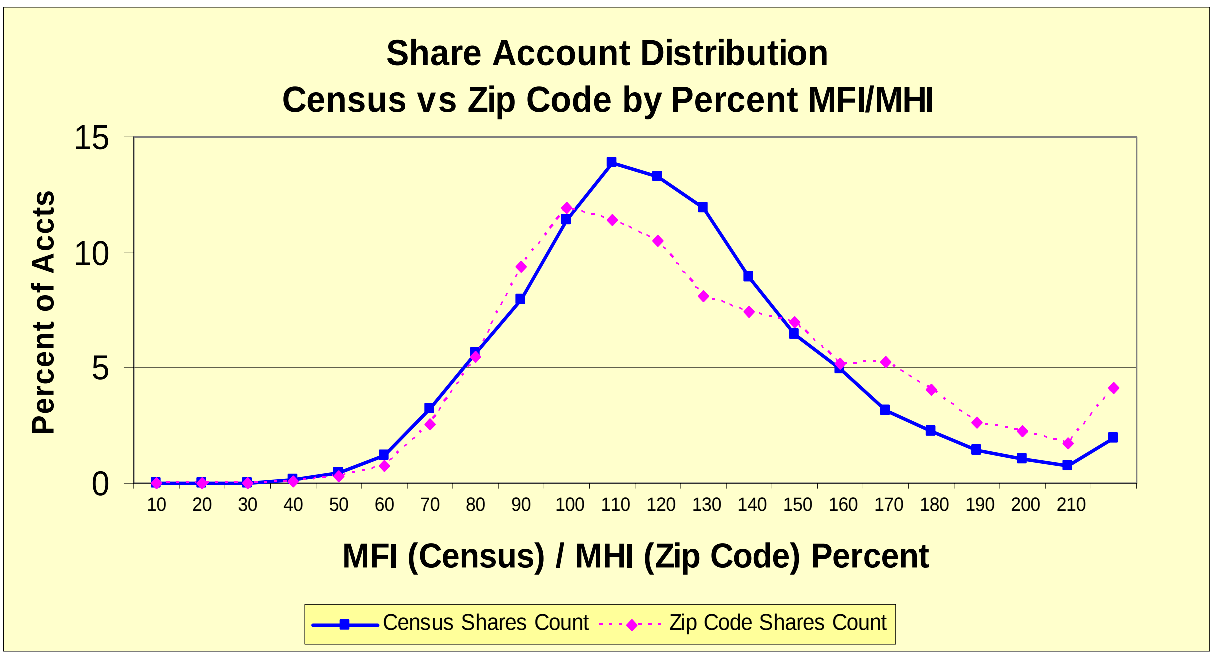


NCUA had concerns about using original loan counts as the method to demonstrate the member income distribution. In about a third of FCUs in MSAP, NCUA could not obtain an electronic AIRES file on the FCU's entire loan portfolio because the credit union outsourced servicing for a portion of the loans. In most cases, these were mortgage and credit card loans. In addition, not all FCU members have loans with their credit unions, but they all have a share account. Therefore, to ensure all FCU members are represented in the income distribution analyses, NCUA focused its results on the number of share accounts rather than loan accounts.

Zip Code Matching versus Geo-Coding/Census Tract Matching

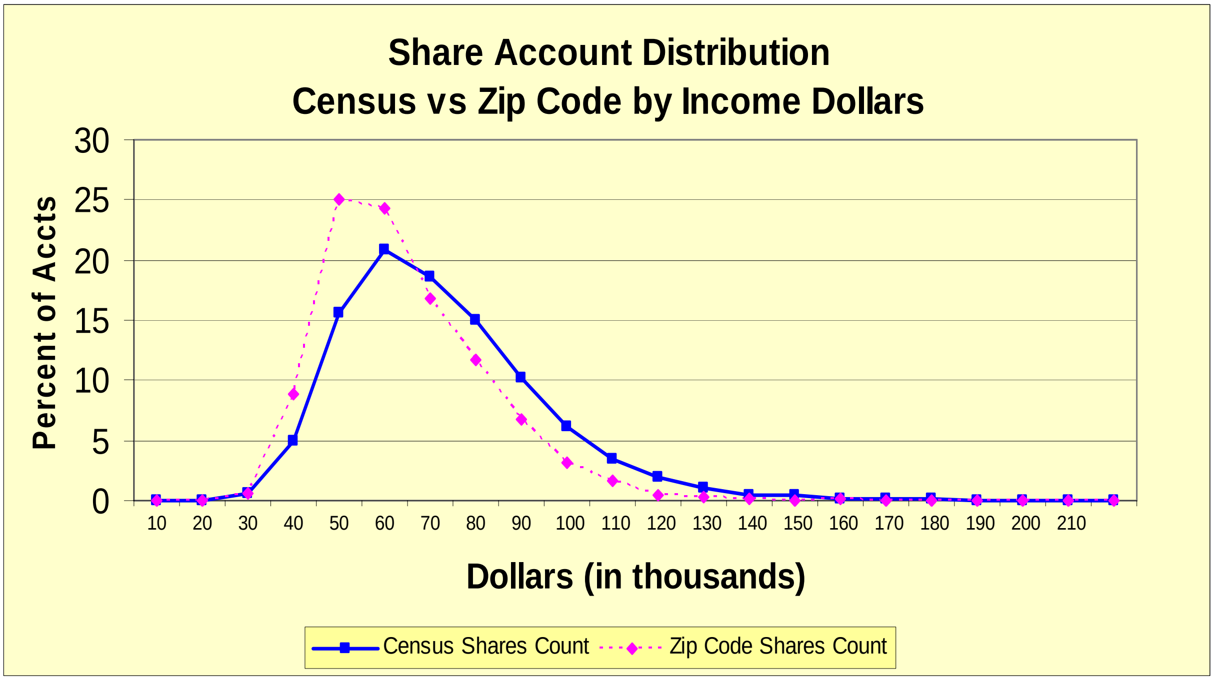
Using the number of share accounts, NCUA compared member income distribution results via zip code matching and geo-coding, or census tract matching. The solid line in Chart 34 illustrates the estimated member income distribution using census tract median family income as a percent of the metropolitan statistical area median family income. The dotted line illustrates the estimated member income distribution using zip code based median household income as a percent of the national median household income. The census tract or geo-coding results in a slightly greater percent of members in the 110 to 140 percent range, but slightly less percent of the members above 160 percent.

Chart 34



Converting these results to income dollars, the solid line in Chart 35 shows the estimated member income distribution based on census tract median family income. The dotted line shows the estimated member income distribution based on zip code median household income.

Chart 35



In terms of dollars, the zip code method (dotted line) results in a greater percent of the membership in the $45,000 to $65,000 annual salary range. The geo-coding or census tract method (solid line) results in a slightly greater percent of the membership in the $75,000 to $125,000 range. Since the geo-coding method is considered more precise, NCUA focused its member income distribution analyses on these results.

Aggregate Data versus Average of Data for All Individual Credit Unions

The final data integrity analyses involved comparing results using aggregate share account data versus the average of individual FCU statistics to determine whether the largest FCUs in MSAP skewed the results.

Chart 36

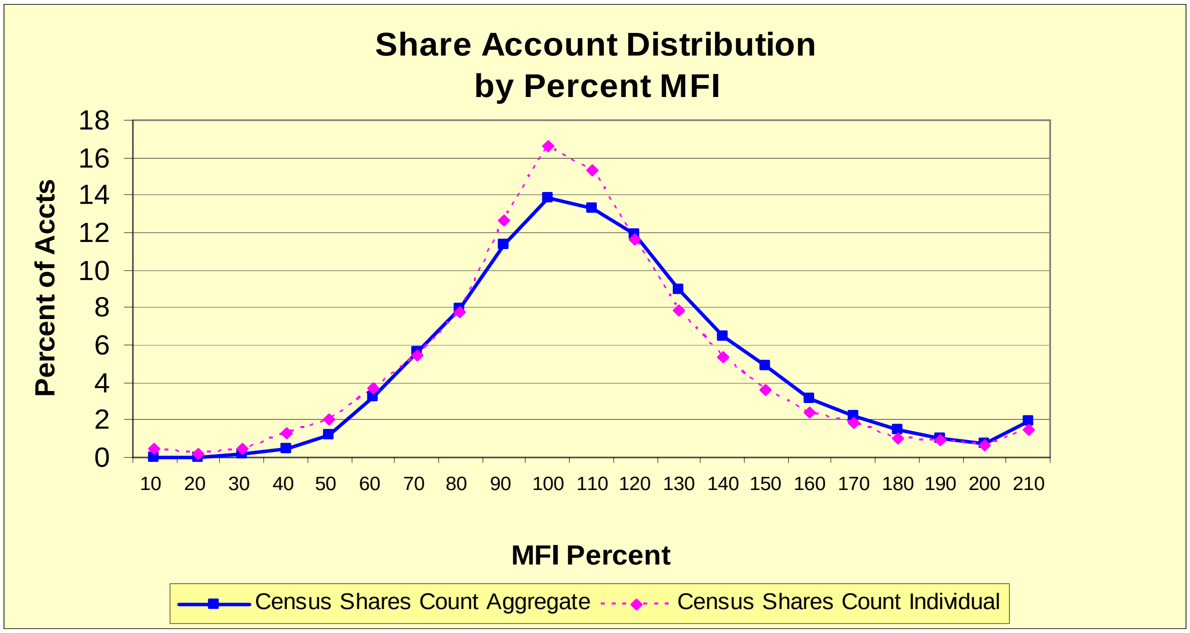


Chart 36 demonstrates that the results using census tract median family income as a percent of the metropolitan statistical area's median family income are substantially the same whether NCUA uses share accounts in aggregate (solid line) or the average of individual FCUs in MSAP (dotted line). Therefore, FCUs in MSAP with the largest number of share accounts does not skew the results of the member income distribution analyses.

Appendix 3 – Services and Executive Compensation Survey

Account Information
What is the par value of a share in the credit union?
How many months does a member have to deposit the entire par value, after opening an account?
Does the credit union require a minimum balance to maintain a share draft account?
What was the smallest secured consumer loan granted during the past 12 months (original balance)?
What was the smallest unsecured consumer loan granted during the past 12 months (original balance)?
Does the credit union require a minimum balance to open a share draft account?
Does the credit union require a minimum term for a share certificate?
Compensation
CEO Total Compensation & Benefits - Calendar Year 2005
Does the credit union have a CFO? If Yes what is the total compensation and benefits?
Does the credit union have a COO? If Yes what is the total compensation and benefits?
Services Provided
Free Checking
Brochures in other languages (non-English)
Credit Builder Loans
Financial Counseling (Debt and/or Investment)
Financial Literacy & Education Workshops
First Time Home Buyers Program
Individual Development Accounts (IDA)
IR net or other low cost remittance
Micro Consumer Loans (<$500)
Micro Member Business Loans (<$50,000)
No surcharge ATMs
Free Bill Pay
Student Run Branches
Student Financial Education Seminars
Share-secured Credit Cards
Volunteer Income Tax Assistance (VITA) Program
Member Business Loans
Business Share Accounts
Other Services
Community Involvement
Does the credit union offer assistance to low-income designated credit unions?
Has the credit union donated funds to one or more charity organizations related to the field of membership or local community?
Is the credit union involved with the collection of funds on behalf of charities?
Does the credit union attempt to market to all potential members in the field of membership?
Does the credit union offer special loan programs linked to employment at the sponsor organization (uniform purchase, etc)?
Charter
Has the credit union added an underserved area?

Appendix 4 – NCUA Member Service Assessment Pilot Program Costs

MSAP involved twenty-six NCUA examiners who collected the data, as well as twenty NCUA office staff. The office staff designed the methodology and database to collect the information, as well as the mechanism to upload and post it to NCUA server. Office staff also designed training for the examiners participating in MSAP, installed Fair Lending Wiz and other software on examiner computers, answered examiner questions throughout the process, scrubbed the data, and completed the final analyses.

During the six-month period ending August 31, 2006, NCUA analyzed 14 million account records and collected MSAP data from 472 credit unions. NCUA estimates the total cost of this effort at $1.1 million.

Description	Related Estimated Cost
Examiner Time (5,372 hours)	$273,811
Office Staff Time (11,394 hours)	$729,621
Travel Costs	$60,974
Fair Lending Wiz Licenses and Training	$41,000
Total	$1,105,406

The above estimate understates actual monetary cost such as significant time expended by senior NCUA staff. Administrative costs, such as costs of computer usage and those associated with processing travel reimbursements, were not included above.

Appendix 5 – Abbreviations

Abbreviation	Term
AIRES	Automated Integrated Regulatory Examination Software
ATM	Automated Teller Machine
BFCU	Bureau of Federal Credit Unions
CDRLF	Community Development Revolving Loan Fund
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CUMAA	Credit Union Membership Access Act
FCU	Federal Credit Union
FCU Act	Federal Credit Union Act
FDIC	Federal Deposit Insurance Corporation
FICU	Federally-insured Credit Unions
FISCU	Federally-insured State Credit Unions
FOM	Fields of Membership
FSA	Federal Security Agency
GAO	Government Accountability Office
IDA	Individual Development Accounts
IRPS	Interpretive Ruling and Policy Statement
MFI	Median Family Income
MHI	Median Household Income
MSA	Metropolitan Statistical Area
MSAP	Member Service Assessment Pilot Program
NASCUS	National Association of State Credit Union Supervisors
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
OEO	Office of Economic Opportunity
OMB	Office of Management and Budget
OSCUI	Office of Small Credit Union Initiatives
VITA	Volunteer Income Tax Assistance Program