

UNITED STATES OF AMERICA
BEFORE THE NATIONAL CREDIT UNION ADMINISTRATION

In the Matter of

TEG Federal Credit Union

Docket No. 99-FOM-005

Decision and Order on Appeal

This matter comes before the National Credit Union Administration Board (Board) on appeal from TEG Federal Credit Union (Appellant). The Region I Director denied the Appellant's application to convert to a community charter.

Background

Appellant is a multiple group credit union with offices in Fishkill and Poughkeepsie, Dutchess County, New York. As of March 31, 1999, it had 17,205 members (potential of 30,000) and assets of \$76,369,093. The Appellant was chartered in 1969 to serve employees of one school district. Appellant's field of membership currently consists of over 100 select employee, school and other associational groups. The Appellant's overall penetration rate is 57%.

The Appellant submitted its application to convert from a multiple group to a community charter on July 7, 1998, one month prior to the amendment of the Federal Credit Union Act by the Credit Union Membership Access Act. The requested community is a four-county area in upstate New York. The area consists of Dutchess, Ulster, Orange and Putnam Counties and is referred to by the Appellant as the Mid-Hudson Valley area.

The Region I Director denied the application on February 9, 1999. The authority to deny an application to convert to a community charter has been delegated by the NCUA Board to the Regional Directors.^[1] The Region I Director stated in his denial that the conversion application "... fails to demonstrate meaningful interaction among the residents." Appellant appealed the denial to the NCUA Board on March 19, 1999.

Issue for Appeal

The issue in the matter of this appeal is whether the four-county area is a community within the context of NCUA policy.^[2]

Analysis and Applicable Law and Policy

For purposes of community charters, Section 109 of the Federal Credit Union Act (the "FCU Act"), 12 U.S.C. 1759, states that "Federal credit union membership shall be limited to ... groups within a well-defined neighborhood, community, or rural district."^[3] The Chartering Manual states that it is NCUA policy "to limit the community to a single, geographically well-defined area where residents interact." It then sets out a two part test:

- The geographic area's boundaries must be clearly defined; and
- The charter applicant must establish that the area is recognized as a distinct neighborhood, community, or rural district.

Chartering Manual, ch. 1, II.C.1, p.1-6; ch. 2, IV.B, p.2-8.

The four-county area meets the first part of the two-part test. It is a clearly defined geographic area. The four-county area, two counties each on either side of the Hudson River, has distinct geographic boundaries.

The Chartering Manual sets forth the types of documentation needed to show that the area represents one well-defined area, distinguishable from the immediate surrounding areas. This documentation includes information on major trade areas (shopping patterns), traffic flows, shared/common facilities, common organizations and clubs, area newspapers or other periodicals, census tracts, history of area, common characteristics and background of residents, as well as what causes the area and its residents to be distinguishable from the immediate surrounding areas and residents. Chartering Manual at p. 1-7.

The proposed four-county area includes several small cities with populations between 20,000 and 30,000. There is no major city or urban area within its boundaries. The four-county area has a total population of over 850,000 and encompasses over 3000 square miles. It has a fairly equal balance of urban and rural residents.

For purposes of credit unions applying to convert to a community charter, “the greater the population of the proposed area, the greater justification necessary to support the existence of the “community” and interaction among its residents.” Chartering Manual at p. 2-8. The Appellant applicant must show that the proposed community is not only distinguishable from the surrounding area, but that its residents interact to form one community.

The Appellant submitted very little concerning demographics or interaction. The only information concerning interaction consisted of a few conclusive statements in the cover letter to the application. However, two other Federal Credit Unions applied for the same proposed community at the same time as the Appellant. These two applicants submitted voluminous documentation on demographics and interaction. They were also denied by the Region I Director on the basis of insufficient interaction. These two credit unions also appealed the Regional Director’s decisions to the Board.^[4] The Board heard and rendered decisions on the three appeals at the same Board meeting. After taking into account all of the information submitted on interaction by each of the three appealing credit unions, the Board has determined that the applicants did not show adequate interaction among the residents of the four-county area to meet the community chartering standards. Therefore, the Board determined that the four-county area did not constitute a community under agency policy. Included within this determination the Board found that there was not meaningful information on the common characteristics and background of area residents and the characteristics that distinguish the area and its residents from surrounding areas and residents. The Board’s discussion on Demographics and Interaction and its Conclusion found in the Hudson Valley Federal Credit Union decision (*Docket No. 99-FOM-003*, attached as exhibit A) is incorporated into this decision.

Order

Based upon the NCUA Board’s determination that the counties of Dutchess, Ulster, Orange and Putnam, New York, do not, as a whole, constitute a community under agency policy, it is ORDERED as follows:

The Region I Director’s decision denying TEG Federal Credit Union’s application to convert to a community chartered credit union is upheld and the appeal is denied.

So Ordered this 22nd day of July, 1999, by the National Credit Union Administration Board.

Becky Baker

Secretary of the Board

[1] NCUA Delegations of Authority, Chartering 3C. No concurrences from other offices are required.

[2] Interpretive Ruling and Policy Statement (IRPS) 94-1, as amended by IRPSs 96-1 and 98-1, constitutes NCUA chartering policy in affect at the time Appellant filed its conversion application and is applicable to this appeal. This policy is contained in NCUA's Chartering Manual, NCUA 8007/M6001 (June 1996), as amended by IRPS 98-1. References to the Chartering Manual are to the 1996 edition.

[3] This provision of Section 109 is from the FCU Act prior to its amendment by the Credit Union Membership Access Act of 1998 (CUMA). Since Appellant filed its community conversion application prior to the CUMA amendment, the pre-CUMA version of Section 109 is the applicable version.

[4] Hudson Valley Federal Credit Union and Mid-Hudson Valley Federal Credit Union are the other two credit unions appealing the Region I Director's decisions. These credit unions submitted very similar application and appeal packages. The information on both demographics and interaction was almost identical.