

November 19, 2012

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

re: National Credit Union Administration; Chartering and Field of Membership Manual for Federal Credit Unions; 12 C.F.R. Part 701; 77 Federal Register 59137, September 26, 2012

Dear Ms. Rupp:

The National Credit Union Administration (NCUA) Board (the Board) is proposing to amend the definition of “rural district” in its Chartering and Field of Membership Manual. The proposed amendment to the definition of “rural district” permits a geographic area to qualify as a rural district if, among other criteria, it has a total population that does not exceed the greater of 200,000 people or three percent of the population of the state in which the majority of the district is located. Currently, a rural district cannot exceed 200,000 in population.

The American Bankers Association (ABA)¹ is opposed to the proposed change to the population threshold of a rural district. ABA believes that the new population threshold proposed by the Board for a rural district is contrary to Congressional intent. Congress explicitly stated that a *meaningful affinity and bond, an interaction, and sense of cohesion or identity* among a credit union’s membership were essential for a credit union to fulfill its public mission. However, the proposed rural district would permit the cobbling together of both rural and urban census blocks, which ABA believes have little affinity or commonality of interest as intended under the law. Moreover, the potential geographic area of a rural district under the amended definition could be so vast that it would make it nearly impossible for a federal credit union to fulfill its public mission. Therefore, the proposed population threshold for a rural district of 3 percent of the state’s population in which the majority of the rural district is located will make it more difficult for members of a credit union chartered to serve a rural district to have a meaningful affinity and bond, an interaction, and sense of cohesion or identity and should be withdrawn.

Background

NCUA’s Chartering and Field of Membership Manual currently includes two alternative sets of criteria for establishing a rural district. One set of criteria is:

- The district has well-defined, contiguous boundaries;

¹ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation’s \$14 trillion banking industry and its 2 million employees. The majority of ABA’s members are bank with less than \$185 million in assets. Learn more at aba.com.

- More than 50% of its population resides in areas the U.S. Census Bureau designates as rural; and
- The district’s total population does not exceed 200,000.

The alternate criteria require:

- The district has well-defined, contiguous boundaries;
- It has a population density of no more than 100 people per square mile; and
- The district’s total population does not exceed 200,000.

The NCUA Board is now proposing to amend the population threshold for a rural district. An area can qualify as a rural district if its population does not exceed the greater of (1) 200,000; or (2) three percent of the total population of the state in which the majority of the district is located. A credit union that satisfies this requirement along with the other requirements would be viewed as a presumptive rural district.

Since first defining the term rural district in 2010, 43 federal credit unions are operating under a rural district charter. The Board made the decision to change the population threshold for a rural district to make the charter more attractive. As a result, the proposed enhanced definition will affect federal credit unions seeking a rural district charter located in 13 states.²

ABA’s Position

ABA believes NCUA’s proposed definition of a rural district is at odds with Congressional mandate and intent, especially the proposed population threshold of 200,000 or 3 percent of the total population of the state in which the majority of the district is located, whichever is greater.

The Federal Credit Union Act states that a community credit union is one organized around a “well-defined local community, neighborhood, or rural district.”³ Congress delegated to the Board the authority to define a “well-defined local community, neighborhood, or rural district.”⁴

ABA acknowledges that the term “rural district” may suggest an area covering more than one political jurisdiction because the word rural implies a larger area with a scattered population. However, ABA believes that the new population threshold proposed by the Board is contrary to Congressional intent.

The expansion of the proposed population size threshold for a rural district means that it may be more difficult for a federal credit union to fulfill its public mission. Congress found in 1998 that “[t]o promote thrift and credit extension, a meaningful affinity and bond among members, manifested by a commonality of routine interaction, shared and related work experiences, interests, or activities, or the maintenance of an otherwise well-understood sense of cohesion or identity is essential to the fulfillment of the public mission of credit unions.”

² The 13 states are New York, California, Texas, Florida, Illinois, Georgia, Pennsylvania, Ohio, Michigan, North Carolina, New Jersey, Virginia, and Washington.

³ 12 U.S.C. 1759(b)(3)

⁴ Pub. L 109-219.

Given the fact that the amended population threshold can lead to the creation of a rural district with a vast geographic reach, it is highly unlikely that there would be any *meaningful affinity and bond, an interaction, and sense of cohesion or identity* among the credit union members of a potential rural district. This is clearly at odds with the statute and would make it more difficult for credit unions to fulfill their public mission.

For example, the enhanced definition could permit a federal credit union in California to cobble together a rural district comprised of 15 counties with a total population of 1,124,834.⁵ The geographic area of this rural district would equal 41,594 square miles, **which is larger than 17 states** – including the entire states of Tennessee, Ohio and Virginia.⁶

Moreover, in 1998 Congress found that an important characteristic of credit unions was that they were democratically operated and managed by volunteers. However, NCUA's proposed rural district could encompass such expansive geographic territories that it would render this characteristic impossible to realize in practice, as members would have a hard time volunteering and participating in the governance of their credit union.

Finally, as ABA wrote in its February 19, 2010 comment letter to NCUA, the proposed rural district would permit the cobbling together of both rural and urban census blocks. ABA believes that rural communities are distinct from urban communities and have little affinity or commonality of interest as intended under the law. Therefore, such an agglomeration of census blocks would not meet the requirement of having a meaningful affinity and bond or sense of cohesion or identity.

ABA urges the NCUA Board to reject its proposal to expand the population size of a rural district to three percent of the population of the state in which the majority of the district is located. The amended population threshold for a rural district is contrary to Congressional intent that *credit union members have a meaningful affinity and bond, an interaction, and sense of cohesion or identity*.

If you have any questions about our comment letter, please feel free to contact the undersigned.

Sincerely,



Keith Leggett
Vice President and Senior Economist

⁵ The fifteen California counties are Siskiyou, Modoc, Lassen, Shasta, Humboldt, Mendocino, Trinity, Tehama, Plumas, Butte, Glenn, Lake, Colusa, Yolo, and Sierra.

⁶ The seventeen states are Tennessee, Ohio, Virginia, Kentucky, Indiana, Maine, South Carolina, West Virginia, Maryland, Vermont, New Hampshire, Massachusetts, New Jersey, Hawaii, Connecticut, Delaware, and Rhode Island.