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February 28, 2006

Mr. Neil McNamara
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428.

Re: National Credit Union Administration; Agency Information Collection Activities: Submission to OMB for New Information Collections; Comment Request; 71 Federal Register 9382, February 23, 2006

Dear Mr. McNamara:

The National Credit Union Administration (“NCUA”) is proposing to gather information about the types of services federal credit unions provide and the economic status of the members receiving those services. The American Bankers Association (“ABA”) believes that collection and dissemination of information measuring who credit unions are serving is extremely important. As NCUA undertakes this effort, it is important that it be done in a manner that assures the highest quality and most complete information. In particular, the NCUA should over-sample large credit unions and include the 100 largest Federal credit unions in its sample. These institutions possess the bulk of credit union members and assets and have exhibited the strongest growth within the credit union industry. Moreover, this information is so central to demonstrating that credit unions are meeting their statutory mission of serving people of small means, and so fundamental to the justification for continuing their federal subsidies, that an adequate collection of information on credit union service to their membership should be done at least annually.

The American Bankers Association, on behalf of the more than two million men and women who work in the nation’s banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

Background

The preamble of the Federal Credit Union Act states that Federal credit unions were established “to make more available to people of small means credit for provident purposes.” However, the National Credit Union Administration has never systematically documented whether credit unions meet this standard.

In fact, attempts to do such testing have been resisted by the NCUA Board and/or the credit unions themselves. For example, an attempt by former NCUA Chairman Norman D'Amours in 1999 to mandate a survey on credit union service to low- and moderate-income members was defeated by the NCUA Board.

Yet increasingly, policymakers are stressing the need for objective, measurable indicators of credit union performance in meeting these needs. In its 2003 study, the Government Accountability Office (“GAO”) found that NCUA had not developed indicators to determine if credit union services were reaching the underserved. GAO recommended that NCUA needed to develop tangible indicators to measure credit union services to the underserved.¹

During the November 3, 2005 hearing of the House Committee on Ways and Means on the credit union tax exemption, Chairman Bill Thomas (R - CA) commented to NCUA Chairman Johnson, “Repeatedly, when Members asked you what do you do in terms of a measuring unit to see if people are actually providing services to people of modest means, you don't have the structure or the data capability of determining that.”²

Given the importance and heightened awareness of this issue, NCUA in a February 10, 2006 press release stated that it would initiate a process of collecting data measuring credit union service to members as well as data on senior management compensation and benefits. The data collected would include:

- The extent and type of services provided to members;
- The income distribution of members; and
- Executive compensation and benefits.³

ABA's Position

As the Federal Credit Union Act clearly points out, credit unions have a mandate to serve people of modest means. This is the rationale for the tax exemption and other federal benefits extended to credit unions. To ensure that credit unions are fulfilling their mandate, NCUA needs to measure who credit unions serve.

ABA believes that this survey is a positive development. The information gathered should provide more transparency regarding who uses credit unions. ABA believes that the collection of information regarding compensation and benefits accruing to senior management is also a good first step, but aggregating the data as proposed frustrates the valuable goal of transparency.

¹ Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management. General Accounting Office, October 2003 (GAO-04-91).

² <http://waysandmeans.house.gov/hearings.asp>

³ http://www.ncua.gov/news/press_releases/2006/NR06-0210.htm

However, ABA believes several steps should be taken by NCUA to assure the quality and completeness of the information gathered.

First, NCUA proposes to sample approximately 481 Federal credit unions across charter type.⁴ ABA believes that NCUA should **over-sample** large Federal credit unions given that these institutions control a large share of the assets as well as membership of Federal credit unions. For example, the 100 largest Federal credit unions as of September 2005 held approximately 45 percent of the assets and 33 percent of members of all Federal credit unions. Federal credit unions, with \$100 million or more in assets, while they account for slightly less than 12 percent of all credit unions, control nearly 80 percent of Federal credit union assets and have approximately 70 percent of the members.

To justify further the over-sampling of large credit unions, the strongest growth within the credit union industry has been among the largest credit unions. The GAO reported in 2003 that “the 50 largest credit unions held 18 percent of industry assets in 1992, but by 2002 the 50 largest credit unions held 23 percent of industry assets.”⁵ Moreover, these larger credit unions are more likely to serve multiple groups or communities within their field of membership than smaller credit unions. This means that these institutions have broader and potentially more diverse membership bases and are more likely to depart from their mission to serve lower income populations. Therefore, including these institutions in the sample will provide a more accurate picture of whether credit unions are reaching out to the underserved or merely skimming the cream off the top of their membership base.

Specifically, ABA recommends that any sample by NCUA should include the 100 largest Federal credit unions and also should over-sample institutions with more than \$100 million in assets.

Second, ABA believes that this measurement of credit union service should not be a single snapshot taken at one distinct point in time. Rather, the surveying of who uses credit unions should be completed at least yearly.

Finally, NCUA proposes to collect information on senior management compensation and benefits and **aggregate** the data. However, the aggregation of such information will do little to improve corporate governance of Federal credit unions by NCUA. In fact, aggregated data lacks transparency and seems to undermine the purpose of collecting this information – that is to improve corporate governance at Federal credit unions. ABA recommends that NCUA require Federal credit unions to disclose annually the compensation and benefits of the top three senior managers on the Form 5300.

In conclusion, Federal credit unions have a clear mandate to serve people of modest means. However, the lack of measurement makes it impossible to determine whether credit unions are fulfilling this mandate. The collection of information by

⁴ Ibid

⁵ Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management. General Accounting Office, October 2003 (GAO-04-91), p. 115.

NCUA on the products and services used by credit union members and the demographic profile of credit union members is a positive first step. This information should be publicly available so that taxpayers can ascertain the value of the tax expenditure provided. If you have any questions, please contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Leggett". The signature is written in a cursive style with a large initial "K".

Keith Leggett
Senior Economist