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Report to the Chairman, Committee on Ways and Means, House of Representatives

November 2006

CREDIT UNIONS

Greater Transparency Needed on Who Credit Unions Serve and on Senior Executive Compensation Arrangements

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GAO-07-29

Highlights

Highlights of GAO-07-29, a report to the Chairman, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Legislative and regulatory changes have blurred distinctions between credit unions and other depository institutions and raised questions about the tax-exempt status of credit unions. This report (1) assesses the effect of the Credit Union Membership Access Act on credit union membership and charters, (2) reviews the National Credit Union Administration's (NCUA) efforts to expand services to low- and moderate-income individuals, (3) compares rates offered by credit unions with comparably sized banks, (4) discusses unrelated business income tax issues, and (5) assesses transparency of credit union senior executive compensation. To address our objectives, we obtained NCUA data on credit union membership, charter changes, efforts to target those of modest means, and executive disclosure requirements. We also analyzed Federal Reserve Board's Survey of Consumer Finances and Internal Revenue Service data.

What GAO Recommends

To improve transparency, GAO recommends that the NCUA Chairman systematically track and monitor the progress of federal credit unions in serving those of modest means and require disclosure of credit union senior executive compensation. NCUA agreed with our recommendations but had some concerns with the report. GAO addressed these concerns in the agency comments section of the report.

www.gao.gov/cgi-bin/getrpt?GAO-07-29.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov.

November 2006

CREDIT UNIONS

Greater Transparency Needed on Who Credit Unions Serve and on Senior Executive Compensation Arrangements

What GAO Found

Since the passage of the Credit Union Membership Access Act (CUMAA) in 1998, larger community-based credit unions have constituted a much greater proportion of the industry. NCUA has approved federal community charters with increasingly larger geographic areas and potential for economically diverse membership. Much of the shift toward the larger community-based credit unions was due to conversions from other charters. NCUA's approval of these charters appears to have been triggered by changes in the economic environment and financial services industry and to diversify membership to accomplish goals such as increasing service to those of modest means.

NCUA has established the low-income credit union program and allowed adoption of "underserved areas" to increase credit union services to individuals of modest means. Despite increased credit union participation in these programs and the expansion of community charters, the 2004 and 2001 Survey of Consumer Finances indicated that credit unions lagged behind banks in serving low- and moderate-income households. NCUA officials told GAO that, given the nascent nature of its two initiatives and the relatively recent shift to community charters, they did not yet expect observable changes in the data. Also, NCUA recently has undertaken a pilot effort to collect data on the income characteristics of credit union members. Because limited data exist on the extent to which credit unions serve those of modest means, any assessment would be enhanced if NCUA were to move beyond its pilot and systematically collect income data.

Based on GAO analysis, credit unions typically had more favorable rates than banks, particularly for consumer loans. For example, credit unions auto loans were 1 to 2 percentage points lower than similarly sized banks, on average. However, it was not clear the extent that the more favorable rates fully reflected the tax subsidy that credit unions receive by tax-exemption.

The Internal Revenue Service (IRS) has been reviewing state-chartered credit union activities (federal credit unions are exempt) to determine compliance with unrelated business income tax (UBIT) requirements, but such determinations are difficult due to complicated criteria and because many credit unions file group rather than individual returns. IRS stated that it plans to issue technical guidance in the first quarter of 2007 that the agency believes will help ensure credit union compliance with UBIT.

Finally, credit union executive compensation is not transparent. Federal credit unions, unlike other tax-exempt organizations, do not file information returns, which contain data on executive compensation, with IRS. NCUA is collecting compensation data as part of its pilot, but it is unclear whether NCUA will conduct future reviews. NCUA officials noted a number of alternatives that could be used to increase transparency, such as requiring federal credit unions to provide compensation information in call reports or require that credit unions disclose compensation data at annual meetings.

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Abbreviations

ABA	American Banker's Association
CRA	Community Reinvestment Act
CUMAA	Credit Union Membership Access Act
CUSO	credit union service organizations
FFIEC	Federal Financial Institutions Examination Council
IRS	Internal Revenue Service
LICU	Low Income Credit Union
MSA	Metropolitan Statistical Area
NASCUS	National Association of State Credit Union Supervisors
NCUA	National Credit Union Administration
SCF	Survey of Consumer Finances
SEC	Securities and Exchange Commission
UBIT	unrelated business income tax

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United States Government Accountability Office
Washington, D.C. 20548

November 30, 2006

The Honorable William M. Thomas
Chairman
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Changes in credit union membership restrictions and the blurring of distinctions in the products and services offered by credit unions and other depository institutions, as well as concerns about the extent to which credit unions are serving people of modest means, have resulted in questions about the tax-exempt status of credit unions. Unlike banks, credit unions are (1) not-for-profit entities that build capital by retaining earnings (they do not issue capital stock); (2) member-owned cooperatives run by boards elected by the membership; (3) subject to field of membership requirements that limit membership to persons sharing certain circumstances, such as a common bond of occupation or association; and (4) exempt from federal income tax. As a result of recent legal and regulatory developments, the National Credit Union Administration (NCUA) has approved progressively larger geographic-based fields of membership for federal credit unions, including areas as large as whole counties or major metropolitan areas. Additionally, credit unions are increasingly offering products and services similar to those provided by banks, such as real estate and business loans. With the expansion of credit union membership and products, concerns have been raised whether the tax- exempt status of credit unions provides an unfair competitive advantage over comparably sized banks and the extent to which credit unions remain unique in terms of the population they serve versus that served by other depository institutions.

Credit unions can be chartered by the federal government or by a state government. NCUA has oversight authority for federally chartered credit unions; the states have primary oversight responsibility for state-chartered credit unions. NCUA also provides share insurance to all federally chartered and most state-chartered credit unions. As of December 2005, there were nearly 8,700 federally insured credit unions—about 5,400 federally chartered and 3,300 state-chartered—with about $679 billion in total assets.[1]

Under the Federal Credit Union Act, federal charters are subject to a field of membership requirement.[2] The act provides for three types of federal credit union charter—single common bond, multiple common bond, and community.[3] A single common-bond credit union has a field of membership that comprises one group having a common bond of occupation or association. In a multiple common-bond charter, the field of membership comprises more than one group, with each group having a common bond of occupation or association (within the group).[4] In a community charter, the membership comprises persons or organizations within a "well-defined local community, neighborhood, or rural district."

Although they are exempt from federal income tax, both federally and state-chartered credit unions do pay other taxes at the federal and state levels. For example, both types of credit unions pay federal employment taxes such as social security tax on behalf of their employees. According to the National Association of State Credit Union Supervisors (NASCUS), most states impose real property taxes on state-chartered credit unions;

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[1] According to NCUA, there are fewer than 500 nonfederally insured (privately insured or uninsured) state-chartered credit unions. Nonfederally insured credit unions are not subject to NCUA regulation. This report focuses strictly on federally and state-chartered credit unions that have member deposits insured by the National Credit Union Share Insurance Fund.

[2] 12 U.S.C. § 1759 (2000). State credit union chartering acts typically include similar field of membership restrictions. For example, see *Tex. Fin. Code Ann. 122.051* (Vernon 2005).

[3] The Credit Union Membership Access Act of 1998, Public Law 105-219 (Aug. 7, 1998), 112 STAT. 914, amended the Federal Credit Union Act to allow multiple-group chartering, subject to limitations that NCUA must consider when granting charters, and limited new community charter applications to well-defined local communities.

[4] In a multiple-bond credit union, the original number of members in each group must be fewer than 3,000, unless a statutory exception applies. 12 U.S.C. § 1759(b), (d). The numerical requirement does not apply to persons or organizations within an underserved local community, neighborhood, or rural district. 12 U.S.C. § 1759(c)(2). The act also contains other exceptions to the numerical requirement, as well as a grandfather provision. See 12 U.S.C. §§ 1759(d)(2), (c)(1).

and in a few states, federally chartered credit unions are subject to state real property taxes.[5]

As part of the House Ways and Means Committee's continuing oversight of the tax-exempt sector, you asked us to review a variety of credit union issues.[6] The objectives of this study were to (1) assess the effect of the 1998 Credit Union Membership Access Act (CUMAA) on federal credit union membership and charter expansion; (2) review NCUA's efforts to expand credit union services to low- and moderate-income individuals; (3) compare rates offered by credit unions with rates at comparably sized banks, as one indicator of how tax-exemption might benefit credit union members; (4) discuss issues associated with the application of the federal unrelated business income tax (UBIT) to credit unions; and (5) assess the transparency of credit union executives and board member compensation.

To assess the effect of CUMAA on federal credit union membership and charter expansion, we obtained data from NCUA regarding charter types and membership, including data on recent new charter approvals, conversions, and expansions.[7] To review NCUA efforts to expand credit union services to low- and moderate-income individuals, we obtained information from NCUA on its low-income credit union program and recent underserved area expansions.[8] We also obtained and analyzed the Board of Governors of the Federal Reserve System's (Federal Reserve) 2004 Survey of Consumer Finances (SCF) to assess the extent to which credit union members were of low- and moderate-income households and discussed with NCUA officials their effort to measure the income levels of credit union members. To compare rates offered by credit unions with those of

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[5] NASCUS Profile Credit Union Supervisory and State Regulatory Structures, 2005-2006 Edition. NASCUS represents the 48 state governmental agencies and U.S. territorial agencies that charter, regulate, and examine the nation's state-chartered credit unions.

[6] On November 3, 2005, the House Ways and Means Committee held a hearing to review the credit union tax exemption in which GAO discussed issues regarding the tax-exempt status of credit unions. See GAO, *Financial Institutions: Issues Regarding the Tax-Exempt Status of Credit Unions*, GAO-06-220T (Washington, D.C.: Nov. 3, 2005).

[7] Federally insured credit unions are required to report their potential as well as actual membership to NCUA. Potential membership is an estimate of the maximum number of members that could join a credit union. Throughout this report, the term membership refers to actual credit union members unless otherwise noted.

[8] As discussed previously, CUMAA permits federal multiple-bond credit unions to include underserved areas in their field of membership, regardless of size and location.

comparably sized banks, we obtained and reviewed rate data on more than 15 loan and savings products to identify any systematic differences. To facilitate our discussion of issues related to the application of UBIT to credit unions, we reviewed provisions of the Internal Revenue Code, Federal Credit Union Act, judicial decisions, and Internal Revenue Service (IRS) documents concerning the unrelated business income tax (UBIT) and the taxation of credit unions. We also obtained and analyzed IRS data regarding its activities to identify state-chartered credit union activities subject to UBIT. To provide information on transparency of compensation of credit union executives and board members, we discussed compensation reporting requirements of credit unions with IRS and obtained publicly available data regarding the compensation of board members and senior executives of credit unions and banks. Appendix I provides additional information about our scope and methodology. We conducted our work in Washington, D.C., and San Francisco from November 2005 through November 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Since the passage of CUMAA in 1998 and subsequent changes in NCUA regulations, the credit union industry has experienced dramatic growth in the number of credit unions with community-based charters. NCUA revised its regulations after the passage of CUMAA, making it easier for federal credit unions to qualify for community charters that served large geographic areas such as entire counties. From 2000 through 2005, the overall number of federally chartered credit unions declined, but the number of federal community-chartered credit unions more than doubled (from 523 to 1,115). The assets of all three types of federal credit unions grew by about $140 billion between 2000 and 2005, and the assets held by community credit unions nearly quadrupled (from $27.1 to $104.4 billion). Charter conversions largely drove the increase in numbers of community credit unions, with more than 90 percent of the growth in community charters resulting from conversions by multiple-bond credit unions. According to NCUA officials, the changes were necessary to maintain competitiveness against more expansive membership regulations in some state charters, enhance the safety and soundness of credit unions, and allow credit unions to serve more diverse memberships, including individuals of modest means.

Although NCUA has taken actions to make credit union services available to individuals of modest means, information that directly measures the income levels of credit union members continues to be limited. In addition to looking at community chartering as a way to serve those of modest means, NCUA has established two initiatives to enhance the availability of credit union services to individuals of modest means—the low-income credit union program and permitting the adoption by credit unions of "underserved areas," regardless of the credit union's location. Federal credit union participation in both of the initiatives has risen since 2000—for example, federal credit unions receiving NCUA approval to expand into underserved areas increased from 40 in 2000 to 641 at the end of 2005. However, the most recent available information on the income of credit union members—the Federal Reserve's 2004 SCF—indicated that credit unions continued to lag behind banks in the percentage of their customers or members that were of low- and moderate-income households. Our analysis of the 2004 SCF indicated that 31 percent of households that only and primarily used credit unions were of modest means versus 41 percent for households that only and primarily used banks. As an approximation of income levels, SCF data have certain limitations for measuring the income characteristics of credit union members and should be interpreted with caution. NCUA commented that because of the relative newness of community charter expansion and observed increase in participation of the low-income and underserved area efforts, it would take time before changes in the income profiles of credit union members could be reflected in the data. Because of the limitations of available data such as the SCF, NCUA has undertaken a pilot program to estimate the income levels of credit union members. However, because of limitations in the sample size, the survey will not allow NCUA to make statistically valid conclusions on member income by specific charter type or about specific services provided to members of various incomes.

Our analysis of interest rates for 15 loan and savings products indicated that credit unions seem to offer more favorable rates than those of comparably sized banks, particularly for consumer loans. For example, rates that credit unions charged for car loans averaged about 1 to 2 percentage points lower than rates offered by similarly sized banks, and credit union rates averaged 0.4 percentage points higher for regular savings accounts. This difference was slightly more pronounced as the size of the institutions increased. In contrast, rates that credit unions and banks charged for mortgage loans were virtually the same; and, in limited cases, banks offered better mortgage rates on average than similarly sized credit unions. However, our analysis of deposit and loan rate data does not fully identify how the tax-exemption of credit unions might benefit credit union members. For example, tax-exemption may enable credit unions to reduce fees they charge for services provided to members. In addition, credit unions can finance additional services and add to desired or required reserves through untaxed retained income.

IRS has been reviewing many types of state-chartered credit union activities to determine if they should be subject to UBIT. Groups representing state-chartered credit unions and the Credit Union National Association have stated that IRS has not provided sufficient guidance on what credit union activities are or are not subject to UBIT. According to IRS officials, IRS is planning to issue technical advice on credit union activities subject to UBIT. State-chartered credit unions paid more UBIT in 2004 than in 2000, but many state-chartered credit unions are permitted to be included in a group rather than an individual information return—Return of Organization Exempt from Income Tax (Form 990). The practice of providing aggregate returns effectively makes it more difficult for IRS to scrutinize state-chartered credit union operations to determine whether they are subject to UBIT. However, IRS officials told us that the additional technical advice the agency will be providing will specify its position on credit union activites that are subject to UBIT and should improve credit union compliance with the statute.

Executive compensation for federal credit unions is not transparent, largely because federal credit unions are not required to publicly file information on executive compensation. The importance of transparency and disclosure of executive compensation have become an important topic as highlighted by the Securities and Exchange Commission's (SEC) recent rule making for publicly held companies.[9] Similarly, for not-for-profits, the disclosure of such information helps support oversight of these tax-exempt entities. However, unlike most other tax-exempt organizations, federal credit unions are not required to provide IRS with Form 990s that contain publicly disclosed information such as executive compensation. NCUA legal opinions have stated that member access to credit union records is generally a matter of state law. In those opinions, NCUA observed that members of federal credit unions are owners of the institution, similar to shareholders of corporations, so the members should look to state corporate law on matters such as access to federal credit union records. In one opinion, the NCUA attorney referred to the general rule in most states that shareholders are entitled to inspect corporate minutes and other records for appropriate purposes. However, it was not clear to what extent

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[9] SEC Final Rule, 17 C.F.R. Parts 228, 229, 232, 239, 240, 245, 249 and 274, Release Nos. 33-8732; 34-54302; IC-27444; File No. S7-03-06.

credit unions or their members were aware of this general right or how difficult or easy it would be for credit union members to obtain executive compensation data. We identified a few credit union and bank trade group surveys that address executive compensation for their respective industries. While these surveys provided an indication of compensation patterns, the surveys generally had methodological limitations—self-selected samples, small sample sizes, or incomplete information on total compensation and benefits—that precluded a direct comparison of credit union executive compensation with that of similarly sized banks. As part of its pilot program to obtain information on the income characteristics of credit union customers, NCUA has also collected data on credit union executive compensation and has reported the average salaries of specific positions with the credit union industry. However, the information, which is stratified into two subsets, reported salary information for (1) credit unions with assets less than $50 million and (2) credit unions with assets greater than $50 million. Additionally, this information only provides a snapshot of executive compensation for a single time period. Finally, NCUA officials told us that they are exploring various options to provide greater transparency in credit union executive compensation, such as amending NCUA's call report data to require federal credit unions to submit compensation and benefit data for senior executive officers or requiring that credit unions make credit union salary information available to their members for inspection at their public meetings.

This report includes two recommendations to NCUA's Chairman to systematically track the performance of federal credit unions in providing financial services to members of modest means and improve the transparency of credit union executive compensation to enhance accountability of credit unions to the public and to their members.

We provided a draft of this report to the Chairman of NCUA and the Commissioner of IRS for their review and comment. We received written comments from NCUA that are summarized below and reprinted in appendix V. In addition, we received technical comments from IRS that have been incorporated into this report as appropriate. In its written comments, NCUA indicated that the agency's staff have recommended that the NCUA board consider taking actions consistent with the recommendations made in our report. However, NCUA indicated in its comment letter that it had concerns with certain aspects of the draft report. Specifically, NCUA's letter stated that it was inaccurate and inappropriate to measure the success of federally chartered credit unions in serving persons of modest means by reference only to the low- and moderate-income categories associated with the Community Reinvestment Act (CRA). Additionally, NCUA's letter stated that our income category benchmarks were inconsistent with the specific definitions used by the other federal financial regulators for CRA compliance. NCUA's letter also stated that the SCF was not designed for reliable income comparisons between credit union members and bank customers. As we noted in the report, neither the Federal Credit Union Act nor NCUA have established definitions as to what constitutes modest means. Thus, consistent with our 2003 report, we used low- and moderate-income households as a proxy for persons of modest means for the purposes of our analysis. Our analysis not only included comparisons between credit unions and banks of low- and moderate-income households but also middle and upper income households for both the 2001 and 2004 SCF. This analysis shows that between 2001 and 2004 credit unions continued to serve a higher proportion of middle- and upper-income households and a smaller proportion of low- and moderate-income households than did banks. The primary difference between our income categories and those used for CRA purposes was the use of national rather than local Metropolitan Statistical Area (MSA) median income as a benchmark for the various income categories. We use the national measure since the SCF is a national survey, and we did not have sufficient geographic information to conduct a MSA-level analysis. While we agree that the SCF was not specifically designed to conduct comparative analyses of income levels of bank and credit union customers, the SCF provides the best data currently available to undertake such a comparison. SCF is a respected source of publicly available data on financial institution and consumer demographics that is nationally representative and was the only comprehensive source of publicly available data that we could identify with information on financial institutions and consumer demographics. Additional NCUA comments are discussed at the end of this report and in appendix V.

Background

Both federally and state-chartered credit unions are exempt from federal income taxes.[10] However, their exempt status arises from different provisions of federal law. Federal credit unions are specifically exempt from federal and state income taxes under a provision of the Federal Credit

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[10] As previously noted in the introductory paragraphs of this report, federally and most state-chartered credit unions are also exempt from state income and franchise taxes and pay other taxes at the federal and state levels.

Union Act.[11] State-chartered credit unions are exempt under a provision of the Internal Revenue Code that describes as exempt, “Credit unions without capital stock organized and operated for mutual purposes and without profit.”[12] The code also imposes UBIT on state-chartered credit unions, but not on their federally chartered counterparts.[13]

The tax-exempt status of credit unions originally was predicated on the similarity of credit unions and mutual financial institutions. Section 11(a)(4) of the Revenue Act of 1916, the statutory forerunner of section 501(c)(14)(A), exempted from federal income tax “cooperative banks without capital stock organized and operated for mutual purposes and without profit.” The exemption of credit unions stems from an opinion of the Attorney General, 31 O.A.G. 176 (1917), holding that credit unions organized under the laws of Massachusetts were so similar to cooperative banks as to come within the scope of section 11(a)(4). IRS regulations subsequently applied this ruling to credit unions generally.[14]

While other institutions lost their exemption in the Revenue Act of 1951, Congress specifically retained the exemption for credit unions by removing cooperative banks, savings and loan societies, and building and loan associations from exemption and inserting credit unions in their place.[15] The Senate Finance Committee report accompanying the Revenue Act of 1951 stated that the exemption of mutual savings banks was repealed to establish parity with other banking institutions because the savings banks

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[11] 12 U.S.C. § 1768.

[12] 26 U.S.C. § 501(c)(14)(A).

[13] 26 U.S.C. § 511(a)(2); see also 26 U.S.C. § 501(c)(1), which, in combination with the exemption for federal credit unions under the Federal Credit Union Act, excludes them from UBIT.

[14] See also T.D. 3179, which amended Art. 515(3), section 231, Regs. 45, Revenue Act of 1918 to read:

“Cooperative banks without capital stock organized and operated for mutual purposes and without profit are exempt. Credit unions, such as those organized under the laws of Massachusetts, being in substance and in fact the same as cooperative banks, are likewise exempt from tax.”

[15] Pub. L. No. 82-183 § 313.

had become functionally similar to those other institutions.[16] According to the Senate report, tax-exempt status gave mutual savings banks the advantage of being able to finance growth out of untaxed retained earnings, while competing corporations (commercial banks) paid tax on income retained by the corporation. The report stated that the exemptions for savings and loan associations had been repealed on the same ground. The report did not state why the tax-exempt status of credit unions was preserved.

Credit unions are an important, but relatively small segment of the financial industry. According to NCUA and Federal Deposit Insurance Corporation data, federally and state-chartered credit unions represented 7.5 percent of all deposits and shares insured by the federal government as of December 31, 2005. Additionally, credit unions typically are much smaller than banks and thrifts in terms of total assets. For example, NCUA data indicated that approximately 88 percent of federally chartered credit unions had $100 million or less in assets with 83 percent having assets less than $50 million as of September 30, 2005. According to NCUA, the average size of a federally chartered credit union was $73.2 million in total assets and the median asset size was $11 million.

NCUA Rules Interpreting CUMAA Appear to Have Fueled Expansion of Community-Chartered Credit Unions

Since the passage of CUMAA in 1998 and subsequent NCUA rule changes, NCUA has approved community charters with increasingly larger geographic fields of membership—for example, covering entire cities or multiple counties. Since 2000, community-chartered credit unions have nearly tripled their membership and nearly quadrupled their assets. Most of the new community charters approved between 2000 and 2005 were charter conversions by multiple-bond credit unions rather than new credit unions. According to NCUA, community charters offer credit unions greater opportunity than single- and multiple-bond credit unions to diversify their membership base, thereby contributing to the institution’s economic viability and ability to serve all segments of the community, including those of modest means.

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[16] S. Rep. No. 82-781 (1951) at 22, 25.

NCUA Regulations Interpreting CUMAA Set the Stage for Growth of Community Charter Credit Unions

CUMAA is the most recent statute affecting field of membership requirements of federally chartered credit unions. In 1998, the Supreme Court determined that NCUA had erroneously interpreted the Federal Credit Union Act to permit federally chartered credit unions to have multiple common bonds.[17] In response, Congress passed a provision in CUMAA to specifically permit multiple-bond credit unions subject to a general limitation on the number of members sharing a particular common bond. Also in CUMAA, Congress amended the provision of the act permitting the federal community charter by changing the description of its field of membership from "groups within a well-defined neighborhood, community, or rural district" to "persons or organizations within a well-defined local community, neighborhood, or rural district."[18]

Subsequent to the passage of CUMAA, NCUA revised its regulations to approve community charters consisting of larger geographic areas of coverage and potential members. For example, NCUA recently approved one credit union for a community charter covering the entirety of Los Angeles County. Thus, an estimated 9.6 million persons who live, worship, and go to school or work in the county and businesses and other legal entities within county boundaries qualify for membership in this credit union.[19] We reported in 2003 that previous NCUA regulations required credit unions to document that residents of a proposed community area interacted or had common interests.[20] Credit unions seeking to serve a single political jurisdiction (e.g., a city or a county) with more than 300,000 residents were required to submit more extensive paper work. However, NCUA revised its regulations in 2003, defining a local community as any city, county, or political equivalent in a single political jurisdiction,

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[17] *National Credit Union Administration v. First National Bank & Trust Company* 522 U.S. 479 (1998).

[18] Pub. L. No. 105-219 § 101(b)(3); see 12 U.S.C. § 1759 (1994).

[19] According to NCUA officials, the 9.6 million potential membership figure for this credit union was based on the 2001 Census Bureau estimate of the population of Los Angeles County. Potentially, the credit union's membership could be larger than the population of Los Angeles County since individuals who live outside the county but worship or work in the county would be eligible to join the credit union.

[20] See GAO, *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*, GAO-04-91 (Washington, D.C.: Oct. 27, 2003).

regardless of population size and eliminated the documentation requirements.

As shown in table 1, the number of community-chartered federal credit unions doubled from 2000 through 2005, while the number of multiple-bond credit unions declined by about 22 percent. In spite of the recent decline, multiple-bond credit unions remain the largest group of federally chartered credit unions in number and in total membership and assets. However, community-chartered credit unions overtook multiple-bond credit unions as the largest of the three federal charter types in terms of average membership and average size in terms of assets beginning in 2003.

Table 1: Number, Members, and Assets of Federal Credit Unions by Charter Type, from 2000 through 2005

Federal Credit Unions	2000	2001	2002	2003	2004	2005
Number						
Single	2,512	2,401	2,256	2,106	1,987	1,893
Multiple	3,045	2,933	2,842	2,684	2,534	2,385
Community	523	783	855	986	1,051	1,115
All charters	**6,080**	**6,117**	**5,953**	**5,776**	**5,572**	**5,393**
Actual members (in millions)						
Single	7.0	7.1	7.0	7.0	6.8	7.3
Multiple	30.8	29.5	29.1	27.8	26.8	26.0
Community	5.2	7.2	8.4	11.4	13.3	14.6
All charters	**42.9**	**43.8**	**44.6**	**46.2**	**46.9**	**47.9**
Assets (in billions)						
Single	$43.3	$49.4	$54.4	$58.9	$62.1	$70.8
Multiple	$168.8	$180.2	$196.6	$202.2	$204.7	$202.6
Community	$27.1	$40.5	$50.3	$75.4	$91.9	$104.4
All charters	**$239.2**	**$270.1**	**$301.2**	**$336.6**	**$358.7**	**$377.8**
Average membership (in thousands)						
Single	2.8	2.9	3.1	3.3	3.4	3.9
Multiple	10.1	10.1	10.3	10.3	10.6	10.9
Community	9.9	9.2	9.8	11.6	12.6	13.1
All charters	**7.1**	**7.2**	**7.5**	**8.0**	**8.4**	**8.9**
Average assets (in millions)						
Single	$17.3	$20.6	$24.1	$28.0	$31.3	$37.4
Multiple	$55.4	$61.4	$69.2	$75.3	$80.8	$85.0

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Federal Credit Unions	2000	2001	2002	2003	2004	2005
Community	$51.8	$51.8	$58.8	$76.5	$87.5	$93.6
All charters	**$39.3**	**$44.2**	**$50.6**	**$58.3**	**$64.4**	**$70.1**

Source: NCUA.

Growth of Federal Community Charter Credit Unions Has Been the Result of Charter Conversions Rather than New Credit Union Charter Approvals

To a large degree, the increase in number, membership, and assets of community charter credit unions can be attributed to charter conversions rather than to new credit union charter approvals. Between 2000 and 2005, NCUA approved 616 applications for federal community charters. Of these 616 approved federal community charters, 600 were conversions from single- or multiple-bond credit unions while only 16 were for new credit union charters. As shown in table 2, the vast majority of the conversions to community charters—549 or about 92 percent—involved multiple-bond credit unions.

Table 2: Federal Credit Union Conversions to Community Charters, from 2000 through 2005

Year	From single-bond	From multiple-bond	Total
2000	8	81	**89**
2001	10	83	**93**
2002	5	86	**91**
2003	14	121	**135**
2004	5	75	**80**
2005	9	103	**112**
Total	**51**	**549**	**600**

Source: NCUA.

According to NCUA, Community Charters Allow Federal Charters to Remain Viable and Can Provide Opportunities to Diversify Membership

NCUA officials indicated that changes in chartering policy have been triggered by factors such as the continued viability of federal credit unions in a changing economic environment and financial industry developments. NCUA believes that community charter expansion allows federal credit unions to attract a more diverse membership base. According to the officials, this in turn can enhance a credit union's economic viability, safety and soundness, as well as provide greater opportunities to serve members of modest means. For example, officials explained that single- and multiple-bond credit unions often tend to be organized around employer or occupationally based associations, which in turn creates greater economic risk exposure since the membership base is intertwined with the economic cycles of a particular employer or occupation.[21] Additionally, NCUA officials noted that employer or occupational bonds result in a greater concentration of members with middle rather than lower incomes. Since community charters are organized around geographically based associations, credit unions would be able to provide individuals from a broad range of occupations and income levels in these communities with access to their products and services. However, community based credit unions would be vulnerable to regional downturns in the economy.

NCUA Programs Target Individuals of Low- and Moderate-Income, but Limited Data Preclude an Evaluation of Actual Service to Those Individuals

NCUA has established and increased participation in two programs and policies that are specifically designed to make credit union services more available to individuals of low- and moderate-income. NCUA's Low Income Credit Union (LICU) program is designed to assist credit unions that can demonstrate that a majority of their members have a median household income less than 80 percent of the national household income or make less than 80 percent of the average for all wage earners. NCUA also has made it easier for federal credit unions, regardless of location, to expand their fields of membership into underserved areas (areas experiencing economic difficulty). Although federal credit unions increasingly have participated in these efforts in recent years, lack of data on the income levels of credit union members has made it difficult to determine how effective these programs have been in providing services to individuals of modest means. But, the limited existing data on income levels of credit union customers suggest that credit unions continue to lag behind banks in the proportion of customers that are of low- and moderate-income. NCUA has undertaken a pilot effort to capture information on the income characteristics of credit union members, but the data will not allow NCUA to reach statistically valid conclusions by charter type.

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[21] For example, a Federal Reserve Bank of Atlanta research paper concluded that "there are material benefits of credit union membership diversification and that these benefits derive from expanded investment opportunities and reduced concentration risk." See W. Scott Frame, Gordon V. Karels, and Christine McClatchey, "*The Effect of the Common Bond and Membership Expansion on Credit Union Risk*," Federal Reserve Bank Atlanta Working Paper No. 2001-10, April 2001.

NCUA Encouraged Growth of Low Income Credit Unions and Adoption of Underserved Areas, but Cannot Quantify Impact of Programs on Use of Credit Union Services by Individuals of Modest Means

As we reported in 2003, it has been generally accepted that credit unions have a historical emphasis on serving people with “small” or “modest” means. Congressional findings contained in CUMAA linked the tax-exempt status of credit unions, in part, to their “specified mission of meeting the credit and savings needs of consumers, especially persons of modest means.”[22] NCUA incorporated this emphasis into its current strategic plan, which gives its mission as “facilitating the availability of credit union services to all eligible consumers, especially those of modest means through a regulatory environment that fosters a safe and sound credit union system.” According to NCUA officials, the changes in chartering requirements should allow credit unions to serve a more diverse membership, including those of modest means.

In addition to approving more community charters, NCUA has encouraged credit union activity in other areas in an attempt to make credit union services more available to low-income individuals and underserved areas. According to NCUA, its LICU program is designed to assist credit unions serving predominantly low-income members in obtaining technical and financial services.[23] Credit unions that receive a low-income designation receive certain opportunities, such as the following:

- greater authority to accept deposits from nonmembers such as voluntary health and welfare organizations;
- access to low-interest loans, deposits, and technical assistance through participation in NCUA’s Community Development Revolving Loan Fund;

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[22] Pub. L. No. 105-219 § 2(4).

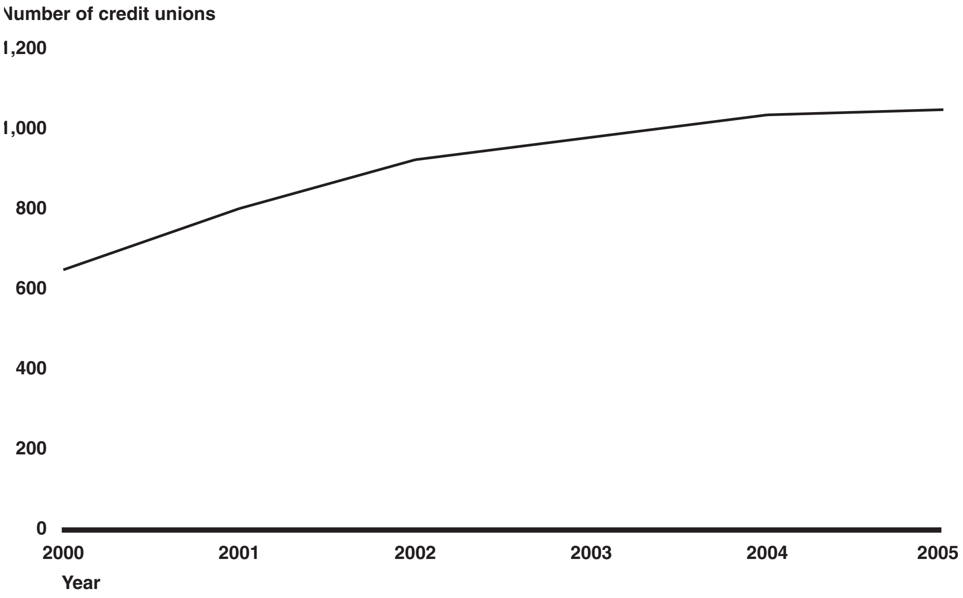
[23] Section 701.34 of NCUA’s Rules and Regulations defines the term “low-income members” as those members who make less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics or whose annual household income falls at or below 80 percent of the median household income for the nation as established by the Census Bureau.

- ability to offer uninsured secondary capital accounts and include these accounts in the credit union's net worth for the purposes of meeting its regulatory capital requirements;[24] and

- a waiver of the aggregate loan limit for member business loans.

From 2000 through 2005, the number of LICUs grew from 632 to 1,032, an increase of more than 63 percent (see fig. 1).

Figure 1: Low Income Credit Union Growth, 2000-2005



ource: NCUA.

Credit union expansion into underserved areas also has increased in recent years. From 1994 through 1998, NCUA rules permitted federal credit unions, regardless of charter type, to include residents in low-income communities and associations in their fields of membership.

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[24] A "secondary capital instrument" is either unsecured debt or debt that has a lower priority than that of another debt on the same asset. These subordinated debt instruments are not backed or guaranteed by the federal share insurance funds.

In 1998, CUMAA expressly recognized that multiple-bond credit unions would be authorized to serve persons or organizations within an area that was underserved. The Federal Credit Union Act defines an underserved area as a local community, neighborhood, or rural district that is an "investment area" as defined by the Community Development Banking and Financial Institutions Act of 1994—that is, experiencing poverty, low income, or unemployment.[25] NCUA's Chartering and Field of Membership Manual (Interpretive Ruling and Policy Statement 03-1 or IRPS 03-1) allowed credit unions to include underserved areas in their fields of membership, without regard to location or changes to their charter type.[26] For example, NCUA recently approved a credit union in the state of Maryland to serve residents within an area of Washington, D.C., determined to be "underserved." Between 2000 and 2005, the number of credit unions receiving NCUA approval to adopt underserved areas grew from 40 to 641. As shown in table 3, the largest proportion of the 641 credit unions approved through year-end 2005 were multiple-bond credit unions (410 or 64 percent), followed by community-chartered credit unions (196 or 31 percent).

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[25] Section 103(16) of the 1994 act defines "investment area" as follows: "The term 'investment area' means a geographic area (or areas) including an Indian reservation that—(A) (i) meets objective criteria of economic distress developed by the Fund, which may include the percentage of low-income families or the extent of poverty, the rate of unemployment or underemployment, rural population outmigration, lag in population growth, and extent of blight and disinvestment; and (ii) has significant unmet needs for loans or equity investments; or (B) encompasses or is located in an empowerment zone or enterprise community designated under section 1391 of title 26." 12 U.S.C. § 4702(16).

[26] According to NCUA's Chartering and Field of Membership Manual, a federal credit union that desires to include an underserved community in its field of membership must first develop a business plan specifying how it will serve the community. At a minimum, the business plan, must identify the credit and depository needs of the community and detail how the credit union plans to serve those needs. The credit union will be expected to regularly review the business plan to determine if the community is being adequately served. The regional director may require periodic service status reports from a credit union about the underserved area to ensure that the needs of the community are being met as well as requiring such reports before NCUA allows a federal credit union to add an additional underserved area.

Table 3: Number of Credit Unions Approved to Expand into Underserved Areas, 2000-2005

Year-end	Multiple-bond federal credit unions with underserved areas	Community-chartered federal credit unions with underserved areas	Single-bond federal credit unions with underserved areas	Total federal credit unions with approved underserved areas[a]
2000	22	17	0	40
2001	120	66	6	196
2002	238	127	14	386
2003	314	150	18	489
2004	369	170	24	570
2005	410	196	28	641

Source: NCUA.

[a] As of December 2005, seven state-chartered credit unions formerly had been federally chartered and had approved underserved areas.

However, recent changes in NCUA policies may limit the growth of the underserved areas program. In connection with a lawsuit instituted in November 2005, NCUA stopped permitting single-bond and community federal credit unions to include underserved areas in their fields of membership. This had the effect of allowing access only for multiple-bond credit unions, which is permitted specifically in a provision of the Federal Credit Union Act.[27] In the lawsuit, the American Banker's Association (ABA) challenged NCUA's approval of community-chartered credit unions adding underserved areas to their field of membership. ABA argued that NCUA misinterpreted the Federal Credit Union Act by allowing a community federal credit union to expand into several communities in Utah. ABA contended that the Federal Credit Union Act allows multiple-bond credit unions, but not community-chartered credit unions, to add underserved areas to their fields of membership. In response, NCUA subsequently amended its chartering regulations to limit the adoption of underserved areas to multiple-bond credit unions. NCUA's final rule, incorporating these amendments, took effect on July 28, 2006.[28] On July 20, 2006, ABA announced that it had agreed to dismiss its lawsuit.

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[27] 12 U.S.C. § 1759(c)(2).

[28] 71 Fed. Reg. 36667 (Jun. 28, 2006).

Despite the expansion into underserved areas and the LICU program, NCUA cannot specifically quantify the extent to which these programs have increased use of credit union services by individuals of modest means. As we reported in 2003 and will discuss in the following sections, limited data are available that specifically measure the income levels of credit union members and the services used by individuals of modest means. As a result, although NCUA data indicate increased adoption of underserved areas and increased participation in the LICU program, data do not exist to specifically show the extent to which these programs have increased services provided to individuals of modest means.

Federal Reserve Survey Data Suggest that Credit Unions Continued to Serve a Lower Proportion of Low- and Moderate-Income Households than Banks

Despite the shift toward community charters and the increase in the number of credit unions participating in NCUA's low-income and underserved programs, our analysis of data from the Federal Reserve's 2004 Survey of Consumer Finances (SCF) indicated that credit unions had a lower proportion of customers who were of low- and moderate-income than did banks.[29] These results were similar to the results of our analysis of the Federal Reserve's 2001 SCF data, which we discussed in our 2003 report.[30]

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[29] The SCF is conducted every 3 years and is intended to provide detailed information on the balance sheet, pension, income, and other demographic characteristics of U.S. households and their use of financial institutions. We used the term "household" rather than "family," since the reporting unit of SCF more closely resembles the Census Bureau's definition of "household" than its definition of "family." It should be noted that SCF was not specifically designed to conduct comparative analyses of income levels of bank and credit union customers; however, SCF provides the best data currently available to undertake such a comparison. See appendix II for more information on our methodology and analysis of the SCF.

[30] GAO, *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*, GAO-04-91 (Washington, D.C.: Oct. 27, 2003). The analysis presented in this section employs the same methodology as in our 2003 report.

We combined the 2004 SCF data into two main groups—households that only and primarily used credit unions (credit union customers) and households that only and primarily used banks (bank customers).[31] We then computed the proportions of credit union customers and bank customers in each of these four income categories—low, moderate, middle, and upper. We based our income categories on criteria that financial regulators use to assess compliance with the Community Reinvestment Act, which is intended to encourage depository institutions to help meet the credit needs of the communities that they serve. Specifically, (1) a low-income household had less than 50 percent of the national median household income; (2) a moderate-income household had an income of at least 50 percent, but less than 80 percent, of the national median household income; (3) a middle-income household had an income of at least 80 percent, but less than 120 percent, of the national median household income; and (4) an upper-income household had an income of at least 120 percent of the national median household income. We estimated that 14 percent of credit union customers were of low-income and 17 percent were of moderate-income, compared with 24 percent and 16 percent for banks. We found the difference between the proportion of low-income customers at banks and credit unions to be statistically significant (that is, the evidence suggested that the difference between the two was not simply the result of chance). Moreover, we estimated that 20 percent of credit union customers were of middle-income and 49 percent were of upper-income, compared with 18 percent and 41 percent for banks. We found the difference between the proportion of upper-income customers at banks and credit unions to be statistically significant as well.

In an effort to assess the extent to which credit unions served people of “modest means,” we combined households with low- or moderate-incomes into one group (as a proxy for modest means) and combined households

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[31] We based our methodology for determining these classifications on work that Jinkook Lee, a professor and researcher at Ohio State University, performed. See Jinkook Lee and William A. Kelly Jr., “Who Uses Credit Unions?” (Prepared for the Filene Research Institute and the Center for Credit Union Research, 1999, 2001). Individuals who “primarily” used credit unions placed more than 50 percent of their assets in credit unions and those who “primarily” used banks placed more than 50 percent of their assets in banks. The term “use” refers to a household’s placement of assets in a checking, savings, or money market account.

with middle or upper incomes into another group.[32] We found that 31 percent of credit union customers were of “modest means,” compared with 41 percent of bank customers, suggesting that banks served a higher proportion of people of “modest means.” The difference between banks and credit unions was statistically significant.

As shown in figure 2, the proportion of credit union customers that were in the upper-income category grew from 2001 to 2004. This increase, from 43 percent to 49 percent, was statistically significant. Thus, the statistically significant difference between banks and credit unions in serving people of “modest means” that we documented in our 2003 report using 2001 data appears to have persisted in the 2004 data. Moreover, we found the decline from 2001 to 2004 in the proportion of credit union customers in the “modest means” category to be statistically significant. Additionally, the relatively high percentage of households in the moderate- and middle-income categories that used credit unions (37 percent) in the 2004 SCF may be reflective of credit union membership traditionally being based on occupational- or employer-based fields of membership.

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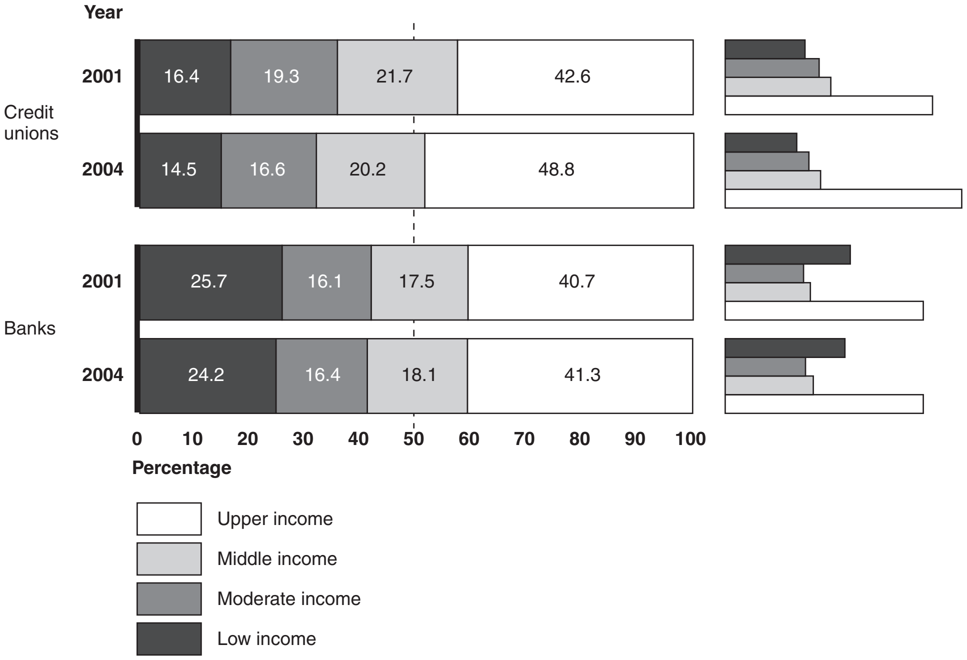
[32] As in our 2003 report, we were unable to find a definition of “modest means.” Thus, we used the group consisting of low- and moderate-income households as a proxy for the purposes of our analysis.

Figure 2: Comparison of Income Levels of Credit Union and Bank Customers, from 2001 and 2004 SCF Data



Sources: GAO and Federal Reserve.

Note: Totals may not equal 100 percent due to rounding.

However, NCUA officials told us that since growth in the agency's programs to expand services to lower-income persons and undeserved areas are relatively recent, it was probably too soon to expect any changes in the SCF data, with respect to customer income. Further, NCUA felt that it would take time for any results to appear in the data, as credit unions seeking to expand into new areas and reaching new types of customers would face a learning curve in their efforts. Additionally, NCUA officials stated that since most of the conversions to the community charter occurred within the last 5 years, within a reasonable period they expected to see a change in the customers these credit unions were serving. It should also be kept in mind that the latest available data from SCF are 2-years old, so any more recent changes would not be reflected in our analysis.

As we noted in our 2003 report, limitations in SCF data preclude its use in drawing definitive conclusions about the income characteristics of credit union members. Additional information—especially about the income levels of credit union members receiving consumer loans and other credit union services—would be required to assess more completely whom credit unions serve. As further noted in our 2003 report, NCUA has noted that credit union members were likely to have higher incomes than nonmembers because credit unions are occupationally based. As NCUA and others have noted—because of the statutory limitations on who can join federal credit unions—credit union membership is largely based on employment, and credit unions are restricted to the income composition of the individuals within fields of membership containing employed individuals. However, as we noted earlier, SCF provides the best data currently available regarding the income characteristics of credit union members.

To determine how sensitive our results were to our income categorization, we used median family income in addition to median household income to analyze the 2001 and 2004 SCF data.[33] We found similar results using both median family and household income. Recognizing the limitations of the SCF and other available data, our 2003 report suggested that Congress consider requiring NCUA to obtain data on the extent that credit unions provided loans and other services to low- and moderate-income households within each federally insured credit union's field of membership.[34]

NCUA Has Pilot Survey to Measure Income of Credit Union Members, but Will Not Be Able to Use Results to Determine What Services Members at Various Income Levels Receive

In response to your Committee's concerns regarding the lack of available information to evaluate credit union member income and services, NUCA undertook a data collection effort to profile federal credit union member income information, identify the credit union services offered to credit union members, and provide information on the compensation of credit union executives. (We discuss executive compensation in more detail later in this report). As of August 31, 2006, NCUA had completed its data collection phase, as agreed with the Office of Management and Budget

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[33] See appendix II for greater detail on the SCF analyses we performed. In SCF, a household unit is divided into a "primary economic unit" (PEU) and everyone else in the household unit. The PEU is intended to be the economically dominant single individual or couple (whether married or living together as partners) and all other persons in the household unit who are financially interdependent with that economically dominant person or couple. The Census Bureau's definition of "family" excludes the possibility of one-person household units, but its definition of "household" allows for them.

[34] GAO-04-91, p. 83.

under the Paperwork Reduction Act, which is intended to minimize the paperwork burden for nonprofit institutions.[35]

NCUA took a random sample of 481 federal credit unions and relied on two different data collection methods to determine member incomes. NCUA officials told us they intended to compare the results of the two methods to determine the extent of any income differences and identify which of the two approaches might be relied upon in the future. One method involved obtaining information such as a credit union member's zip code from NCUA's Automated Integrated Regulatory Examination System to make projections of median household income. The other method involved using the street address and zip codes of credit union members and applying a software package that uses geo-coding to determine median family income averages. The officials told us that the software package is widely used in the banking industry to help make income determinations for fair lending examinations.

NCUA also gathered information from the credit unions on the type of services the institutions offer to their members, including services that may be of value to members with lower incomes or little financial experience. Using the same sample of credit unions, NCUA collected information on whether or not certain services are provided by the credit union. For example, NCUA gathered information on the extent to which the sampled credit unions offer low-balance checking accounts and whether they offer some type of financial literacy training.

NCUA officials stated to us that there are limitations of the data collection effort. First, although the information collected represents a statistically valid random sample of the federal credit union population and will provide information on the income levels of overall federal credit union members, the data will not enable NCUA to make statistically valid conclusions by charter type or make conclusions about the extent of credit union services being provided to various income levels. The officials explained that to do so would require a larger and more time-consuming data collection effort, requiring an increase in sample from the current effort of 481 to a sample of almost 1,200 credit unions. According to the officials, a larger sample would not allow them to meet their goal to report results by year-end 2006.

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[35] The Paperwork Reduction Act of 1995 (Pub. L. 104-13, 44 U.S.C. Chapter 35) was intended, among other things, to minimize the paperwork burden for nonprofit institutions that results from the collection of information by or for the federal government.

NCUA indicated that despite these limitations, the data collected will add to the agency's knowledge and should be valuable in deciding what actions, if any, might be appropriate over the longer term. At the time of our discussions, NCUA had not developed benchmarks to use as a measure for a "modest means" category related to member income data. NCUA indicated that its data collection effort will help the agency better understand the concept of "modest means" in relation to geographically dispersed, limited, and diverse fields of membership. NCUA's data collection effort represents 61 percent of all credit unions because the regulator has oversight authority for federally chartered credit unions, while state governments have responsibility for overseeing the remaining 39 percent of the credit unions (state-chartered credit unions). Finally, while NCUA's data collection effort will be useful for establishing a baseline, NCUA officials stated that there are no plans to gather the information on a continual or routine basis.

In response to a March 2006 congressional request, National Association of State Credit Union Supervisors (NASCUS) officials told us they and state regulatory agencies have initiated a data collection effort for state-chartered credit unions. NASCUS will collect some information similar to that collected in the NCUA pilot, such as membership income and executive compensation.[36] However, NASCUS also will collect data in two additional areas: credit union service organizations (CUSO) and UBIT.[37] NASCUS is using a methodology similar to NCUA's to determine member income levels. According to NASCUS, they have developed a representative sample by applying different weights to unique state credit union characteristics, including size, field of membership, and charter type. Credit unions selected in the representative sample will respond to a questionnaire developed by state regulatory agencies. The questionnaire addresses membership, CUSOs, UBIT and executive compensation. As of September 2006, the officials indicated that the data collection effort had started, and that they expected the results to be available in the first quarter of 2007.

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[36] To determine executive compensation for state-chartered credit unions, NASCUS is requesting information from credit unions in the states that file a consolidated IRS Form 990. State-chartered credit unions are required to file this form, which includes executive compensation information.

[37] A credit union service organization is a corporation, a limited liability corporation, or limited partnership owned by one or more credit unions that provides services such as insurance, securities, or real estate brokerage, primarily to credit unions or members of affiliated credit unions.

Credit Unions Offered Better Interest Rates on Some Products, but the Extent to Which the Benefits of Tax-Exempt Status Have Been Passed to Members Is Unclear

Our analysis showed that credit unions tended to offer better interest rates than similarly sized banks for a variety of products and loans, but rate data alone cannot be used to determine the extent to which the benefits of tax exemption have been passed to members. We obtained and analyzed rate data for various savings products offered by credit unions and banks from 2000 through 2005 and found that credit unions on average offered higher rates than comparably sized banks.[38] Similarly, the rate data that we obtained for various loan products indicated that on average credit unions tended to offer lower interest rates than comparably sized banks, particularly for consumer loans such as automobile loans. However, it is important to note that interest rates during the period covered by our analysis were at historic lows.

As seen in figure 3, rates offered by credit unions from 2000 through 2005 on regular savings accounts on average were higher than those offered by similarly sized banks. However, the differences among the rates of comparably sized credit unions and banks tended to get larger as the size of the institutions increased. For example, for institutions with assets of less than $100 million, the difference between credit unions and banks averaged about 0.15 of a percentage point in this period, while the difference for institutions with assets greater than $1 billion averaged almost 0.7 of a percentage point. More recently, the gap in rates between larger credit unions and banks closed considerably; in the greater than $1 billion asset range, the gap was more than 1 percentage point in 2000, but about one-half of 1 percent in 2005. We observed similar trends throughout the period for other savings products such as money market accounts and certificates of deposit (see app. III).

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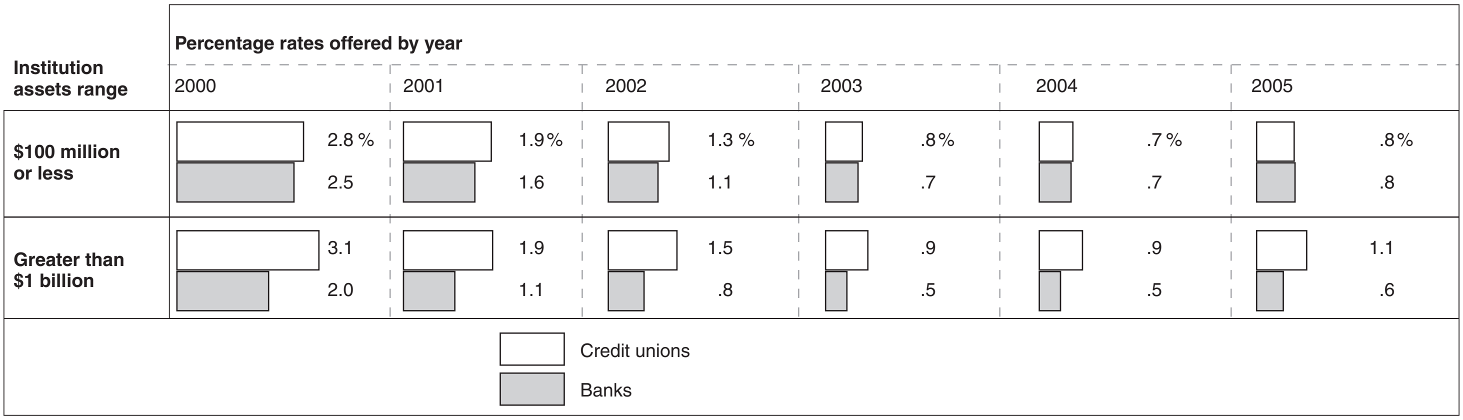
[38] We engaged Datatrac Corporation—a market research and information technology company specializing in the financial services industry—to gather and analyze data on loan and savings products that thousands of credit unions and banks offered from 2000 through 2005. Datatrac calculated average rates for each of the products for all institutions (divided into five distinct asset classes) over this period. See appendix III for more information on our rate analysis methodology and results.

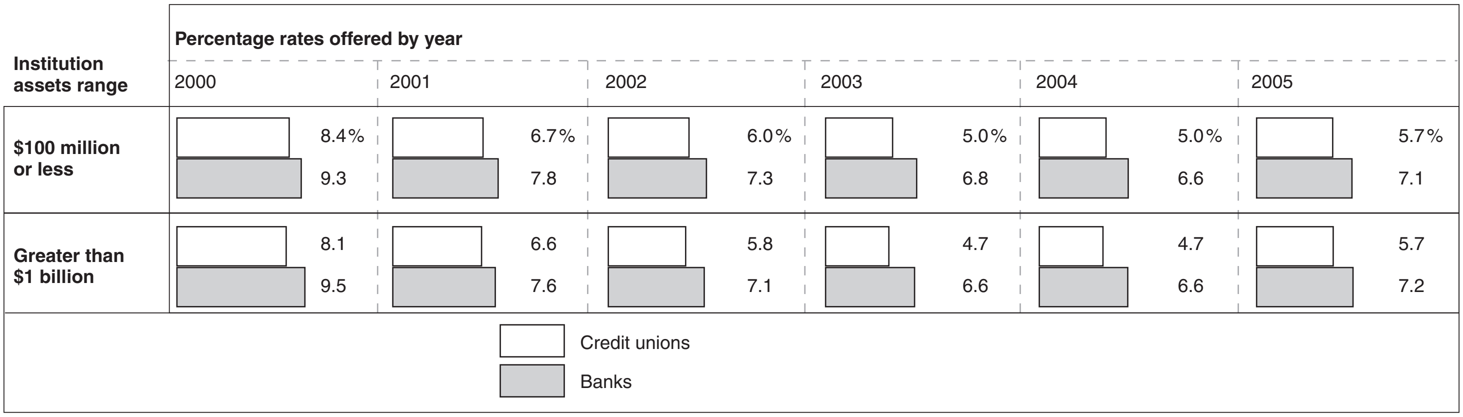
Figure 3: Regular Savings Account Rates of Credit Unions and Banks with Assets of $100 Million or Less and Assets Greater than $1 Billion, from 2000 through 2005



Sources: GAO and Datatrac.

The difference between credit unions and banks was more pronounced for consumer loans. For example, over the 6-year period, the rates that credit unions charged for 60-month new car loans tended to be lower than the rates charged by similarly sized banks, by 1 or 2 percentage points. As shown in figure 4, the trend was consistent for the larger asset category as well. However, unlike savings products, the rate differences between credit unions and banks for car loans widened in 2005. These trends held true for rates for other consumer products such as credit cards.

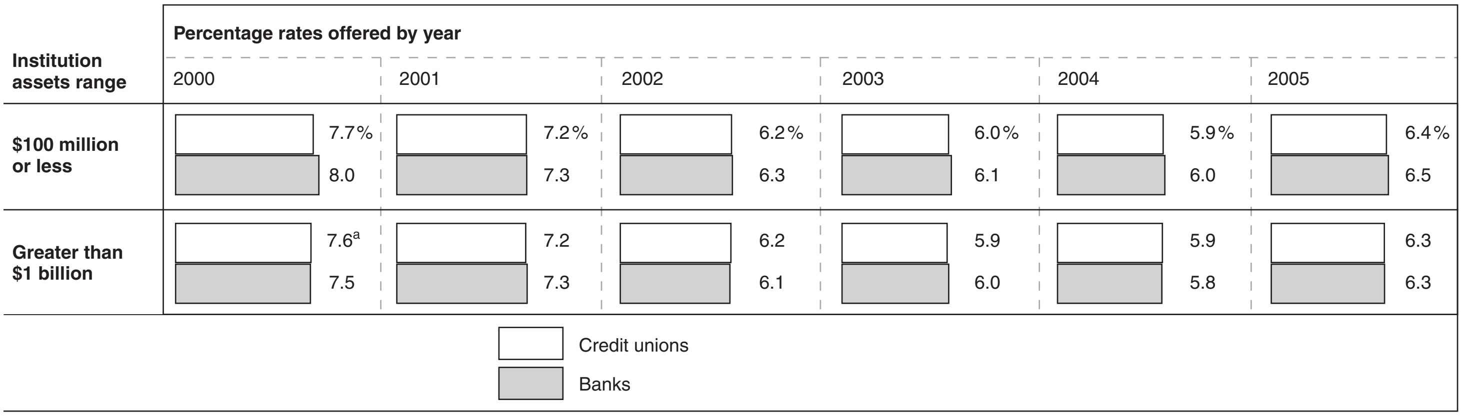
Figure 4: Sixty-Month New Car Loan Rates of Credit Unions and Banks with Assets of $100 Million or Less and Assets Greater than $1 Billion, from 2000 through 2005



Sources: GAO and Datatrac.

Although credit unions charged lower interest rates for consumer loans, similarly sized credit unions and banks charged virtually identical rates on larger loans such as mortgages, from 2000 through 2005 (see fig. 5). In some limited instances, banks offered lower rates than similarly sized credit unions. Also, larger institutions in general offered lower rates than smaller institutions.

Figure 5: Thirty-Year Mortgage Loan Fixed Rates of Credit Unions and Banks with Assets of $100 Million or Less and Assets Greater than $1 Billion, from 2000 through 2005



Sources: GAO and Datatrac.

[a] Data based on responses of less than 10 institutions.

Our analysis of deposit and loan rate data for credit unions and banks does not fully identify how the tax-exemption of credit unions might benefit credit union members. First, there may be other reasons for differences in rates beside tax differences. For example, loan rates may differ because of differences in borrower characteristics, such as creditworthiness, or because of geographic market differences. In addition, tax-exemption may benefit members in other ways than through loan and deposit rates. Credit unions might also charge lower fees than they otherwise would for services and products provided to members. We did not identify any comprehensive studies or data sources that addressed differences in fees charged by credit union and banks on a national basis. Unlike banks, credit unions can finance additional services and add to desired or required reserves through untaxed retained income. As a result of tax-exemption, credit unions may retain more income to add to reserves or to finance additional services than they would if they were taxed.

Lack of Guidance and Criteria for Applying UBIT to State Credit Union Activities Makes Determining Compliance with the Requirement Difficult

As stated earlier, state-chartered credit unions are subject to tax on unrelated business income while federal credit unions specifically are exempt. IRS has several ongoing examinations of state-chartered credit unions to determine which of their activities are subject to UBIT. Credit union trade groups have stated the need for guidance regarding the activities that IRS has determined to be subject to UBIT; IRS has stated that it plans to issue technical advice in 2007 after completing its reviews. Furthermore, the practice of allowing group statewide filings has made it more difficult for the IRS to scrutinize the activities of individual institutions to ensure compliance with the UBIT statute. IRS officials asserted that the agency plans to issue technical advice on the application of UBIT to state credit union activities, which they stated should improve credit union compliance with the statute.

IRS Has Questioned Which State Credit Union Activities Should Be Subject to UBIT

UBIT is a tax on income derived by a tax-exempt entity from a trade or business that is regularly carried on and not substantially related to the exercise or performance of the purpose or function constituting the basis for the entity's exemption. Under the Internal Revenue Code, state-chartered credit unions are subject to UBIT, but federal credit unions are not subject to the tax because they are exempt federal instrumentalities under a provision of the code.[39] As shown in table 4, the amount of income subject to UBIT reported by state-chartered credit unions and the related taxes paid nearly doubled from 2000 through 2004 and totaled more than $5 million over this period.

Table 4: UBIT Income Declared and Taxes Paid by State-Chartered Credit Unions, 2000-2004

Tax year	Total UBIT income[a]	Total taxes paid
2000	**$2,565,056**	**$691,094**
2001	**3,642,903**	**927,896**
2002	**9,820,709**	**1,281,938**
2003	**3,788,412**	**1,050,767**
2004	**4,646,782**	**1,377,726**
Total	**$24,463,862**	**$5,329,421**

Source: IRS.

[a] Negative income (UBIT losses) are not included in the UBIT income figures.

As credit unions have increased the types of products and services that they offer, certain product offerings by state-chartered credit unions have resulted in IRS examining whether state-chartered credit unions are using their tax-exempt status to conduct business unrelated to their exempt purposes. In November 2005, an IRS commissioner informed the Congress of an IRS review of certain activities of state-chartered credit unions for purposes of UBIT.[40] The IRS has been reviewing activities that included the following:

- the sale of optional credit life insurance and credit disability insurance to members that would pay off the loan balances with the organization, if the borrower died or became disabled;

- the sale of "guaranteed auto protection" insurance, which pays the automobile loan balance in the event of loss or destruction of a vehicle to the extent it exceeds the value of the vehicle;

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[39] See 26 U.S.C. §§ 501, 511; 12 U.S.C. § 1768.

[40] Statement of Steven T. Miller, Commissioner, Tax-Exempt and Government Entities Division, Internal Revenue Service, in testimony before the full committee of the House Committee on Ways and Means (Nov. 3, 2005).

- the sale of automobile warranties;
- the sale of cancer insurance;
- the sale of accidental death and dismemberment insurance;
- ATM fees charged to nonmembers;
- the sale of health or dental insurance;
- the marketing of mutual funds to members; and
- the marketing of other insurance and financial products.[41]

According to IRS officials, the agency had 50 ongoing examinations of state-chartered credit unions for UBIT purposes as of September 2006.

Determining the applicability of UBIT to state credit union activities is a complicated proposition because it depends on the relationship of the activities to credit unions' tax-exempt purposes or functions. However, as IRS stated in a Technical Advice Memorandum, neither the Internal Revenue Code nor IRS regulations enumerate the functions of a credit union exempt under section 501(c)(14) of the code.[42] The tax-exemption is based on what can be described as structural features, specifically the institution's mutuality and nonprofit operations, whether it is organized and operated in accordance with state law, and whether its members share a common bond.[43]

Groups Representing state-chartered credit unions and the Credit Union National Association have stated that IRS has not provided sufficient guidance on which credit union activities are or are not subject to UBIT. According to IRS officials, IRS is planning to issue specific information in the form of Technical Advice Memoranda as a result of its examination of

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[41] Statement of Steven T. Miller.

[42] Technical Advise Memorandum 9548001 (Mar. 23, 1995).

[43] See *G.C.M. 34612, Exempt Status of State Chartered Credit Unions* (Sept. 14, 1971); see also *G.C.M.* 37467 *Exemption from Tax On Corporations – Credit Unions* (Mar. 21, 1978), G.C.M. 38348.

credit union UBIT activities in the first quarter of 2007.[44] IRS believes that the Technical Advice Memoranda will more clearly articulate specific activities of state-chartered credit unions that can be subject to the tax and improve compliance with the statute.

Group Filings Make It More Difficult for IRS to Scrutinize the Activities of Individual Credit Unions

Not-for-profit entities that generate more than $1,000 in unrelated business income are required to disclose on Form 990 that they have generated such income and whether they have filed an Exempt Organization Business Income Tax Return (Form 990-T) with IRS declaring the income and related UBIT liability. State-chartered credit unions are required to file Form 990, and Form 990-T if they generate unrelated business income in excess of $1,000. However, according to IRS officials, an IRS ruling allows state regulatory authority in some states to file forms 990 on a groupwide basis; that is; one form can be filed on behalf of all state-chartered credit unions in a particular state.[45] Thus, a state-chartered credit union located in one of those states could generate taxable unrelated business income without having to file a Form 990, individually. According to IRS officials, the group ruling applies to 34 states, and group returns in about 21 of those states have been filed in recent years. Of the 21 states, only 1 has asserted on the Form 990 that UBIT was generated in that state.

IRS stated it would be able to positively verify if an individual credit union declaring unrelated business income in excess of $1,000 on its Form 990 also filed a Form 990-T. However, the agency currently does not have a process in place to review group returns to ensure that the credit unions filed the Form 990-T. As a result, IRS cannot systematically determine if credit unions that were included in group returns and generated unrelated business income properly filed a Form 990-T declaring such income and paid UBIT. According to IRS officials, the group exemption process was instituted to relieve IRS of the burden of individually processing a large number of applications from organizations sharing a common affiliation

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[44] Technical Advice Memoranda are issued in response to technical or procedural question that develop during proceedings on the interpretation and proper application of tax law, tax treaties, regulations, revenue rulings, notices, or other precedents published by the Office of Chief Counsel. Proceedings include the examination of a taxpayer’s return.

[45] IRS requires that every year, each local organization (in this case, credit union) authorize in writing the central organization that prepares the group return to include it in the group return and must declare, under penalty of perjury, that the information it submits to be included in the group return is true and complete.

and that are operated for the same general purpose. For example, IRS noted that some organizations, including churches and veterans organizations, have a great number of subordinate organizations that are similarly situated. IRS officials agreed that requiring all state-chartered credit unions to file an individual Form 990 could enhance the agency's ability to scrutinize the activities of individual credit unions to determine whether they were subject to UBIT. However, officials also noted that it was not clear if the benefits of eliminating the group filing exemption would exceed the costs—both to IRS as well as to the individual credit unions. Specifically, officials noted that credit unions that are currently included in group returns would each need to file for recognition as a tax-exempt organization and incur annual costs to prepare and file individual Form 990. Moreover, IRS officials noted that they expect that the Technical Advice Memoranda that the agency is planning to issue in early 2007 would improve credit union compliance with UBIT filing requirements.

Alternatives Exist to Improve the Transparency of Credit Union Executive and Director Compensation

Federal credit union executive compensation is not transparent. Federal credit unions are not required to file reports, including the IRS Form 990 required for most other tax-exempt organizations that would provide information on executive and director compensation. NCUA legal opinions have stated that member access to credit union records is generally a matter of state law but that federal credit union members "have inspection rights similar to those enjoyed by a shareholder in a corporation" and that "the general rule in most jurisdictions is that a shareholder is entitled to inspect corporate minutes and other records as long as he has a proper, nonvexatious purpose."[46] However, we could not determine to what extent credit unions and credit union members were aware of this information. We identified a number of credit union and bank executive compensation surveys, but data and methodological limitations precluded us from making direct comparisons of executive compensation. NCUA has collected executive compensation information for federal credit unions as part of its efforts to assess who credit unions serve.

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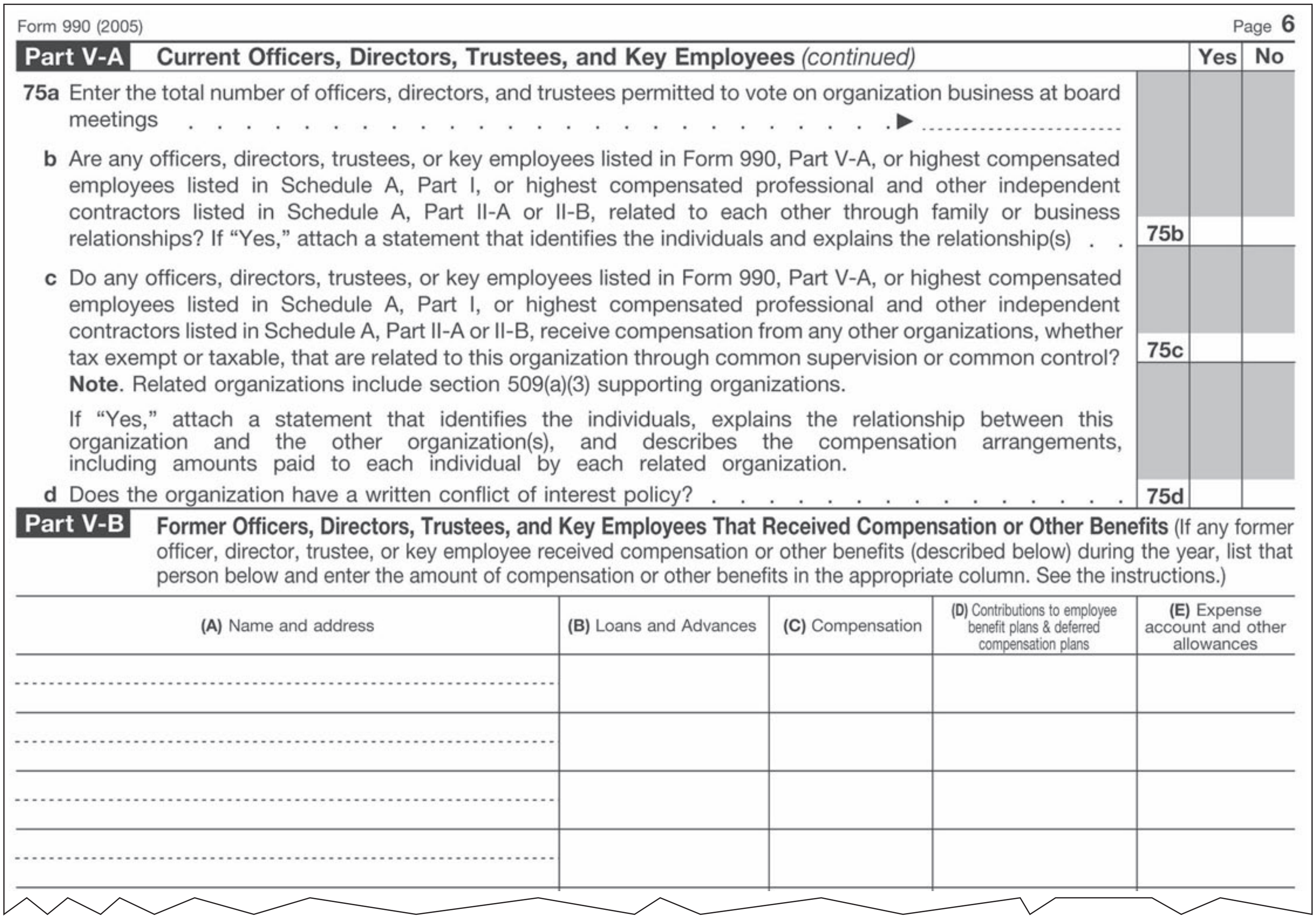
[46] NCUA Letters 06-0127B (Feb. 6, 2006); 96-0541 (Jun. 14, 1996); and 89-0525 (Jun. 8, 1989).

Public Reporting of Executive Compensation for Federal Credit Unions Is Limited and Regulator Scrutiny of Compensation Is Primarily Reviewed for Safety and Soundness Concerns

The issue of transparency and disclosure of executive compensation has become an important topic, both for tax-exempt entities and publicly held companies. Credit union members bear some similarity to public company shareholders in that they are "owners" and vote for boards of directors that are entrusted to oversee executive compensation. The importance of disclosure of executive and director compensation was illustrated in recent changes adopted by SEC in July 2006 to increase transparency and disclosure by public companies and reflect the increasing focus on corporate governance and director independence. According to SEC, the objective was to provide investors with a clearer and more complete picture of the compensation earned by a company's principal executive officer, principal financial officer, highest paid executive officers, and members of its board of directors.

In contrast, credit union executive compensation is not transparent because credit unions are not required to file publicly available reports such as the IRS Form 990 that disclose executive compensation data. For tax-exempt organizations, IRS has noted that some members of the public rely on Form 990 as the primary or sole source of information about a particular organization. Most tax-exempt organizations with gross receipts that are normally more than $25,000 are required to file the Form 990 annually. IRS also uses these forms to select organizations for examinations. Figure 6 shows the compensation information collected on the Form 990.

Figure 6: Compensation Information Filed in IRS Form 990



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Part V-A **Current Officers, Directors, Trustees, and Key Employees** *(continued)* **Yes** **No**

75a Enter the total number of officers, directors, and trustees permitted to vote on organization business at board meetings . . . . ▶ ....

b Are any officers, directors, trustees, or key employees listed in Form 990, Part V-A, or highest compensated employees listed in Schedule A, Part I, or highest compensated professional and other independent contractors listed in Schedule A, Part II-A or II-B, related to each other through family or business relationships? If "Yes," attach a statement that identifies the individuals and explains the relationship(s) . . **75b**

c Do any officers, directors, trustees, or key employees listed in Form 990, Part V-A, or highest compensated employees listed in Schedule A, Part I, or highest compensated professional and other independent contractors listed in Schedule A, Part II-A or II-B, receive compensation from any other organizations, whether tax exempt or taxable, that are related to this organization through common supervision or common control? **75c**

Note. Related organizations include section 509(a)(3) supporting organizations.

If "Yes," attach a statement that identifies the individuals, explains the relationship between this organization and the other organization(s), and describes the compensation arrangements, including amounts paid to each individual by each related organization.

d Does the organization have a written conflict of interest policy? **75d**

Part V-B **Former Officers, Directors, Trustees, and Key Employees That Received Compensation or Other Benefits** (If any former officer, director, trustee, or key employee received compensation or other benefits (described below) during the year, list that person below and enter the amount of compensation or other benefits in the appropriate column. See the instructions.)

(A) Name and address	**(B)** Loans and Advances	**(C)** Compensation	**(D)** Contributions to employee benefit plans & deferred compensation plans	**(E)** Expense account and other allowances

Source: IRS.

On August 23, 1988, IRS issued a determination that federal credit unions are not required to annually file a Form 990 because of their status as tax-exempt instrumentalities under section 501(c)(1) of the Internal Revenue Code. Also, as noted previously, some state-chartered credit unions file through a group filing process (21 states in 2004). For these states, IRS receives only the name and addresses of individual credit unions. As a result, scrutiny of the compensation of credit union executives and other key personnel is limited.

Additionally, boards of directors of credit unions receive limited compensation because the directors serve in nonpaid positions. According to the Federal Credit Union Act, no member of a federal credit union board may be compensated; however, a federal credit union may compensate one individual who serves as an officer of the board.[47] Although the credit union may not pay its board of directors a salary, it may provide or reimburse directors for such things as mileage; insurance, including life, health, and accident insurance; and travel expenses. In contrast, bank boards of directors may receive fees such as an annual retainer for serving on the board, profit sharing, professional fees, and other bonuses. Also, according to one bank survey, about half of the banks that responded indicated that their compensation fees were based strictly upon attendance.

According to NCUA, executive compensation is assessed during the credit union's examination to determine its reasonableness as it relates to safety and soundness concerns. As stated in our 2003 report, NCUA recently moved from an examination and supervision approach that primarily was focused on reviewing transactions to an approach that focuses resources on high-risk areas within a credit union.[48] To complement the risk-focused approach and allow NCUA to better allocate its resources, the agency adopted a risk-based examination program in July 2001. NCUA officials explained that supervisory examinations, including reviews of credit union executive compensation, follow a risk-focused approach. The officials told us that examiners would review executive compensation in instances of safety or soundness concerns, such as compensation arrangements that significantly exceeded compensation paid to persons with similar responsibilities in credit unions of similar size and in similar locations. NCUA also stated that since it has not found a systemwide issue with executive compensation, it has not considered it necessary to collect or aggregate executive compensation data. Additionally, we found NCUA's

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[47] 12 U.S.C. §§1761(c) and 1761a.

[48] GAO-04-91, p. 42.

guidance on compensation similar in content with the Federal Financial Institutions Examination Council's (FFIEC) Interagency Guidelines Establishing Standards for Safety and Soundness.[49]

At various times, credit unions and others have questioned whether members have the right to obtain and inspect credit union information, including salary data. NCUA legal opinions have stated that member access to credit union records is generally a matter of state law, and federal credit unions should look to the appropriate state corporate law. In a letter dated June 14, 1996, NCUA's Associate General Counsel said that federal credit union members "have inspection rights similar to those enjoyed by a shareholder in a corporation" and that "state law determines the types of information and documents, and the degree of access, available to shareholders/members."[50] The letter stated that "the general rule in most jurisdictions is that a shareholder is entitled to inspect corporate minutes and other records as long as he has a proper, nonvexatious purpose." However, it is unclear to what extent federal credit union members and credit union personnel are aware of a member's right to inspect records, or how difficult or easy it would be for credit union members to obtain information such as salaries.

Industry Surveys That Address Executive Compensation Are Limited, and NCUA Has Released Its Compensation Data

We could not identify any surveys or studies that directly compared credit union executive compensation with compensation provided by similarly sized banks. However, we did identify a few credit union and bank trade group surveys that address executive compensation for their respective industries.[51] Credit union and bank trade group officials told us that these surveys generally are used to help their industries gauge comparable pay by job title and an institution's asset size.

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[49] According to its Web site, FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Federal Reserve, the Federal Deposit Insurance Corporation, NCUA, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision and to make recommendations to promote uniformity in the supervision of financial institutions.

[50] Letter from Richard S. Schulman, NCUA Associate General Counsel, Re: Aberdeen Proving Ground Federal Credit Union, NCUA 96-0541 (Jun. 14, 1996).

[51] Credit Union National Association, *2005-2006 Complete Credit Union Staff Salary Survey* and America's Community Bankers, *2005 32nd Annual Compensation Survey.*

Several limitations exist that preclude us from directly comparing credit union and bank executive compensation. While these surveys provided information on the cash compensation by job title, institution, and asset size, the surveys did not provide detailed information on the other forms of compensation received to allow a direct comparison of credit union and bank executive compensation. Some benefits include items such as retirement plans, stock options (for bank executives), employment contracts, severance pay, and perks such as vehicle allowances. Due to the lack of consistency and availability of data beyond cash compensation in these surveys, it is difficult to make any overall comparisons between credit union and bank executive compensation. Other limitations to these surveys include, in some instances, low response rates for the three executive positions (chief executive officer, chief financial officer, and chief operating officer). Further, the data collected in these surveys were based on self-reported information from the survey participants. Appendix IV provides more detail on the survey limitations and the results of executive compensation for credit unions and banks that responded to their respective surveys.

As mentioned previously, NCUA has collected credit union executive compensation data and reported compensation information on the top-three executive positions—chief executive officer, chief financial officer, and chief operating officer. NCUA collected 2005 compensation information from the IRS Form 1099 and Form W-2 (wages and salary data). NCUA officials told us that the sample size will enable them to project industry averages for the federal credit union population and be stratified into two statistically valid subsets based on the asset size of the credit unions surveyed. However, the NCUA effort provides a snapshot of federal credit union compensation for a single year, 2005, and it is unclear whether NCUA will conduct future reviews of credit union executive compensation.

NCUA also suggested alternative methods of collecting compensation information and increasing the transparency of the information. During our review, NCUA indicated that it was considering amending the quarterly “call reports” that all federally insured credit unions are required to submit to NCUA to include compensation and benefit data for senior executive officers. Call reports are available for public inspection, and NCUA routinely reviews them. Currently, the call report collects only aggregate data on employee compensation and benefits. Additionally, NCUA officials indicated that requiring credit unions to disclose credit union salary information to members during public meetings would be another alternative for increasing the transparency of executive and director compensation.

Conclusions

Since the passage of CUMAA and subsequent changes to NCUA regulations that permitted credit unions to serve larger geographic areas and enlarged fields of membership, community-chartered federal credit unions have grown in number and asset size. As a result, the common bonds of occupation or employment that traditionally existed between credit union members have become attenuated, blurring one of the historical distinctions between credit unions and other depository institutions. But, credit unions do retain distinctions in terms of structure and governance, and they retain their tax-exempt status.

One perceived rationale for the credit union tax exemption, expressed by Congress, is the notion that credit unions serve individuals of small or modest means. Yet, it is difficult to determine to what extent credit unions actually serve individuals of modest means. Although NCUA has established programs to expand services to this group, the relative newness of the programs, combined with the absence of long-term, continuing, and systematic collection of data on the income of credit union members, currently preclude an assessment both of the programs' effectiveness and overall industry performance. However, limited data (SCF) suggest that in both 2001 and 2004, credit unions had a smaller proportion of low- and moderate-income customers than banks. NCUA officials have noted that it may be too soon for data to fully reflect NCUA initiatives and industry activities and that growth in the community charter will allow credit unions to draw members from larger and more diverse populations, including people of modest means.

While NCUA has taken steps to identify the income levels of credit union members, several limitations in NCUA's data collection effort will make it difficult to fully assess the extent to which credit unions have been serving low- and moderate-income populations. Notably, the data will not stratify information about member incomes by specific charter types or identify the specific financial services that credit union members have been using. Obtaining more detailed information on credit union member income and the financial services they used could help NCUA track the performance of credit unions and help monitor progress over time. Furthermore, this information would provide Congress and the public with clear evidence that, as CUMAA notes, credit unions were accomplishing their "specified mission" of "meeting the credit and savings needs of consumers, especially persons of modest means." However, the NCUA effort, while laudable, currently is confined to a pilot project. The value and utility of the information collected would be greatly enhanced if NCUA were to move beyond a pilot and continue the data collection effort and address some of the limitations of the pilot.

Although state-chartered credit unions have increased the amount of UBIT paid in recent years, determining which credit union activities are subject to the UBIT is difficult. IRS is currently conducting examinations of state-chartered credit unions and plans to release technical advice early in 2007 that the agency believes will more clearly explain which credit union activities are subject to the UBIT. While state-chartered credit unions are required to file information returns (Form 990), the group that are filed constrain IRS's ability to scrutinize credit union activities related to UBIT because they convey little information about individual credit unions. However, IRS is planning to issue technical advice describing specific state credit union activities that may be subject to the UBIT to help ensure state credit union payment of the tax.

Finally, the transparency of executive compensation is an important issue for private and public companies alike. In the private sector, SEC's recent efforts to increase the transparency of publicly held companies underscore the importance of enhancing accountability and greater disclosure of information. In contrast, credit union executive compensation is not transparent due to the lack of information available to the public. Increased public opportunities to review executive salaries would promote greater credit union accountability, similar to requirements for publicly held companies. While the Form 990 is an avenue for increasing both the quantity and transparency of publicly available information about executive compensation at credit unions, federal credit unions are not required to file the form. However, the public could be given other opportunities to review credit union activities. For example, NCUA could require all federally insured credit unions to include compensation and benefit data for senior executive officers in the call reports that are submitted on a quarterly basis—an option that NCUA officials indicated was under current consideration. Or, NCUA could require federal credit unions to disclose or make available credit union records, such as senior executive salary information, to members during annual meetings.

Recommendations for Executive Action

To help ensure that credit unions are fulfilling their tax-exempt mission of providing financial services to their members, especially those of low or moderate incomes, we recommend that the Chairman of NCUA systematically obtain information on the income levels of federal credit union members to allow NCUA to track and monitor the progress of credit unions in serving low- and moderate-income populations. NCUA's recent pilot survey to measure the income of credit union members could serve as a starting point to obtain more detailed information on credit union member income. Ideally, NCUA should expand its survey to allow the agency to monitor member income characteristics by credit union charter type, obtain information on the financial services that low- and moderate-income members actually use, and monitor progress over time.

To increase the transparency of executive compensation and enhance accountability of credit unions, we recommend that the Chairman of NCUA take action to ensure that information on federal credit union executive compensation is available to credit union members and the public for review and inspection. To achieve this, NCUA may want to consider options such as requiring federal credit unions to include specific information on executive compensation in call reports or issuing regulations that would require all federal credit unions to make executive compensation information available to members of credit unions at annual meetings.

Agency Comments and Our Evaluation

We provided a draft of this report to the Chairman of NCUA and the Commissioner of IRS for their review and comment. We received written comments from NCUA that are summarized below and reprinted in appendix V. In addition, we received technical comments from IRS that have been incorporated into this report as appropriate.

In its comment letter, NCUA indicated that the agency's staff have recommended that the NCUA board consider taking actions consistent with the recommendations made in our report. NCUA, however, expressed concerns with certain important aspects of the draft report. In particular, NCUA stated in its letter that a meaningful comparison between federally chartered credit unions and other financial institutions should include an in-depth assessment of their structural and governance differences. NCUA also noted that the substantive differences among federal credit unions in charter types and fields of membership significantly impact, among other things, who credit unions serve and how they operate and provide services.

We agree that there are important structural and governance differences between credit unions and other depository institutions, which are highlighted in the report. For example, page one of the draft and current report notes that credit unions, unlike banks, are (1) not-for-profit entities that build capital by retaining earnings (they do not issue capital stock); (2) member-owned cooperatives run by boards elected by the membership; (3) subject to field of membership requirements that limit membership to persons sharing certain circumstances, such as a common bond of occupation or association; and (4) exempt from federal income tax. Additionally, we agree that differences in charter types and fields of membership are important factors that should be considered in assessing who credit unions serve. However, as we note in the report, statistically reliable data on credit union members by charter type and field of membership were not available at the time of our review. The lack of this type of data was the primary basis for the report's recommendation that NCUA systematically obtain information on the income levels of federal credit union members. We are encouraged by NCUA's pilot effort to obtain information on the income levels of federal credit union members and continue to believe the value of the information collected would be greatly enhanced if NCUA were to continue its data collection efforts and address some of the limitations of the pilot.[52] Specifically, NCUA's data collection efforts could be strengthened by (1) providing benchmark data, such as general population income statistics or other appropriate measures, to allow comparisons with the data collected on the income levels of credit union members; (2) obtaining data on the extent of services offered by credit unions (e.g., free checking accounts, no charge ATMs, low-cost wire transfers, etc.) are being used by income category; (3) expanding the data collection effort to allow the results to be projectable by charter type; and (4) conducting the study on a systematic or periodic basis to assess the extent of progress over time.

NCUA's letter also stated that it was inaccurate and inappropriate to measure the success of federally chartered credit unions in serving persons of modest means by reference only to the low- and moderate-income categories associated with the Community Reinvestment Act. Specifically, NCUA noted that there was legal and historical evidence that the term modest means, as used by Congress in the context of the Federal Credit Union Act, is intended to include a broader range of individuals than those

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[52] See NCUA, *Member Service Assessment Pilot Program, A Study of Federal Credit Union Service* (Washington, D.C.: Nov. 3, 2006), available at www.ncua.gov.

in low- and moderate-income categories. As we noted in the report, neither the Federal Credit Union Act nor NCUA have established definitions as to what constitutes modest means. Thus, we used the group consisting of low- and moderate-income households as a proxy for persons of modest means for the purposes of our analysis. This allowed us to use the definitions established for the Community Reinvestment Act as the basis for income categories used on our analysis. Our analysis not only included comparisons between credit unions and banks of low- and moderate-income households but also middle and upper income households for both the 2001 and 2004 SCF. This analysis shows that between 2001 and 2004 credit unions continued to serve a higher proportion of middle- and upper-income households and a smaller proportion of low- and moderate-income households than did banks.

In its letter, NCUA noted that our income category benchmarks were inconsistent with the specific definitions of the CRA categories the other federal financial regulators used—specifically the use of national versus local median income for our benchmarks. Because the most comprehensive and statistically reliable data available on the income characteristics of credit union and bank customers at the time of our review—the Federal Reserve's Survey of Consumer Finances—were nationally representative, we used national median income measures as the basis for our income categories whereas the categories used for the Community Reinvestment Act are based on more local measures.

NCUA's letter also expressed concerns about the reliability of conclusions reached using the Federal Reserve's Survey of Consumer Finances data. Specifically, NCUA noted that the SCF was not designed for reliable income comparisons between credit union members and bank customers. As we noted in our draft and current report, we agree that the SCF was not specifically designed to conduct comparative analyses of income levels of bank and credit union customers; however, SCF provides the best data currently available to undertake such a comparison. As we reported in 2003, we analyzed the SCF because it is a respected source of publicly available data on financial institution and consumer demographics that is nationally representative and because it was the only comprehensive source of publicly available data that we could identify with information on financial institutions and consumer demographics. Moreover, our draft and current report noted limitations in SCF data that preclude drawing definitive conclusions about the income characteristics of credit union members. NCUA also provided additional detailed written comments as an enclosure to its letter, which we have reprinted in appendix V with our responses.

As we agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies of the report to the Ranking Member, House Committee on Ways and Means; other interested congressional committees and subcommittees; the Chairman, NCUA; and the Commissioner, IRS. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions concerning this report, please contact Yvonne D. Jones at (202) 512-8678. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. See appendix VI for a list of other staff who contributed to the report.

Sincerely yours,

Yvonne D. Jones

Yvonne D. Jones
Director, Financial Markets
and Community Investment

Objectives, Scope, and Methodology

Our report objectives were to (1) assess the effect of the 1998 Credit Union Membership Access Act (CUMAA) on federal credit union membership and charter expansion, (2) review the National Credit Union Administration's (NCUA) efforts to expand credit union services to low- and moderate-income individuals, (3) compare rates offered by credit unions to comparably sized banks as one indicator of how tax-exemption might benefit credit union members, (4) discuss issues associated with the application of the federal unrelated business income tax (UBIT) to credit unions, and (5) assess the transparency of credit union executives and board member compensation.

Effects of CUMAA and NCUA Regulations and NCUA Efforts to Serve Low- and Moderate-Income Individuals

To study the impact of CUMAA on federal credit union membership and charter expansion, we reviewed and analyzed the legislative history for CUMAA and compared its provisions with NCUA interpretive rulings and policy statements in effect before and after the enactment of CUMAA. In addition, we interviewed NCUA officials and industry representatives and met with credit union and banking trade groups including the National Association of Federal Credit Unions, National Association of State Credit Union Supervisors (NASCUS), Credit Union National Association, America's Community Bankers, and Independent Community Bankers to obtain their viewpoints on how CUMAA and NCUA regulation affected credit union chartering and field of membership. To obtain information about state credit union chartering and fields of membership, we held discussions and reviewed documentation provided by NASCUS. Finally, we obtained electronic files from NCUA that contained annual call report financial data (Form 5300) of all federally chartered credit unions for year-ends 2000 through 2005. The information included the number of credit unions, actual and "potential" membership (that is, people within a credit union's field of membership but not members of the credit union), assets, charter approvals, charter conversions, and charter expansions.

To identify the results of NCUA programs intended to expand credit union services to low- and moderate-income individuals and underserved areas, we analyzed NCUA call report data for the low-income-designated credit unions and credit unions that expanded into underserved areas for year-ends 2000 through 2005. The data included information on the number of credit unions participating in these programs, their asset size, and their membership.

We reviewed NCUA-established procedures for verifying the accuracy of the Form 5300 database and found that the data are verified on a yearly basis, either during each credit union's examination or through off-site supervision. In addition, we cross checked the December 2000 to December 2002 data that we recently received with the same data in our 2003 report. We determined that the data were sufficiently reliable for the purposes of this report.

Further, we analyzed existing data on the income levels of credit union customers. Specifically, we analyzed both the 2001 and 2004 releases of the Board of Governors of the Federal Reserve System's (Federal Reserve) Survey of Consumer Finances (SCF). The SCF is conducted every 3 years and is intended to provide detailed information on the balance sheets, pension, incomes, and demographics of U.S. households and their use of financial institutions.[1] Because some households use both banks and credit unions, we performed our analyses based on the assumption that households can be divided into four user categories—those who use credit unions only, those who primarily use credit unions, those who use banks only, and those who primarily use banks.[2] "Primarily use" banks (or credit unions) means placing more than 50 percent of a household's assets in banks (or credit unions). As in our prior report, we created four income categories that are based on those used by financial regulators as part of Community Reinvestment Act examinations—low, moderate, middle, and upper—to classify these households (see table 5).[3] As in our 2003 report, we were unable to find a definition of "modest means"; thus, to assess the extent to which credit unions served people of "modest means," we combined households with low- or moderate-incomes into one group as a proxy for modest means.

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[1] We use the term, "household," rather than "family," since the subject group of the SCF more closely resembles the U.S. Census Bureau's definition of "household" than its definition of "family."

[2] Our analysis was based on an approach developed by Jinkook Lee of Ohio State University. See Jinkook Lee and William A. Kelly Jr., "Who Uses Credit Unions?" (Prepared for the Filene Research Institute and the Center for Credit Union Research, 1999, 2001).

[3] The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. It was enacted by the Congress in 1977 (12 U.S.C. 2901).

Table 5: Definition of Income Categories Used for Community Reinvestment Act Examinations

Categories	Definitions
Low income	Income less than 50 percent of the Metropolitan Statistical Area's (MSA) median income
Moderate income	Income at least 50 percent and less than 80 percent of the MSA''s median income
Middle income	Income at least 80 percent and less than 120 percent of the MSA's median income
Upper income	Income at least 120 percent or more of the MSA's median income

Source: 12 C.F.R. 228.12(n).

Finally we discussed with NCUA officials the design and methodology of its ongoing pilot project to measure the income levels of federal credit union members. We also discussed with NASCUS officials their effort to measure the income levels of state-chartered credit union members.

Comparison of Interest Rates Offered by Credit Unions With Those at Comparably Sized Banks

To compare the rates of credit unions with those at comparably sized banks, we engaged the services of Datatrac Corporation—a market research, information technology company specializing in the financial services industry—to provide data on 15 loan and savings products offered by credit unions and banks.[4] Datatrac calculated the average rates for each of these products by five distinct peer groups for asset size, for about 2,000 credit unions and 4,000 banks (see table 6).

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[4] Datatrac is a privately held company that specializes in financial industry research. Specifically, Datatrac monitors and analyzes rate trends on popular deposit and lending products for thousands of financial institutions nationwide. Institutions voluntarily provide data to Datatrac on a weekly basis for inclusion in the company's database.

Table 6: Peer (Asset) Group Definitions, Used in Comparisons of Interest Rates between Credit Unions and Banks

Group	Asset size of institution
I	Total assets of $100 million or less
II	Total assets greater than $100 million, but less than or equal to $250 million
III	Total assets greater than $250 million, but less than or equal to $500 million
IV	Total assets greater than $500 million, but less than or equal to $1 billion
V	Total assets greater than $1 billion, but less than or equal to the asset size, rounded up to the nearest billion dollars, of the largest credit union

Source: GAO.

We established the peer groups based on the institution's size as measured by total assets for banks and credit unions. Datatrac obtained asset information for each institution by combining information in its database with call report data for each institution. Datatrac computed average rates for institutions overall and for all institutions within analysis groups. In computing these simple averages, individual institution rates were not weighted to reflect loan volume or other measures of size.

Datatrac provided us with an electronic file containing information for 2000 through 2005. The information included (1) institution type, (2) average rate, (3) maximum rate, (4) minimum rate, (5) standard deviations, (6) product name, (7) quarter and year, and (8) institution counts. We interviewed Datatrac officials to confirm that they followed industry accepted protocols to ensure data integrity, including input and processing controls. We also reviewed Datatrac's methodological documentation. In addition, we conducted reasonableness checks on the data we received and identified data gaps in the year-end 2003 information. Datatrac examined its processing procedures and explained to us that its cut-off date was incorrectly designated 1 week later than planned. At the same time, Datatrac also verified that the same problem did not exist in any other quarters of the years 2000 through 2005. Datatrac provided us an updated electronic file reflecting the corrections. We determined that the revised data were sufficiently reliable for the purposes of this report.

Issues Related to the Application of UBIT to Credit Unions

To review issues related to the application of UBIT to credit unions, we reviewed the legislative history of UBIT and the historical basis for the tax-exempt status of credit unions and met with representatives of the Internal Revenue Service (IRS) to discuss UBIT filing and reporting requirements. We also discussed with IRS officials their examinations of unrelated business activity at state-chartered credit unions and development of policies and procedures in this area. We also obtained information from IRS on the number and types (group versus individual) of Return of Organization Exempt from Income Tax (Form 990) and Exempt Organization Business Income Tax Return (Form 990T) filings by state-chartered credit unions and the amount of unrelated business income reported and taxes paid by state-chartered credit unions for tax years from 2000 through 2004.

Information on Transparency and Compensation of Executive Compensation

To provide information on the transparency and compensation of credit union executives and board members, including an assessment of the availability of compensation data to credit union members and a comparison of executive compensation at credit unions and comparably sized banks, we interviewed officials at NCUA and IRS to discuss executive compensation reporting requirements. We obtained and analyzed examiner guidance on compensation from NCUA and the other federal banking regulators—the Federal Deposit Insurance Corporation, Federal Reserve, Office of the Comptroller of the Currency, and Office of Thrift Supervision. We also met with credit union and banking trade groups including the National Association of Federal Credit Unions, NASCUS, Credit Union National Association, America's Community Bankers, and Independent Community Bankers to identify publicly available data regarding the compensation of credit union and bank senior executives. We reviewed and analyzed selected credit union and bank compensation surveys. For more information on the surveys and our analysis, see appendix IV. We also met with NCUA to discuss their efforts to collect federal credit union executive compensation.

Analyses of Survey of Consumer Finances Data, 2001 and 2004

Using the methodology that we employed in our prior report, data from the 2001 and 2004 releases of the Federal Reserve SCF that we analyzed indicated that credit unions continued to serve a lower proportion of low-income households than banks for the years analyzed.[1] As we reported in 2003, we analyzed the SCF because it is a respected source of publicly available data on financial institution and consumer demographics that is nationally representative and because it was the only comprehensive source of publicly available data with information on financial institutions and consumer demographics that we could identify. While it is the best publicly available data that we could identify, there are limitations in SCF data that preclude drawing definitive conclusions about the income characteristics of credit union members. In an effort to provide greater context, in this appendix, we also present the results of additional analyses of the 2001 and 2004 SCF data that we conducted.

The SCF is conducted every 3 years and is intended to provide detailed information on the balance sheet, pension, income, and other demographics of U.S. households and their use of financial institutions.[2] The survey is based on approximately 4,500 interviews and represents a sample of more than 100 million households. For each of the 2001 and 2004 SCF releases, we combined the SCF data into two main groups—households that only and primarily used credit unions (credit union customers) and households that only and primarily used banks (bank customers).[3] Our analyses of 2001 and 2004 SCF data indicated that, among households that used a financial institution, those households that we

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[1] See GAO, *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*, GAO-04-91 (Washington, D.C.: Oct. 27, 2003).

[2] We use the term "household" rather than "family" since the reporting unit of the SCF more closely resembles the U.S. Census Bureau's definition of "household" than its definition of "family." The Census Bureau's definition of "family" excludes the possibility of one-person household units, but its definition of "household" allows for them. See Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin*, Mar. 22, 2006, A3.

[3] Those who "primarily" used credit unions placed more than 50 percent of their assets in credit unions, and those who "primarily" used banks placed more than 50 percent of their assets in banks. The term "use" refers to a household's placement of assets in a checking, savings, or money market account. Our methodology for determining these classifications was based on work that Jinkook Lee, a professor and researcher at Ohio State University, performed. See Jinkook Lee and William A. Kelly Jr., "Who Uses Credit Unions?" (Prepared for the Filene Research Institute and the Center for Credit Union Research, 1999, 2001).

identified as being bank customers outnumbered those that we identified as being credit union customers by a large margin (see table 7).[4] Because such a high percentage of the U.S. population represented by the SCF only used banks, the data obtained from the SCF are particularly useful for describing characteristics of bank users but much less precise for describing smaller population groups, such as those that only used credit unions. It should be noted that SCF was not specifically designed to conduct comparative analyses of income levels of bank and credit union customers, and the pool of bank customers is not necessarily comparable to the pool of credit union customers.

Table 7: Percentages of Households Classified as Using Banks or Credit Unions, 2001 and 2004

	Percentage of households (among all households using a financial institution)	
Financial institution usage	**2001 SCF data**	**2004 SCF data**
Only used credit unions	8	8
Primarily used credit unions	13	14
Primarily used banks	17	15
Only used banks	62	63

Sources: GAO and Federal Reserve.

We found that credit union customers had a higher median income than bank customers in both the 2001 and 2004 SCF releases. In the 2001 SCF, the median income of all households was $39,000; bank customers had a median income of $40,000 and credit union customers had a median income of $44,000. In the 2004 SCF, the median income of all households was $42,000; bank customers had a median income of $43,000 and credit union customers had a median income of $50,000.

We computed the proportions of credit union customers and bank customers in each of four income categories—low, moderate, middle, and upper. As in our 2003 report, we based our income groups on income categories used by financial regulators for federal Community

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[4] In our analyses of SCF data, we specify banks to include both commercial banks and savings and loan institutions. Percentages reflect the households using financial institutions as a percentage of all financial institution users and exclude those households that did not use a financial institution (sometimes referred to as "unbanked").

Reinvestment Act examinations in an effort to provide a consistent framework given that "modest means" is not clearly defined.[5] For our primary analysis of 2001 and 2004 SCF data, we used 2000 and 2003 median household income as reported by the U.S. Census Bureau; for our additional analyses of 2001 and 2004 SCF data, we used 2000 and 2003 median family income as reported by the U.S. Census Bureau (see tables 8 and 9). It should be noted that the categories that we use here, which we introduced in our 2003 report, are based on a national median income measure whereas the categories used for Community Reinvestment Act are based on more local measures.

Table 8: Median Income Benchmarks Used for Primary (Household) and Additional (Family) Analyses of 2001 and 2004 SCF Data

Analysis	2001 median SCF family income	2001 median SCF household income	2004 median SCF family income	2004 median SCF household income
Primary	N/A	$42,151	N/A	$43,318
Additional	$50,890	N/A	$52,680	N/A

Sources: GAO and U.S. Census Bureau.

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[5] See appendix I for more information.

Table 9: Income Categories for Primary (Household) and Additional (Family) Analyses of 2001 and 2004 SCF Data

Income category	Primary analysis	Additional analysis
Low	Income less than 50 percent of the median household income (2001: less than $21,076; 2004: less than $21,659)	Income less than 50 percent of the median family income (2001: less than $25,445; 2004: less than $26,340)
Moderate	Income at least 50 percent and less than 80 percent of the median household income (2001: at least $21,076 but less than $33,721; 2004: at least $21,659 but less than $34,654)	Income at least 50 percent and less than 80 percent of the median family income (2001: at least $25,445 but less than $40,712; 2004; at least $26,340 but less than $42,114)
Middle	Income at least 80 percent and less than 120 percent of the median household income (2001: at least $33,721 but less than $50,581; 2004: at least $34,654 but less than $51,982)	Income at least 80 percent and less than 120 percent of the median family income (2001: at least $40,712 but less than $61,068; 2004: at least $42,144 but less than $63,216)
Upper	Income at least 120 percent or more of the median household income (2001: at least $50,581; 2004: at least $51,982)	Income at least 120 percent or more of the median family income (2001: at least $61,068; 2004: at least $63,216)

Source: GAO.

As noted earlier in the report, our (primary) analysis of 2004 SCF data suggested that credit unions served a lower proportion of households of modest means (low- and moderate-income households, collectively) than banks, a result consistent with the finding in our 2003 report analyzing the 2001 SCF data (see tables 10 and 11).

Table 10: Percentages in Each Income Category for Primary (Household) Analysis by Customer Type, 2001 SCF Data

Income category	All SCF respondents	Credit union customers	Bank customers
Low	27.0	16.4	25.7
Moderate	16.6	19.3	16.1
Middle	17.6	21.7	17.5
Upper	38.9	42.6	40.7

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median household income for 2000.

Table 11: Percentages in Each Income Category for Primary (Household) Analysis by Customer Type, 2004 SCF Data

Income category	All SCF respondents	Credit union customers	Bank customers
Low	24.9	14.5	24.2
Moderate	16.6	16.6	16.4
Middle	17.8	20.2	18.1
Upper	40.7	48.8	41.3

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median household income for 2003.

In an effort to determine how sensitive these results were to our income categorization, we also used the median family income for 2000 and 2003 to analyze the 2001 and 2004 SCF data. As shown in tables 12 and 13, the results from our additional analyses were similar to those of our primary analysis. While the median family income was higher than the median household income in each year, the results continue to suggest that a greater proportion of bank than credit union customers were of modest means. This difference between banks and credit unions was statistically significantly different from zero in the 2004 SCF; there was also a statistically significant decline in the proportion of credit union customers of modest means between the 2001 and 2004 SCF data. Thus, while the results of our analyses should not be considered definitive, they do suggest that any impact from the recent efforts by NCUA to increase credit union membership among the underserved and low- and moderate-income households have not yet appeared in the data.

Table 12: Percentages in Each Income Category for Additional (Family) Analysis by Customer Type, 2001 SCF Data

Income category	All SCF respondents	Credit union customers	Bank customers
Low	33.8	23.2	32.3
Moderate	18.6	23.6	18.2
Middle	16.7	21.6	16.5
Upper	30.9	31.7	33.1

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median family income for 2000.

Table 13: Percentages in Each Income Category for Additional (Family) Analysis by Customer Type, 2004 SCF Data

Income category	All SCF respondents	Credit union customers	Bank customers
Low	31.6	20.2	31.0
Moderate	18.6	21.1	18.3
Middle	18.1	20.6	18.6
Upper	31.7	38.2	32.2

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median family income for 2003.

We also considered the median income of bank and credit union customers within each of our income categories for both the primary and additional analyses to assess whether there were any notable differences between credit union and bank customers (see tables 14 through 17). We found that the income characteristics of the customers tended to be similar; however, the median income in the upper-income category tended to be higher for bank customers.

Table 14: Median Income within Each Income Category for Primary (Household) Analysis by Customer Type, 2001 SCF Data

	Median income within category	
Income category	Credit union customers	Bank customers
Low	$13,000	$13,000
Moderate	28,000	27,000
Middle	40,000	41,000
Upper	74,000	83,000

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median household income for 2000.

Table 15: Median Income within Each Income Category for Primary (Household) Analysis by Customer Type, 2004 SCF Data

	Median income within category	
Income category	**Credit union customers**	**Bank customers**
Low	$13,000	$13,000
Moderate	28,000	28,000
Middle	42,000	43,000
Upper	86,000	86,000

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median household income for 2003.

Table 16: Median Income within Each Income Category for Additional (Family) Analysis by Customer Type, 2001 SCF Data

	Median income within category	
Income category	**Credit union customers**	**Bank customers**
Low	$16,000	$15,000
Moderate	33,000	33,000
Middle	51,000	50,000
Upper	83,000	98,000

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median family income for 2000.

Table 17: Median Income within Each Income Category for Additional (Family) Analysis by Customer Type, 2004 SCF Data

	Median income within category	
Income category	**Credit union customers**	**Bank customers**
Low	$17,000	$15,000
Moderate	34,000	34,000
Middle	52,000	51,000
Upper	97,000	101,000

Sources: GAO and Federal Reserve.

Note: Income benchmark is the median family income for 2003.

Comparison of Interest Rates at Credit Unions and Banks

Data that we obtained indicate that credit unions offer more favorable rates on average than similarly sized banks for a number of savings products and consumer loans. However, similarly sized credit unions and banks appeared to offer virtually the same rates on mortgage loans, such as 15- and 30-year fixed-rate mortgages. We engaged the services of Datatrac Corporation—a market research and information technology company, specializing in the financial services industry—to gather and analyze data on loan and savings rates for 15 loan and savings products (5 consumer loan, 3 mortgage loan, and 7 savings products) that were offered from 2000 through 2005 at about 2,000 credit unions and 4,000 banks.[1] Financial institutions voluntarily provide data to Datatrac on a weekly basis for inclusion in the company's database. Therefore, information presented is not necessarily statistically representative of the entire banking and credit union industry.

Datatrac calculated the average rates for each of these products by five distinct asset size peer groups:

- total assets of $100 million or less;
- total assets greater than $100 million, but less than or equal to $250 million;
- total assets greater than $250 million, but less than or equal to $500 million;
- total assets greater than $500 million, but less than or equal to $1 billion; and
- total assets greater than $1 billion, but less than or equal to the asset size, rounded up to the nearest billion dollars, of the largest credit union.

Datatrac computed average rates for institutions overall and for all institutions within analysis groups. In computing these simple averages, individual institution rates were not weighted to reflect loan volume or other measures of size. While Datatrac Corporation's database contained

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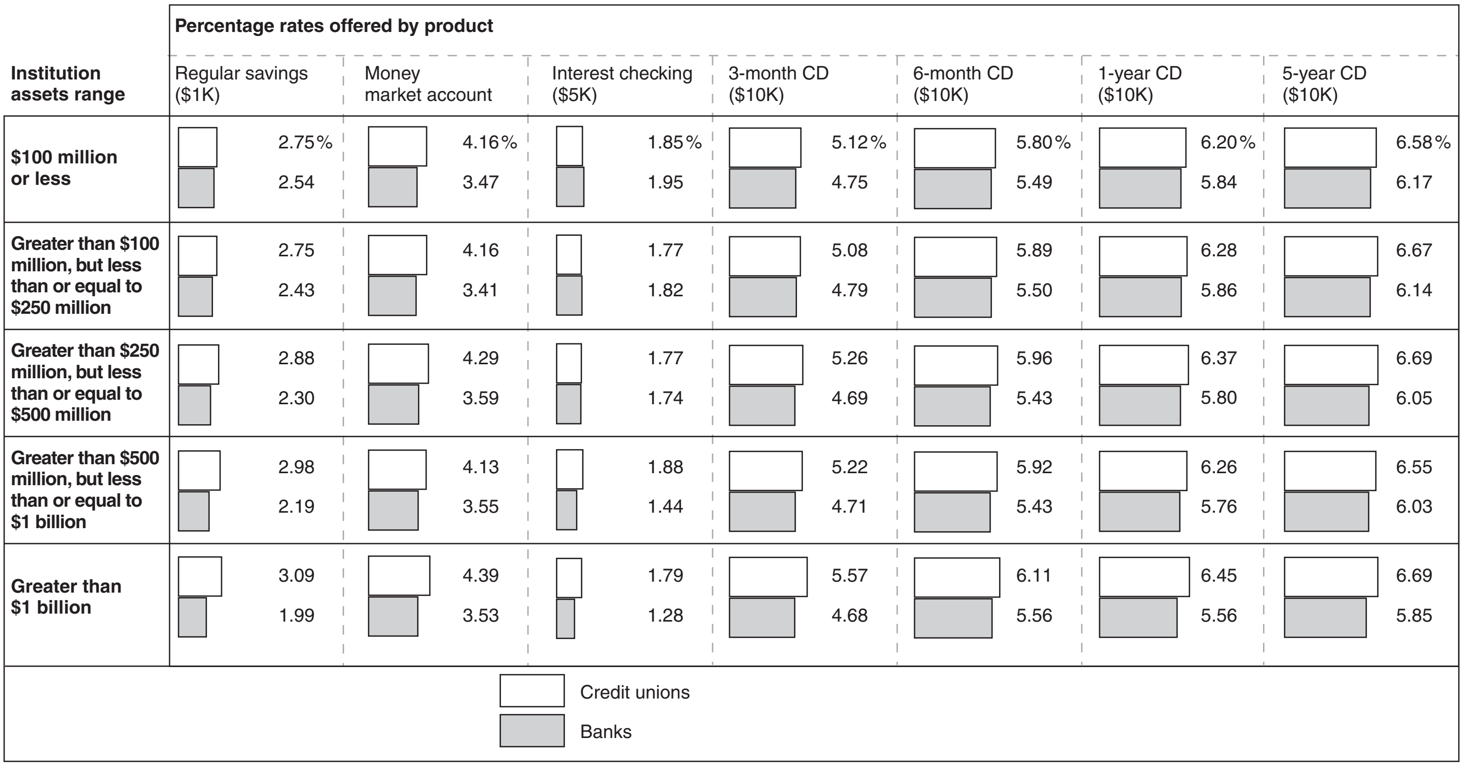
[1] Datatrac is a privately held company that specializes in financial industry research. Specifically, Datatrac monitors and analyzes rate trends on popular deposit and lending products for thousands of financial institutions nationwide.

data provided by about 2,000 credit unions and 4,000 banks, data were not always obtained from all the credit unions and banks for every product and/or time period in each of the five asset groupings. We identify all instances in which the information presented was based on rate data provided by less than 10 institutions. Additionally, because averages based on a small number of institutions may be unreliable, we did not report instances when rate data was provided by less than 5 institutions.

Figures 7 through 23 provide a detailed comparison of rates on savings and loan products offered by credit unions to those at similarly sized banks for the 6-year period spanning from 2000 to 2005.

Figure 7: Comparison of Interest Rates for Savings Products at December 31, 2000, by Asset Size

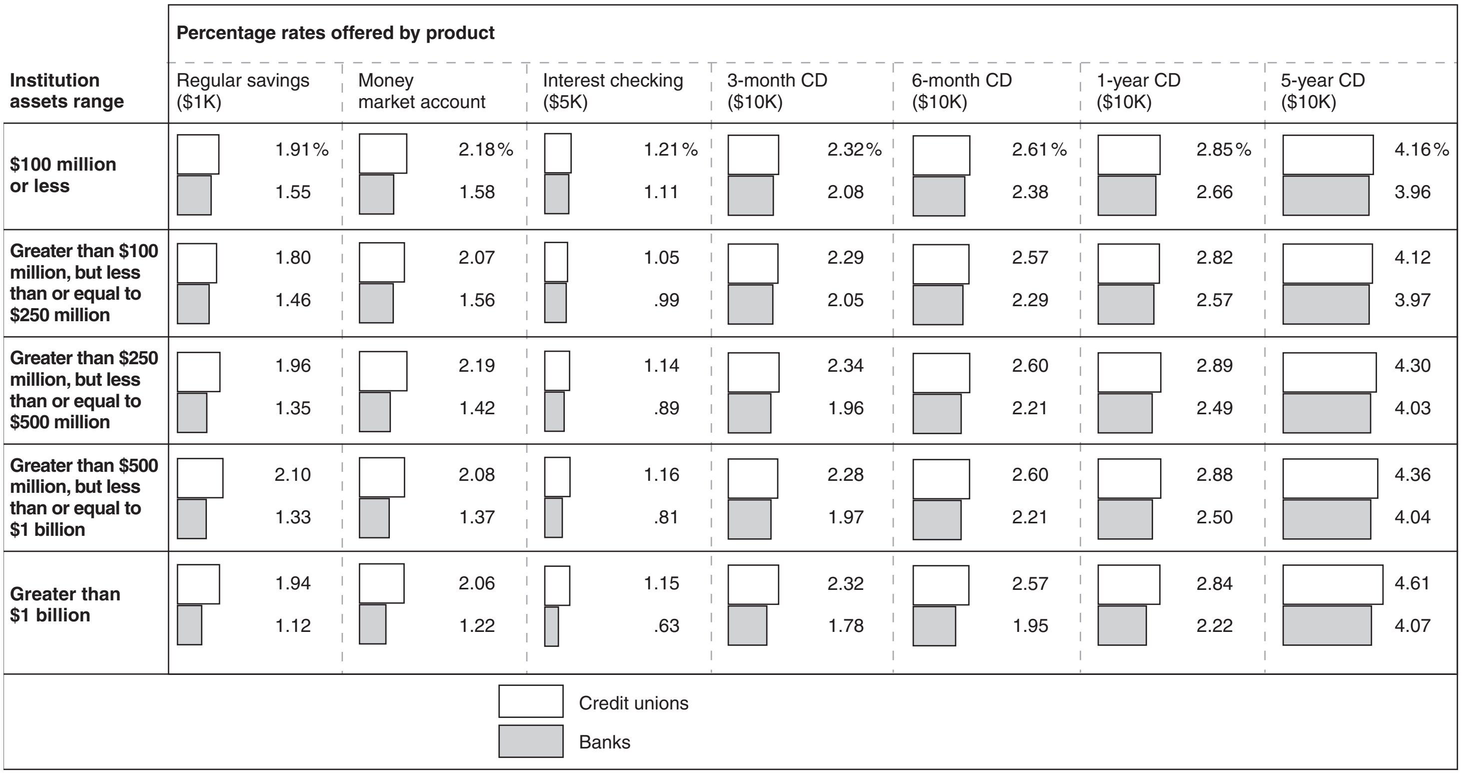


	Percentage rates offered by product						
Institution assets range	Regular savings ($1K)	Money market account	Interest checking ($5K)	3-month CD ($10K)	6-month CD ($10K)	1-year CD ($10K)	5-year CD ($10K)
$100 million or less	2.75% 2.54	4.16% 3.47	1.85% 1.95	5.12% 4.75	5.80% 5.49	6.20% 5.84	6.58% 6.17
Greater than $100 million, but less than or equal to $250 million	2.75 2.43	4.16 3.41	1.77 1.82	5.08 4.79	5.89 5.50	6.28 5.86	6.67 6.14
Greater than $250 million, but less than or equal to $500 million	2.88 2.30	4.29 3.59	1.77 1.74	5.26 4.69	5.96 5.43	6.37 5.80	6.69 6.05
Greater than $500 million, but less than or equal to $1 billion	2.98 2.19	4.13 3.55	1.88 1.44	5.22 4.71	5.92 5.43	6.26 5.76	6.55 6.03
Greater than $1 billion	3.09 1.99	4.39 3.53	1.79 1.28	5.57 4.68	6.11 5.56	6.45 5.56	6.69 5.85

☐ Credit unions
▨ Banks

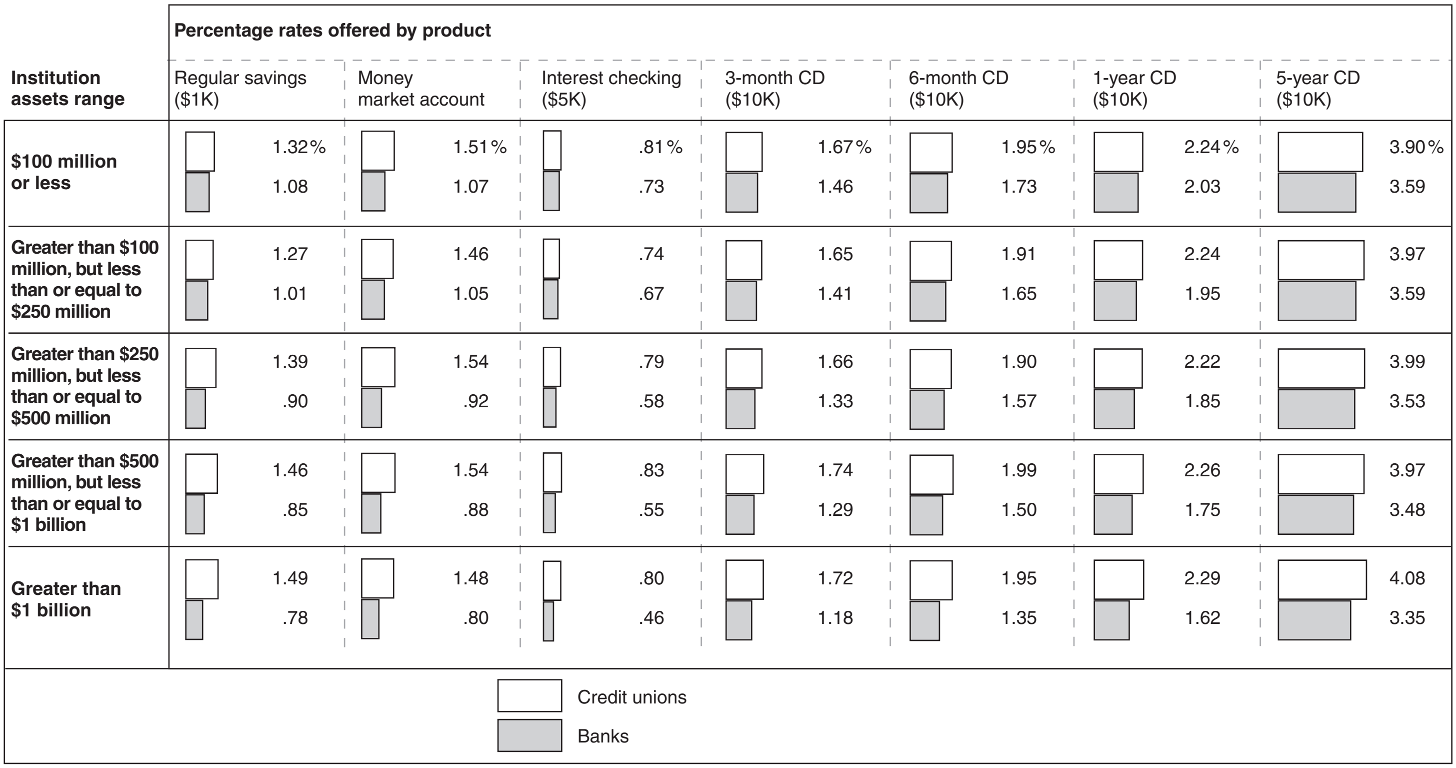
Sources: GAO and Datatrac.

Figure 8: Comparison of Interest Rates for Savings Products at December 31, 2001, by Asset Size



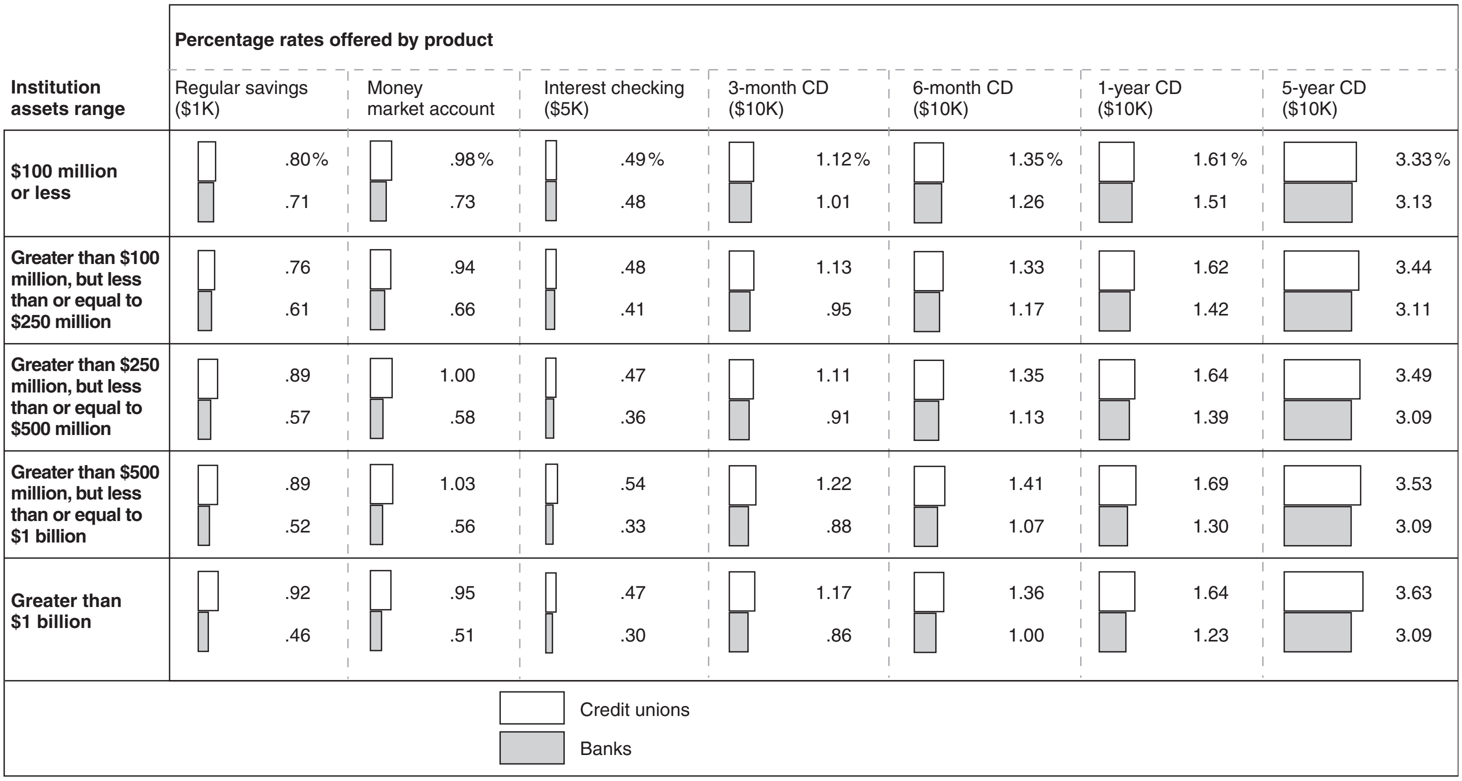
Sources: GAO and Datatrac.

Figure 9: Comparison of Interest Rates for Savings Products at December 31, 2002, by Asset Size



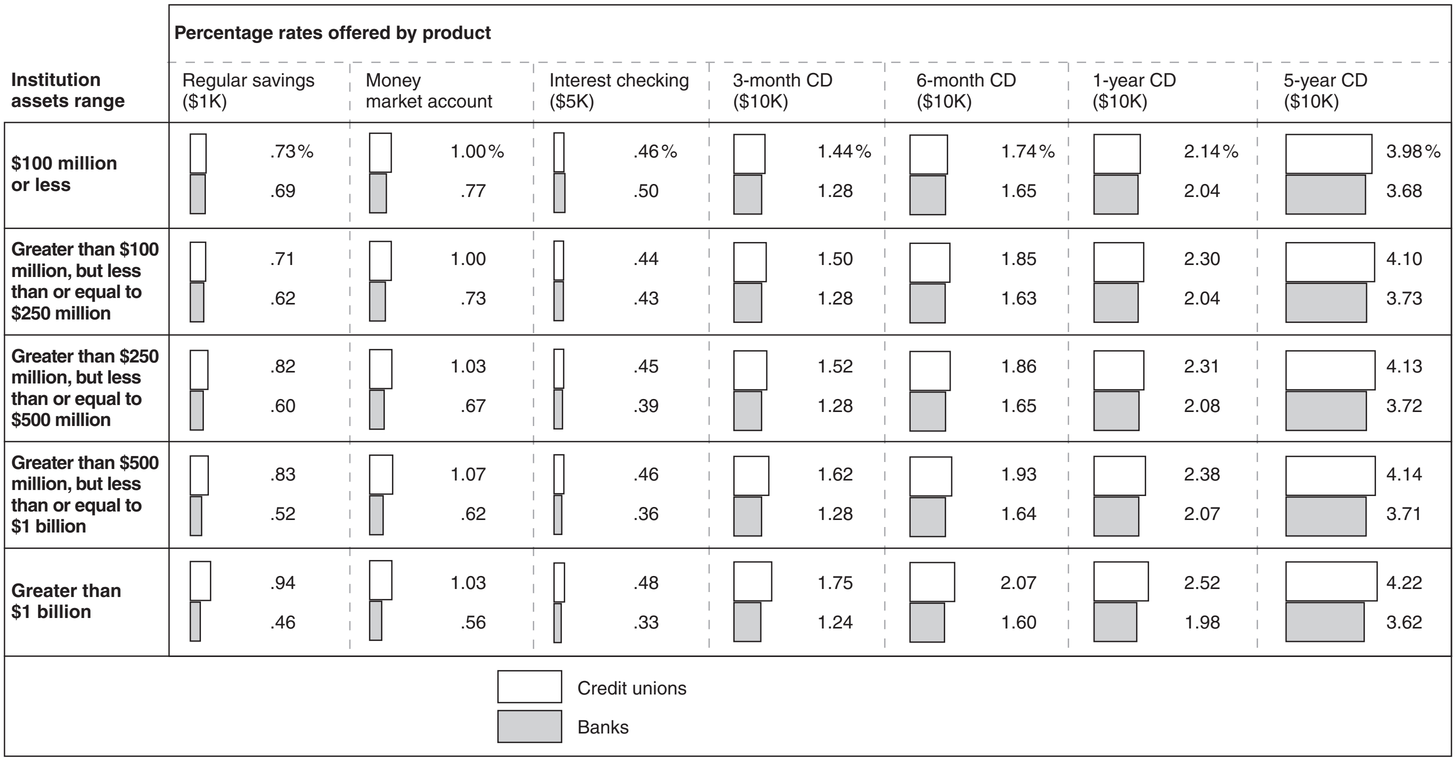
Sources: GAO and Datatrac.

Figure 10: Comparison of Interest Rates for Savings Products at December 31, 2003, by Asset Size



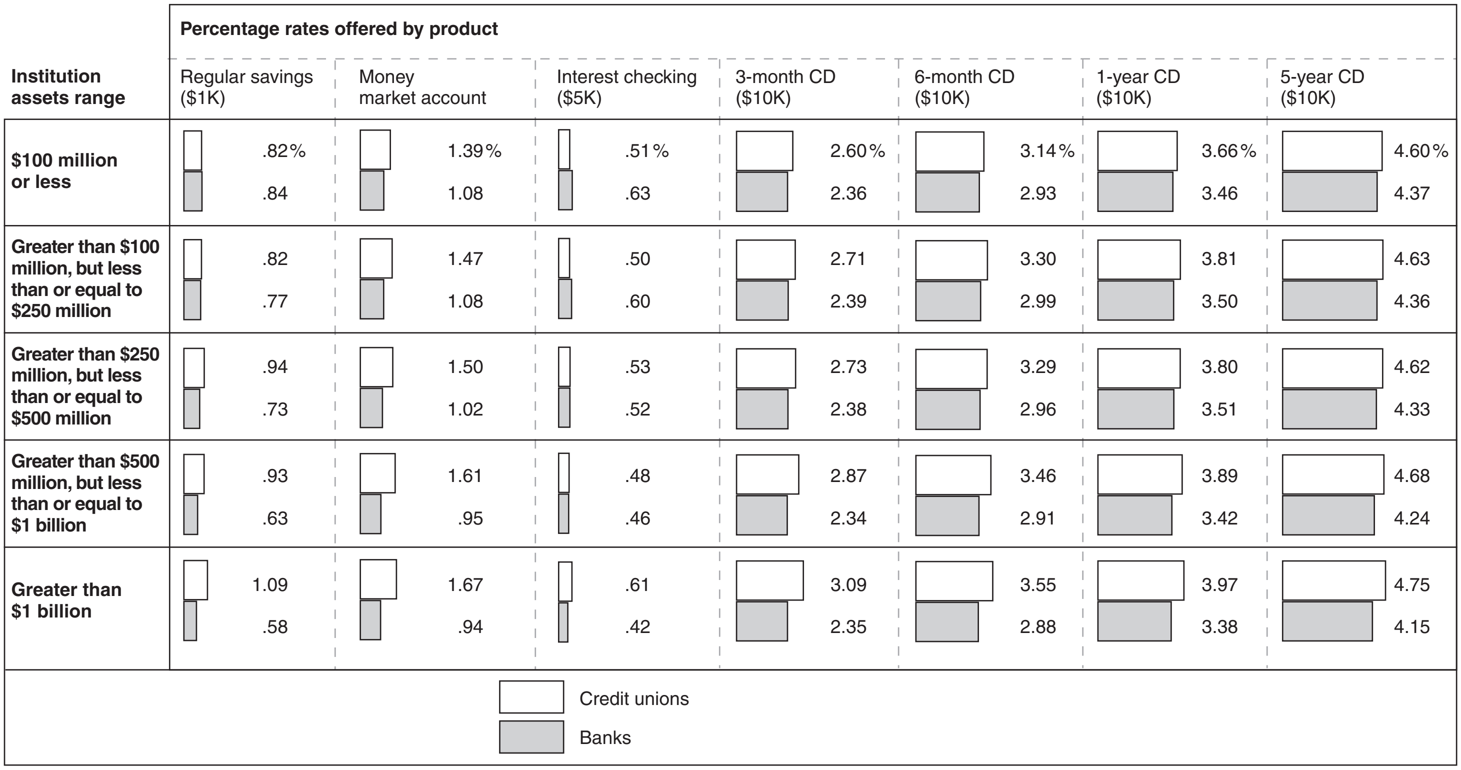
Sources: GAO and Datatrac.

Figure 11: Comparison of Interest Rates for Savings Products at December 31, 2004, by Asset Size



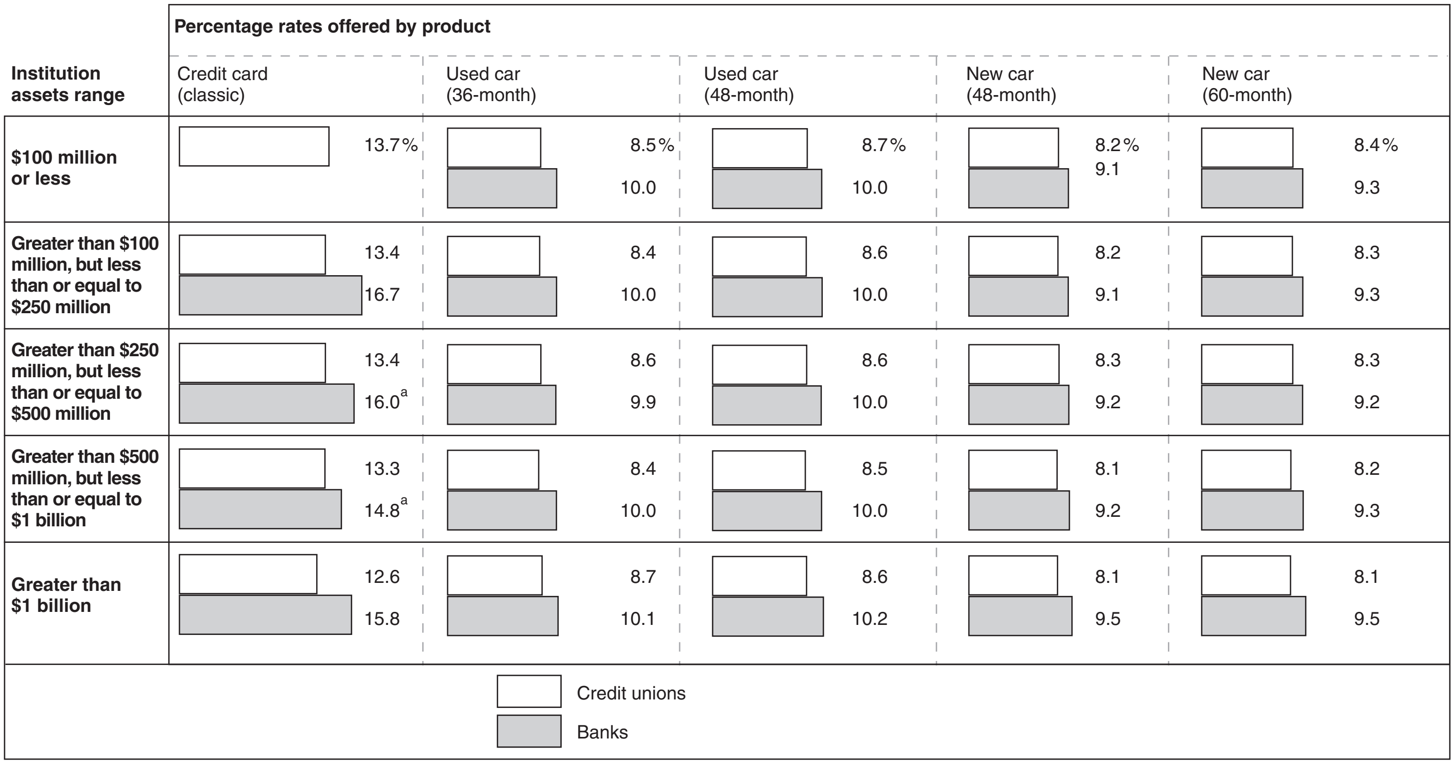
Sources: GAO and Datatrac.

Figure 12: Comparison of Interest Rates for Savings Products at December 31, 2005, by Asset Size



Sources: GAO and Datatrac.

Figure 13: Comparison of Interest Rates of Consumer Loans at December 31, 2000, by Asset Size

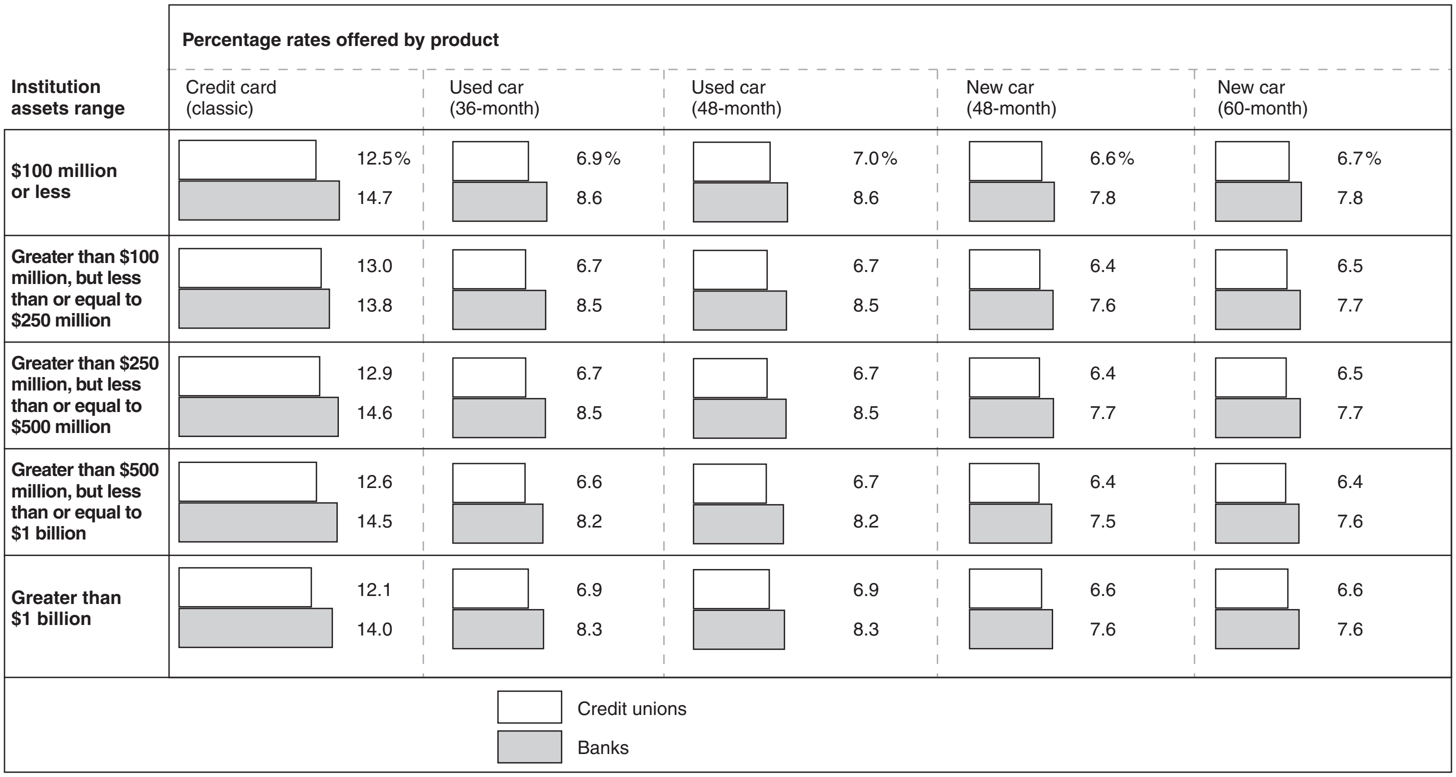


Sources: GAO and Datatrac.

Note: Data is not reported for credit card (classic) and banks with $100 million or less due to an insufficient number of reporting institutions (less than 5).

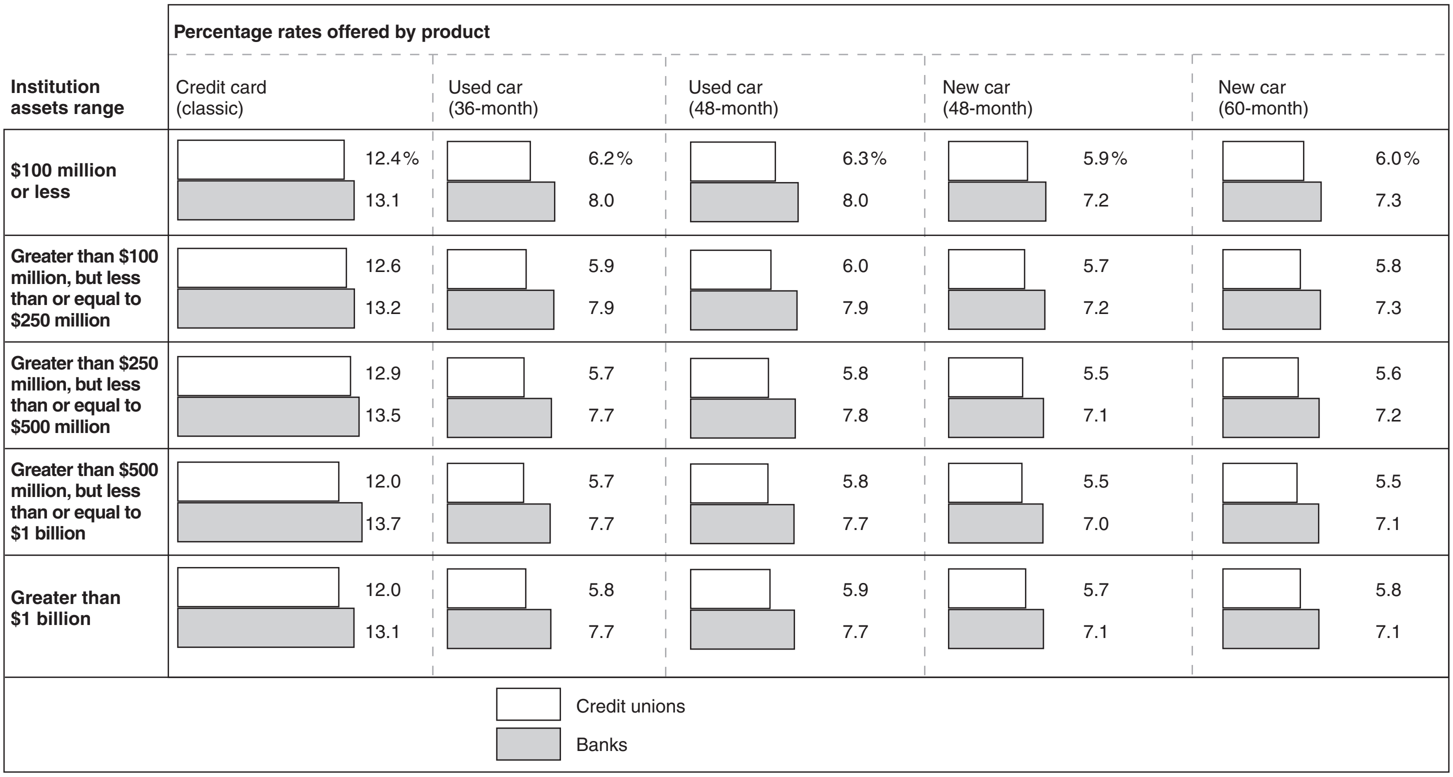
[a] Data is based on responses of less than 10 institutions.

Figure 14: Comparison of Interest Rates of Consumer Loans at December 31, 2001, by Asset Size



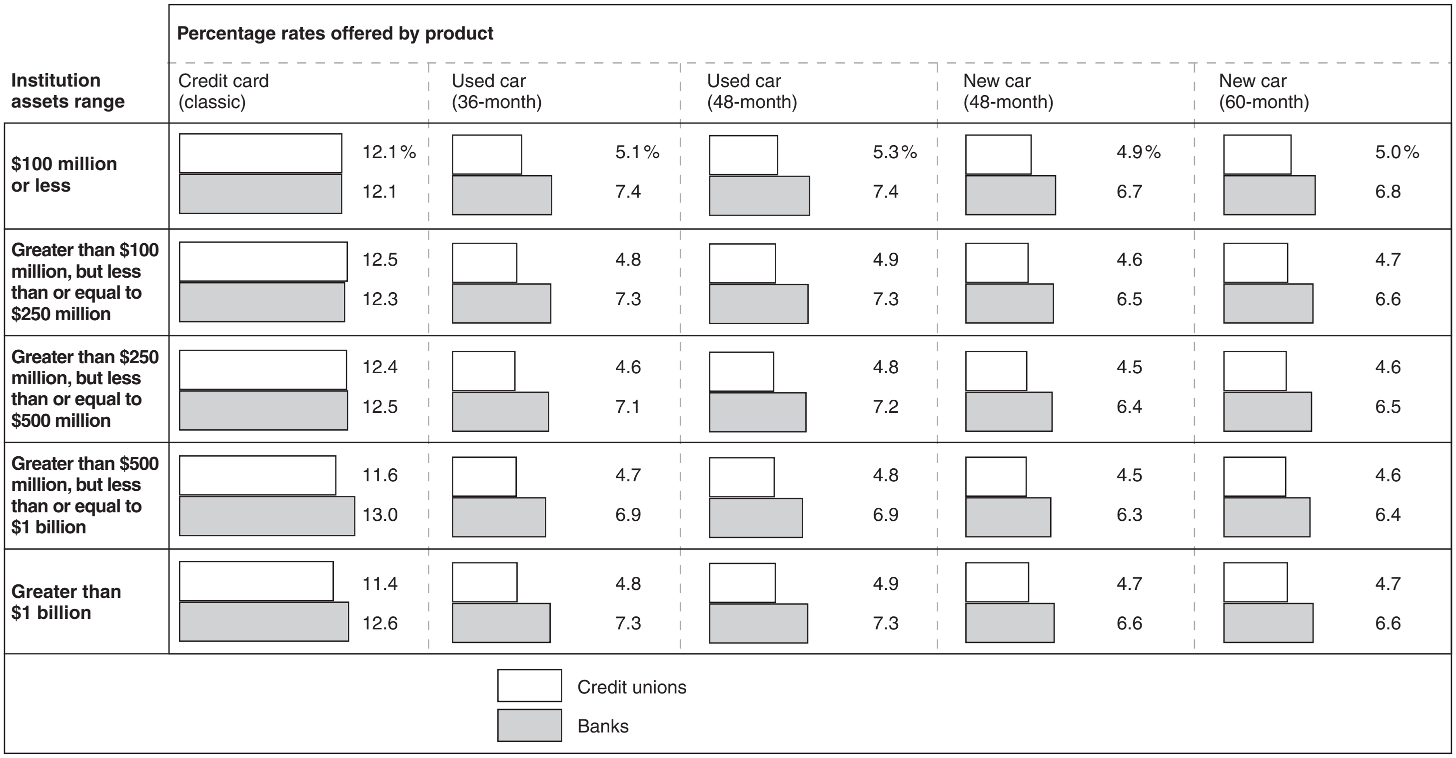
Sources: GAO and Datatrac.

Figure 15: Comparison of Interest Rates of Consumer Loans at December 31, 2002, by Asset Size



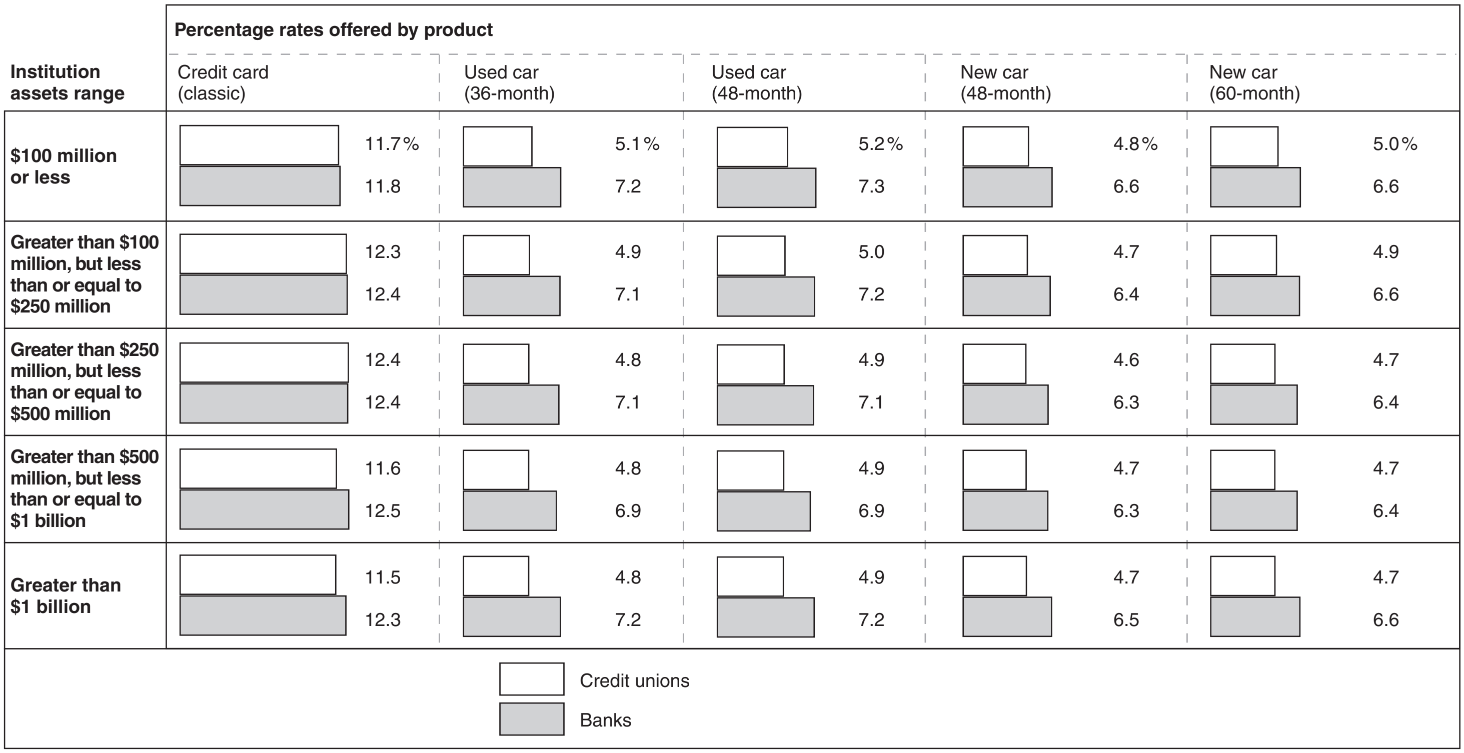
Sources: GAO and Datatrac.

Figure 16: Comparison of Interest Rates of Consumer Loans at December 31, 2003, by Asset Size



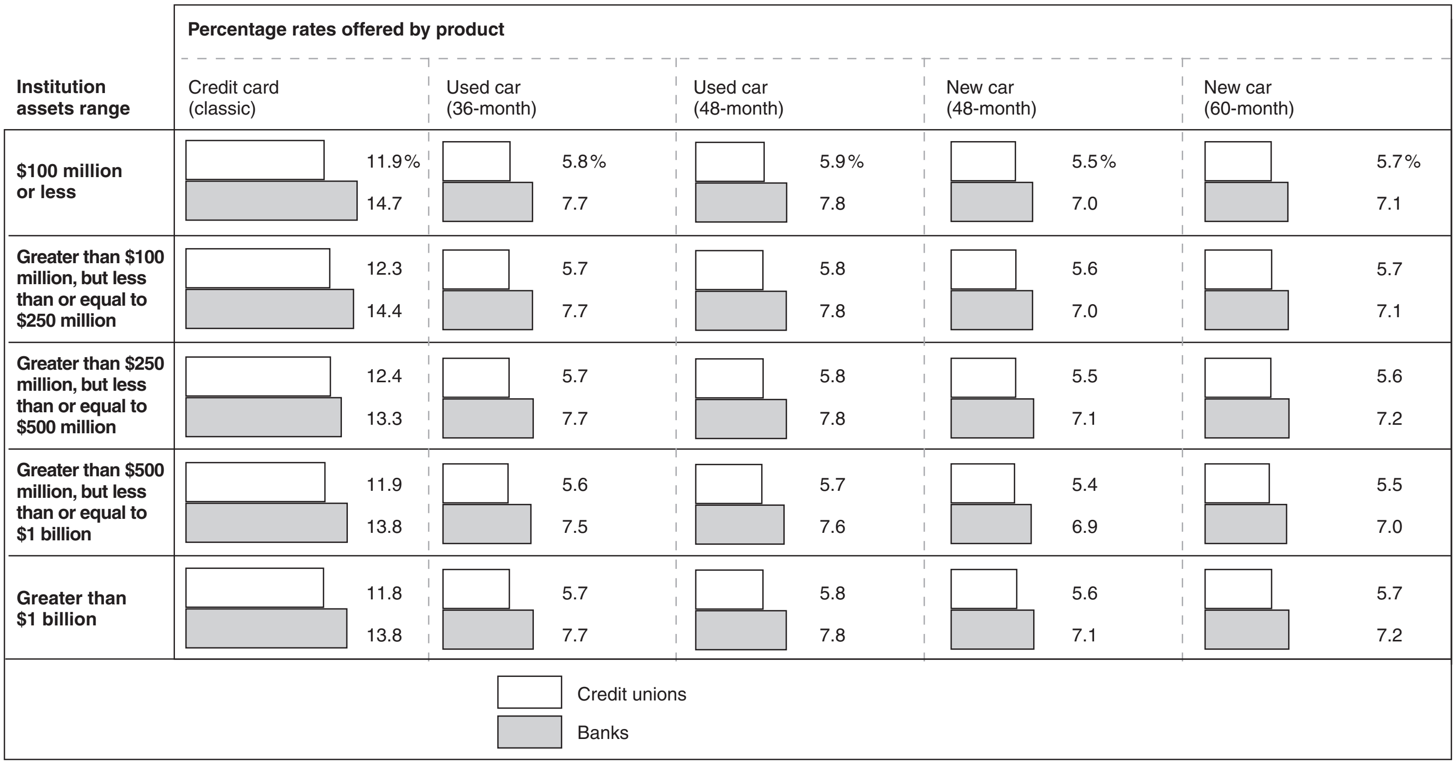
Sources: GAO and Datatrac.

Figure 17: Comparison of Interest Rates of Consumer Loans at December 31, 2004, by Asset Size



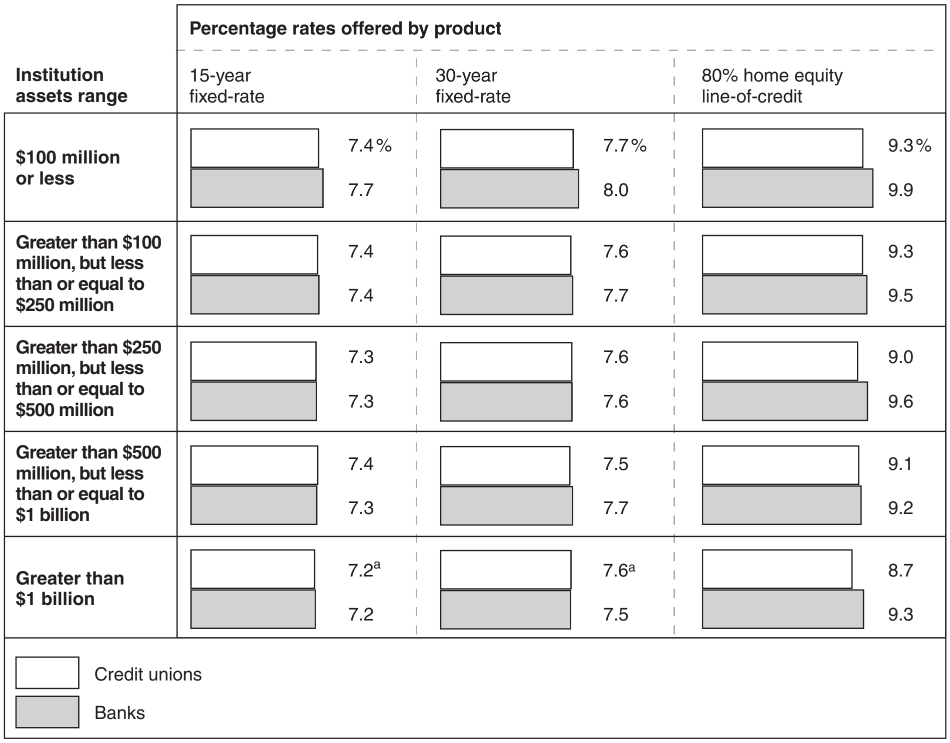
Sources: GAO and Datatrac.

Figure 18: Comparison of Interest Rates of Consumer Loans at December 31, 2005, by Asset Size



Sources: GAO and Datatrac.

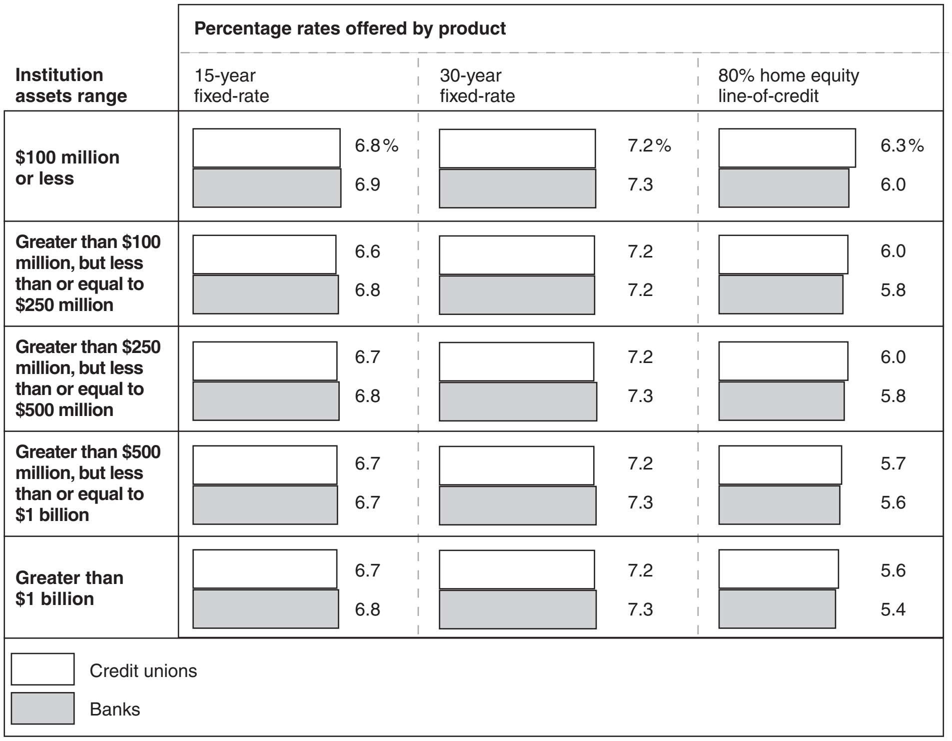
Figure 19: Comparison of Interest Rates of Mortgage Products at December 31, 2000, by Asset Size



Sources: GAO and Datatrac.

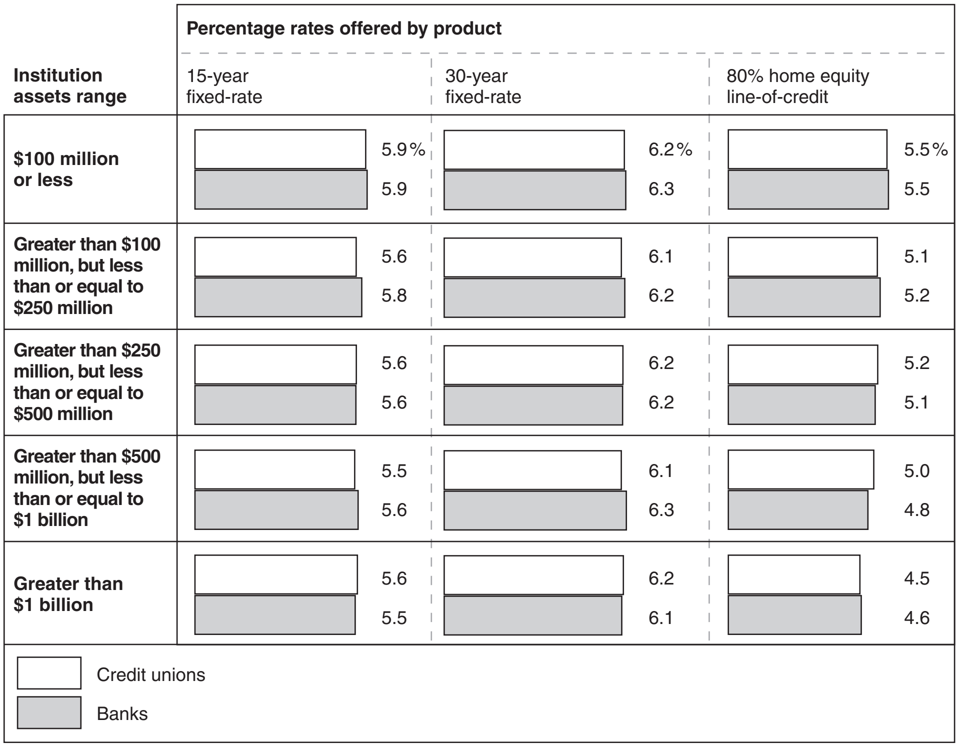
[a]Data is based on responses of less than 10 institutions.

Figure 20: Comparison of Interest Rates of Mortgage Products at December 31, 2001, by Asset Size



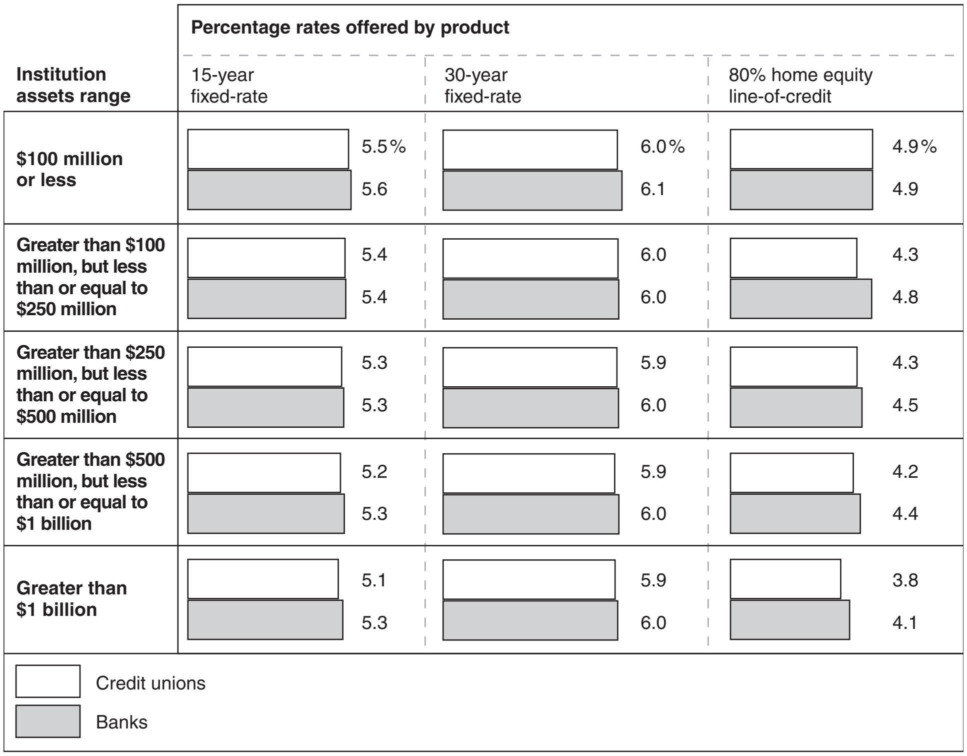
Sources: GAO and Datatrac.

Figure 21: Comparison of Interest Rates of Mortgage Products at December 31, 2002, by Asset Size



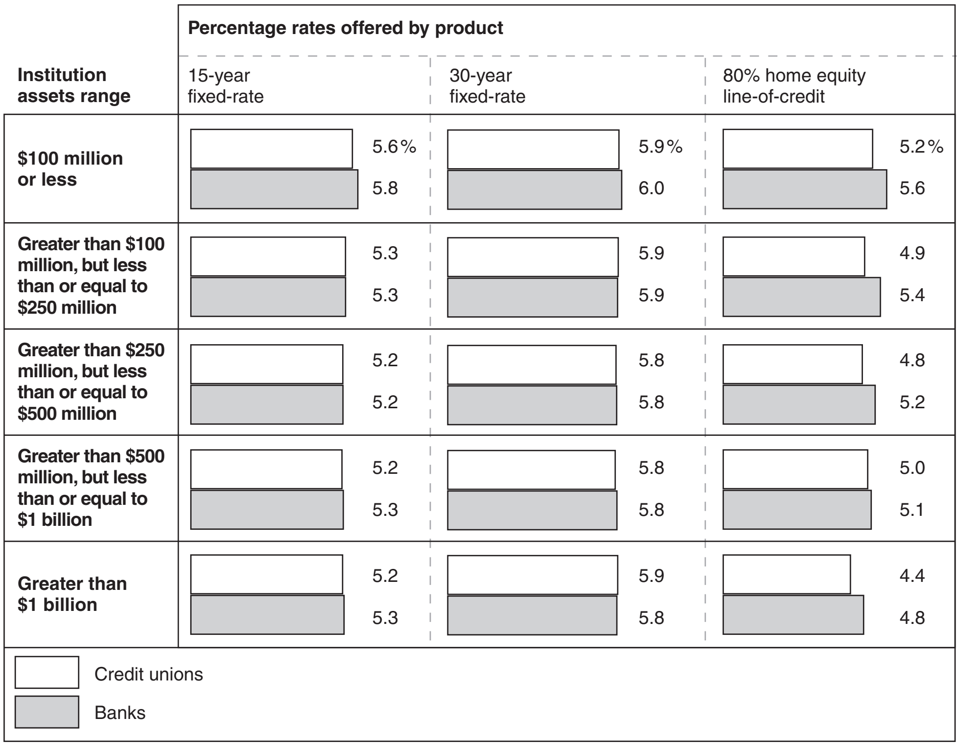
Sources: GAO and Datatrac.

Figure 22: Comparison of Interest Rates of Mortgage Products at December 31, 2003, by Asset Size



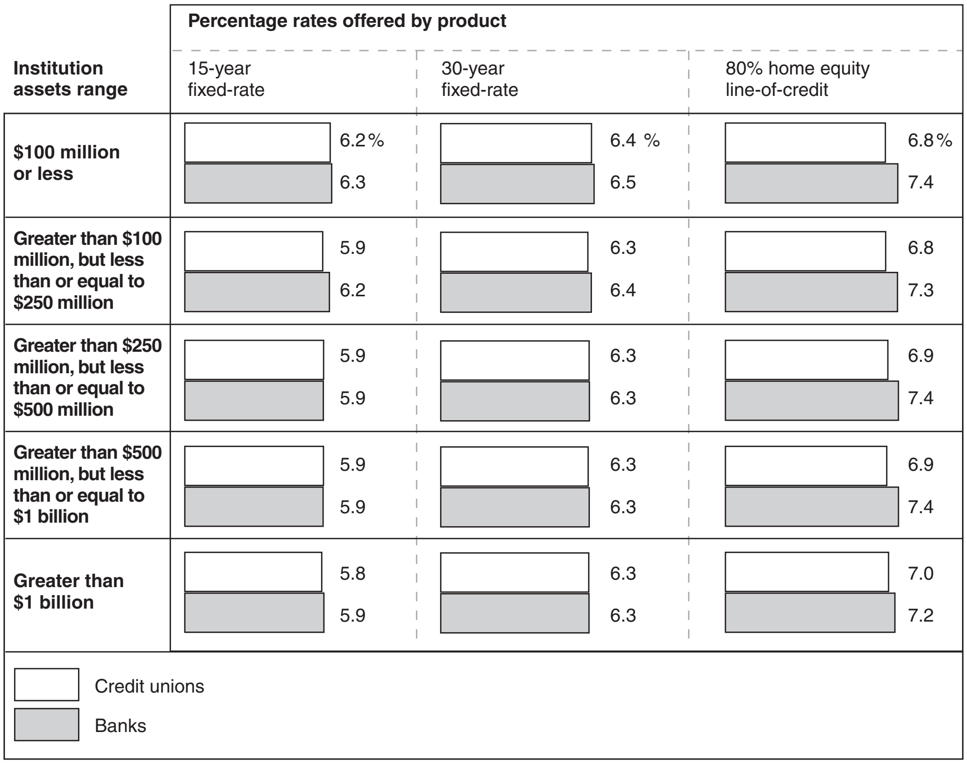
Sources: GAO and Datatrac.

Figure 23: Comparison of Interest Rates of Mortgage Products at December 31, 2004, by Asset Size



Sources: GAO and Datatrac.

Figure 24: Comparison of Interest Rates of Mortgage Products at December 31, 2005, by Asset Size



Sources: GAO and Datatrac.

Selected Salary Surveys for Credit Union and Bank Executives

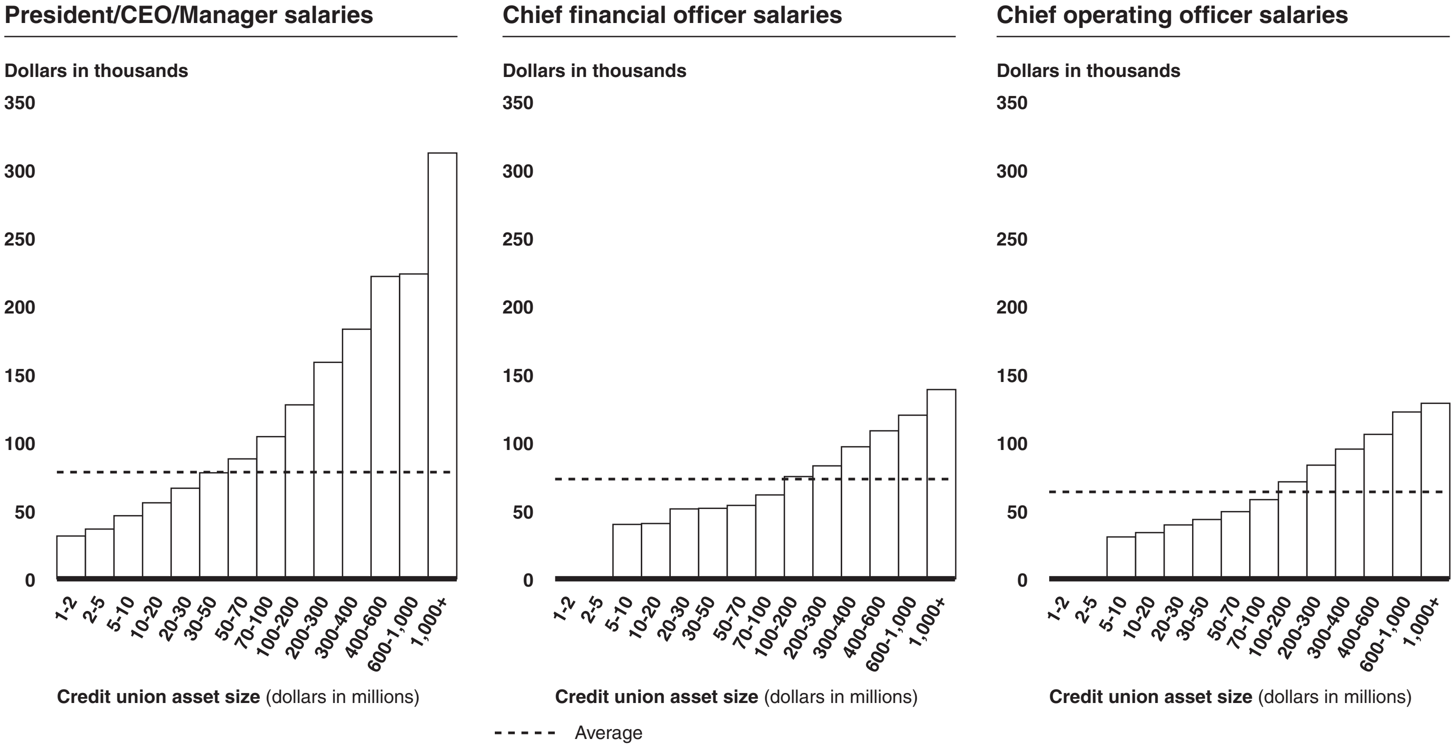
Credit union and bank survey information we obtained provides an indication of executive base salaries for the respective industries. The credit union and bank salary survey data we identified had a key limitation—the information was not directly comparable because of differences in the underlying sampling strategies and data gathering methodologies. Also, while both surveys report the types of cash compensation received for their industry executives (i.e., salary and bonuses), we were not able to identify and compare other forms of benefits that an executive might typically receive in a compensation package.

There were a number of other limitations in the data that we identified. In some instances, the information collected for each of the surveys involved a sample of members belonging to their respective trade group associations. The data collection periods for each of the surveys were different. For instance, the credit union survey collected salary information between January and May 2005, while the bank survey collected information during 2004. The bank survey also provides general information on other benefits such as savings incentive plans, pension plans, and paid time off benefits for which we do not have comparable information in the credit union survey. Also, cash compensation reported for the credit union survey includes base salary, incentives, and bonuses, while the bank survey reported base salary, bonus, and profit sharing compensation. Finally, the cash compensation information presented for these surveys are grouped in different asset size ranges. The credit union survey presents information based on 13 asset size categories, while the bank survey presents information based on 7 asset size categories.

Credit Union Salary and Other Cash Compensation Data

According to the Credit Union National Association's 2005 to 2006 Complete Credit Union Staff Salary Survey, the average base salary of credit union presidents, chief executive officers (CEO), and managers for those credit unions responding increased 4.8 percent from the previous year's survey. In addition to base salary, more than half (55 percent) of credit union presidents, CEOs, and managers also received other forms of cash compensation such as incentives or bonuses. For CEOs, incentives averaged $9,634, while bonuses averaged $4,993. The survey also noted that bonuses continue to be more common than incentives (45 percent compared with 5 percent receiving these payments, respectively in 2004). As shown in figure 25, the average credit union base salary for the CEO position was about $78,000 while the average base salaries for the chief financial officers (CFO) and chief operations officers (COO) was approximately $73,000 and $64,000, respectively. However, national averages should be viewed with care since executive salaries also vary by region and the size of the credit union.

Figure 25: Credit Union Executive Average Base Salaries for 2005



Source: GAO analysis of CUNA survey data.

Similarly, according to the survey for those credit unions responding, credit union executives, including CFOs and COOs, experienced about a 2 percent increase in average salary over the previous year. Of those that responded to the survey, approximately 27 percent of CFOs received incentives, which averaged $5,963, and 38 percent received a bonus which averaged $4,650. Additionally, approximately 21 percent of COOs received incentives which averaged $5,678, while 47 percent received a bonus that averaged $3,578.

The number of responses for the survey questions on the three credit union executive positions also varied from question to question and across the different asset categories. For instance, a total of 773 credit unions responded to the president/CEO question, but the responses by asset category ranged from a low of 16 responses by credit unions with assets of \$1 to \$2 million to a high of 113 responses by credit unions with assets of \$100 to \$200 million.[1] A total of 330 credit unions responded to the CFO question, while the responses by asset category ranged from a low of 2 responses by credit unions with assets of \$5 to \$10 million to a high of 74 responses by credit unions with assets of \$100 to \$200 million. Finally, 268 credit unions responded to the COO question, while the responses by asset category ranged from a low of 2 responses by credit unions with assets of \$5 to \$10 million to a high of 65 responses by credit unions with assets of \$100 to \$200 million.

Bank Salary and Other Cash Compensation Data

According to America's Community Bankers 2005 Compensation Survey, the national average base salary for those banks responding to the survey for CEOs was up 13.2 percent from the 2004 reported average. The average bonus/profit sharing payment for CEOs was \$73,129. Similarly, the national average base salary for those banks responding for CFOs was up 10.8 percent from 2004, while the average bonus/profit sharing compensation was \$28,700. The base salary for those banks responding for COOs was up 8.8 percent from 2004, while the average bonus/profit sharing compensation was \$32,697. As shown in figure 26, the average bank base salary for the CEO position was about \$213,000 while the average base salaries for the CFO and COO was approximately \$121,000 and \$141,000 respectively. As mentioned previously, national averages should be viewed with care since executive salaries also vary by region and by asset size.

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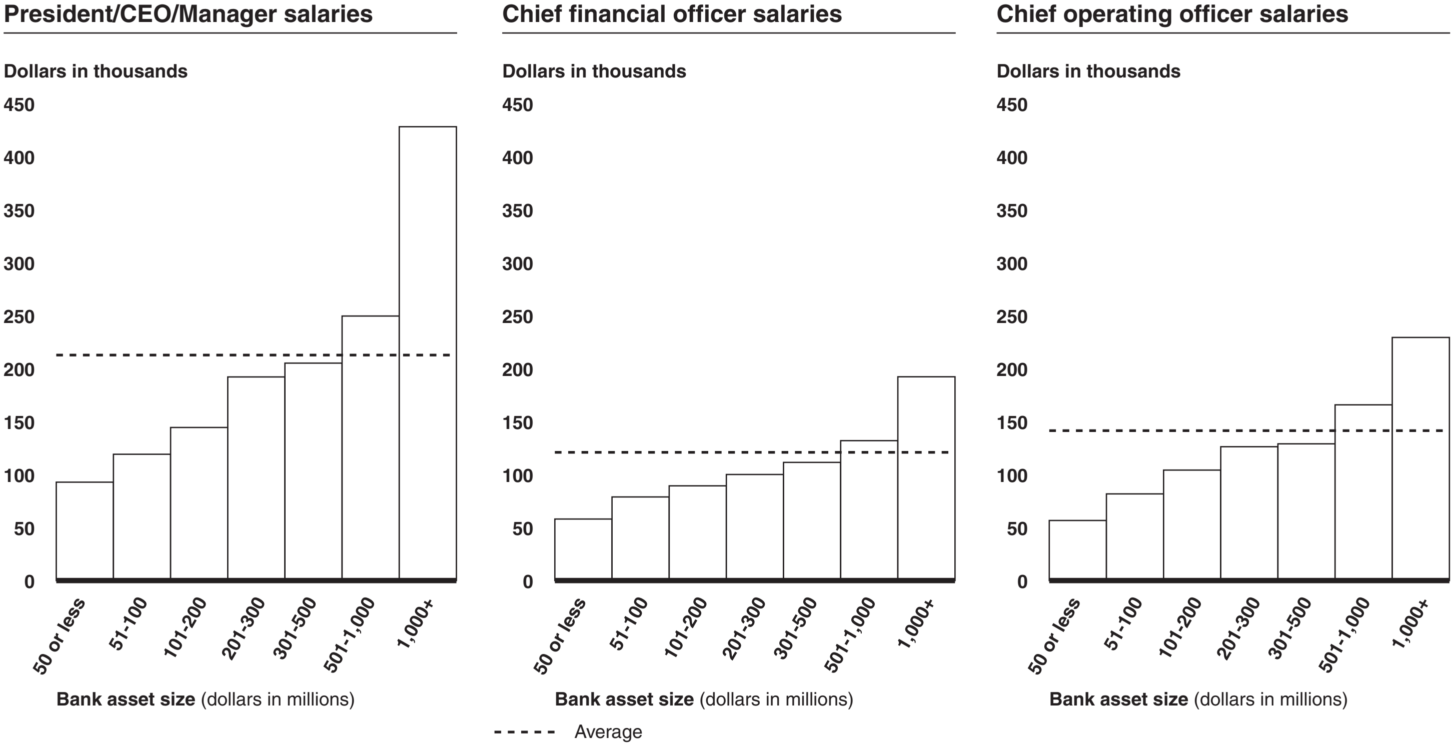
[1] According to the Credit Union National Association's salary survey, as part of the methodology, nearly all affiliated credit unions with \$100 million or more in assets were sent a survey. Stratified random samples of credit unions with \$1 million to \$100 million in assets were also sent the survey. Thus, larger credit unions were given a greater chance of being selected for the survey to ensure a high degree of accuracy for these credit unions and weighted to adjust for the overrepresentation of the larger credit unions. Weighting is a standard survey analysis procedure designed to adjust estimates to account for different rates of selection within sample strata, which ensures that results are not biased by a specific group of credit unions.

Figure 26: Bank Executive Average Base Salaries in 2004



Source: GAO analysis of ACB survey data.

The bank executive survey responses also varied by the total number of respondents and by the different asset categories.[2] For instance, a total of 358 banks responded to the president/CEO question, while the responses by asset category ranged from a low of 16 banks with assets up to $50 million to a high of 74 banks with assets of $101 to $200 million. A total of 256 banks responded to the CFO question, while the number of responses by asset category ranged from a low of 2 banks with assets up to $50 million to a high of 49 responses by banks with assets of $501 million to $1 billion. Finally, 187 banks responded to the COO question, while the response rates by asset category ranged from a low of 8 banks with assets

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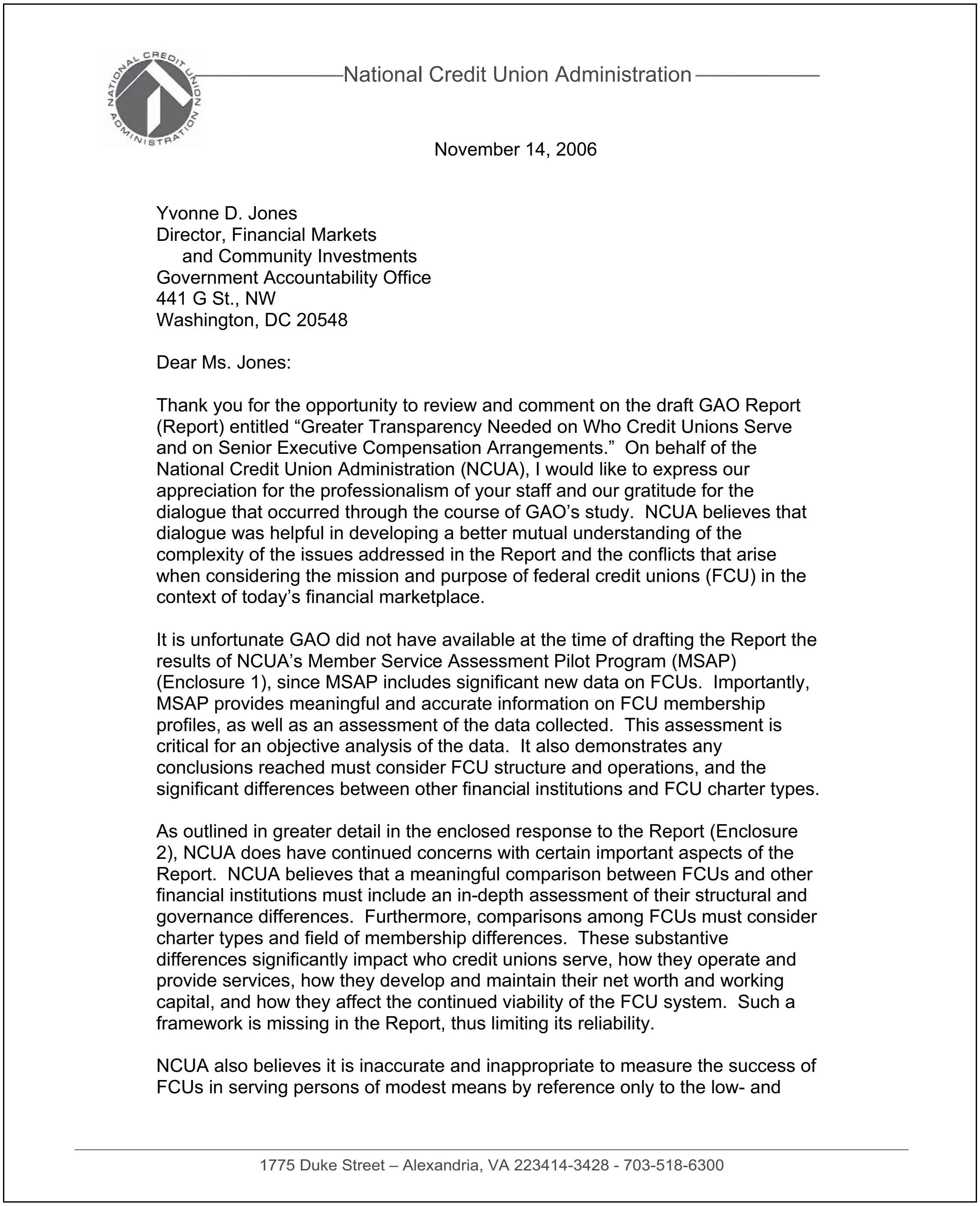
[2] The America's Community Bankers survey cautions against comparing peer group data among the various asset sizes due to the differences in bank types. That is, banks with assets up to $50 million disproportionately are mutual institutions, while banks with assets of more than $1 billion disproportionately are stock banks.

up to $50 million to a high of 38 banks in both the $101 to $200 million and $501 million to $1 billion categories. Due to the small number of responses in some instances, the results of this data should be viewed with caution.

Comments from the National Credit Union Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



National Credit Union Administration

November 14, 2006

Yvonne D. Jones
Director, Financial Markets
and Community Investments
Government Accountability Office
441 G St., NW
Washington, DC 20548

Dear Ms. Jones:

Thank you for the opportunity to review and comment on the draft GAO Report (Report) entitled “Greater Transparency Needed on Who Credit Unions Serve and on Senior Executive Compensation Arrangements.” On behalf of the National Credit Union Administration (NCUA), I would like to express our appreciation for the professionalism of your staff and our gratitude for the dialogue that occurred through the course of GAO’s study. NCUA believes that dialogue was helpful in developing a better mutual understanding of the complexity of the issues addressed in the Report and the conflicts that arise when considering the mission and purpose of federal credit unions (FCU) in the context of today’s financial marketplace.

See comment 1.

It is unfortunate GAO did not have available at the time of drafting the Report the results of NCUA’s Member Service Assessment Pilot Program (MSAP) (Enclosure 1), since MSAP includes significant new data on FCUs. Importantly, MSAP provides meaningful and accurate information on FCU membership profiles, as well as an assessment of the data collected. This assessment is critical for an objective analysis of the data. It also demonstrates any conclusions reached must consider FCU structure and operations, and the significant differences between other financial institutions and FCU charter types.

As outlined in greater detail in the enclosed response to the Report (Enclosure 2), NCUA does have continued concerns with certain important aspects of the Report. NCUA believes that a meaningful comparison between FCUs and other financial institutions must include an in-depth assessment of their structural and governance differences. Furthermore, comparisons among FCUs must consider charter types and field of membership differences. These substantive differences significantly impact who credit unions serve, how they operate and provide services, how they develop and maintain their net worth and working capital, and how they affect the continued viability of the FCU system. Such a framework is missing in the Report, thus limiting its reliability.

NCUA also believes it is inaccurate and inappropriate to measure the success of FCUs in serving persons of modest means by reference only to the low- and

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moderate-income categories associated with the Community Reinvestment Act (CRA), as these categories only extend to families at or below 80 percent of the median income. There is ample legal and historical evidence that the term modest means, as used by Congress in the context of the FCU Act, is intended to include both below average wage earners and a broader class of working individuals generally. Further, GAO elected to use income category benchmarks that are inconsistent with the specific definitions of the CRA categories used by the other federal financial regulators. Using broad income categories and equating modest means to low- and moderate-income individuals precludes a valid assessment of the economic demographics of FCU membership.

Additionally, NCUA has serious concerns about the reliability of conclusions reached using the Federal Reserve's Survey of Consumer Finance (SCF) data. The SCF was not designed for reliable income comparisons between credit union members and bank customers. Other concerns, addressed in Enclosure 2, include the importance of credit union membership limits, the effects of recent trends in community chartering, and proper recognition of NCUA's efforts to target services to lower income individuals.

Regarding the recommendations made in the Report, NCUA staff recommended in MSAP that the NCUA Board consider whether it is appropriate to gather additional membership data to further enhance NCUA's efforts in expanding credit union service to low- and moderate-income individuals. NCUA staff also recommended that the NCUA Board consider evaluating alternative approaches to collecting and aggregating executive compensation on an FCU system basis.

Notwithstanding the continued concerns listed above and described in greater detail in Enclosure 2, I again want to emphasize our great appreciation for the efforts of your staff and their willingness to consider our concerns and engage in open and meaningful dialogue.

Sincerely,

J. Leonard Skiles
Executive Director

Enclosures:
1. Report to the NCUA Board on the Member Service Assessment Pilot Program (MSAP), dated November 3, 2006
2. NCUA's Detailed Response to GAO's Draft Report GAO-07-29

See comment 2.

NCUA's Detailed Response to GAO Draft Report GAO-07-29 "Greater Transparency Needed on Who Credit Unions Serve and on Senior Executive Compensation Arrangements"

The following discussion addresses our primary concerns with the GAO Draft Report, GAO-07-29 (Report). These concerns include: (1) inaccurate use of low- and moderate-income as a proxy for modest means; (2) inappropriate use of income categories ostensibly based on CRA categories; (3) improper reliance on the Federal Reserve's Survey of Consumer Finance; (4) insufficient discussion of the structure and framework of FCUs; (5) insufficient discussion of NCUA's efforts to enhance service to low- and moderate-income individuals; and (6) incomplete data on executive compensation.

1. GAO's Definition of "modest means"

It is inaccurate for GAO to define the term modest means as only including low- and moderate-income individuals. To use a proxy definition for modest means, although convenient for drafting the Report, contradicts clear congressional intent and disregards important statutory mandates on whom FCUs can serve. NCUA strongly believes that using the terms modest means and low- and moderate-income individuals interchangeably creates confusion and a perception inconsistent with statutory intent and regulatory policies put in place to achieve that intent.

While the Report recognizes in footnote 30 on page 26 that there is no commonly accepted definition of modest means, the following statement on page 6 equates low- and moderate-income to modest means:

> *[T]he Federal Reserve's 2004 Survey of Consumer Finance (SCF) -- indicates that credit unions continued to lag behind banks in the percentage of their customers or members that were of* ***low- and moderate-income*** *households. Our analysis of the 2004 SCF indicated that 32 percent of households that only and primarily used credit unions were of* ***modest means*** *(emphasis added). . . .*

The history of the Credit Union Membership Access Act of 1998 (CUMAA)[1] demonstrates congressional intent when the term "modest means" was used. This term 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 noted: ***"****Section 204 reaffirms the continuing and affirmative obligation of insured credit unions to meet the financial services needs of persons*

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

- 1 - Enclosure 2

*of **modest means, including those with low- and moderate-incomes,** consistent with safe and sound operation.*"[2]

The Senate Report followed a similar usage in referring to section 204 of the bill. Specifically, 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.*"[3]

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 also be within the field of membership (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 working class.

CUMAA also served notice that outreach programs to reach low- and moderate-income individuals, and the support for credit unions designated to serve low-income memberships, should still continue. Additional authorities granted to low-income designated credit unions, and the ability for multiple common bond FCUs to adopt underserved areas are also consistent with a more expansive definition for modest means.

2. Use of CRA-type definitions for income levels

The Report, in footnote 27 on page 24, provides an explanation for the use of the Federal Reserve's Survey of Consumer Finance (SCF) and income categories, and states:

> *We [GAO] based our groups on income categories used by financial regulators for federal Community Reinvestment Act examinations intended to encourage depository institutions to help meet credit needs in all areas of the communities that they serve: (1) a low-income household had an income of less than 50 percent of the national median household income; (2) a moderate-income had an income of at least 50 percent of but less than 80 percent of the national median household income; (3) a middle-income household had an income of at least 80 percent of but less than 120 percent of the national median household income; and (4) an upper-income household had an income of at least 120 percent of the national median household income.*

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

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

This footnote does not accurately reflect the income categories established by the federal financial regulators for CRA examinations and contradicts Table 5 in Appendix I of the Report. The income categories identified in the Code of Federal Regulations for CRA purposes are based on median family income as a percent of metropolitan statistical area (local area) median family income.[4] The income categories utilized in the Report use median household income as a percent of national (not local area) median household income. Although the Report utilizes median family income in its additional analysis, this not only contradicts the SCF's methodology, but also does not correct for CRA inconsistency. Consequently, the statement that the income levels used are similar to those used in other governmental programs is misleading and implies the analyses are based on CRA income categories when, in fact, the income categories are GAO-defined.

See comment 3.

Additionally, footnote 27 illustrates CRA is intended to "encourage depository institutions to help meet credit needs in all areas of the communities that they serve. . ." Given 80 percent of FCUs are occupational or associational based, the CRA-type categories have limited, if any, applicability for the assessment of FCUs.

3. Basing Assessment on the Federal Reserve's Survey of Consumer Finance

NCUA recognizes the lack of reliable data to serve as a basis for valid conclusions regarding income distribution of FCU members at the time of the drafting of the Report. NCUA also accepts that the SCF was the only source of data available that provided income figures, albeit of limited application, for FCU members.[5] As correctly pointed out by GAO, the SCF was not designed to analyze credit union member income distribution or make comparisons between credit union members and bank customers. For example, the SCF does not provide proportional representation of credit union members and bank customers necessary to develop valid conclusions pertaining to income distribution. Notwithstanding these known deficiencies, the SCF is the primary source for the conclusions reached in the Report, which has the potential for misleading assessments about whom credit unions serve compared to banks.

See comment 4.

Additionally, throughout this study NCUA discussed with GAO various means of presenting the SCF data. In NCUA's view, the use of a single chart, on page 27 in the body of the Report, using broad income categories, limits the reader's ability to draw objective conclusions. Although Appendix I includes additional

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[4] See 12 C.F.R. §§ 228.12(b) and (m)(Federal Reserve), 345.12(b) and (m)(FDIC), 25.12(b) and (m)(OCC), and 563e.12(b) and (m)(OTS).

[5] The number of households primarily using credit unions included in the 2004 SCF is only 14 percent of those surveyed. The number of FCU member households included in this small number is unknown. See page 63 of the Report.

comparisons, they are also insufficient for providing a comprehensive view of member incomes.

The use of additional tables, in the body of the report, depicting the same data in various ways would have allowed a more complete view of member incomes. For example, the Federal Reserve uses income percentiles in its assessment of the SCF, which provides a more objective presentation of income distribution than the broad income categories used in the Report. Table 1 presents the data used in the Report based on these income percentiles.

Table 1[6]

Percentage of Members/Customers within Income Percentile			
Primary and Only Users		2003	
Percentile of Income	Annual Income Ranges	Credit Unions	Banks
Income pct < 20	$0 to $18,900	11.5%	19.2%
Income pct: 20-39.9	$18,901 to $33,900	18.8%	20.0%
Income pct: 40-59.9	$33,901 to $53,600	23.2%	20.7%
Income pct: 60-79.9	$53,601 to $89,300	24.8%	20.2%
Income pct: 80-89.9	$89,301 to $129,400	13.2%	9.4%
Income pct: 90-100	> $129,400	8.5%	10.6%

Further, including both average and median incomes for comparative purposes, rather than using only median as reflected in the Report, provides for a more complete view of member incomes. According the SCF results and as demonstrated in Table 2, while credit union members have the highest median income, bank customers have the highest average income.

Table 2[7]

Median and Average Income Comparison			
2003			
	Total SCF	**Credit Union**	**Banks**
Median	$42,000	$50,000	$43,000
Average	$68,778	$62,572	$74,211

There are also technical inconsistencies in the Report's methodology. For example, as stated on page 28: "To determine how sensitive our [GAO's] results were to our income categorization, we used median family income in addition to median household income to analyze the 2001 and 2004 SCF data. We found similar results using both median family and household income." However, this comparison does not accomplish its stated objective. The use of the median

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[6] Table compiled by NCUA to illustrate other alternatives for SCF data analysis.

[7] Table compiled by NCUA to illustrate other alternatives for SCF data analysis using the median income included in the Report.

family income for comparison is inconsistent with the SCF methodology, which utilized median household income. Therefore, this comparison does not add validity to the results of the study since it only changes the comparative benchmark.

4. Providing a limited framework for credit union membership assessment

Although the Report correctly recognizes that credit unions retain their distinction in terms of structure and governance, it does not provide a framework that would allow for an appropriate interpretation of the assessments presented. For example, factual background information about credit unions and their important differences from banks, which is vital for an understanding of this issue, is not adequately addressed. To fully understand and assess any data that attempts to compare credit union members with depositors in other types of financial institutions, the Report should include discussion of the following:

A. Statutory limitations on FCU membership

See comment 5.

MSAP data confirms the importance of the statutory mandate concerning common bond when assessing membership profiles. It also confirms that comparisons with other financial institutions, as well as among different charter-types of FCUs, are difficult. FCUs are chartered as cooperatives to serve individuals only within their FOM. They are, therefore, limited in whom they can serve and are restricted to the income composition of the individuals within their allowed FOM. It is misleading to draw definitive conclusions about the success of FCUs in serving individuals and groups outside their traditional membership base without fully focusing on their authorized FOMs. This is particularly important in view of the fact that, as of December 2005, approximately 80 percent of all FCUs had single-or multiple-common bond charter types based on occupation or association. The implication of this FOM concentration, based primarily on working individuals, is far reaching within the context of assessing the membership profile of FCUs.

Understanding statutory limitations on who can join FCUs is critical in conducting an objective assessment of the FCU system membership profile, any policy consideration on who benefits from credit union services, and the impact of FCUs on the financial sector. The statutory limitations also emphasize the differences between FCUs and banks and draw into question the reasonableness of any general comparison between income distribution of FCU members and bank customers. To conduct a reasonable comparative assessment of whom FCUs and banks serve, both types of institutions would need to have a similar structure and other characteristics. Although community-chartered FCUs and community banks may share some similarities relative to location, structurally, community-chartered FCUs remain cooperatives with the limitations of building capital/net worth, geographic constraints, and numerous other restrictions.

B. Composition of the FCUs

The Report provides an extensive review of the characteristics and growth patterns of community-chartered FCUs. However, the proportion of FCUs that are community-chartered, the need for charter conversions to ensure continued viability, and the challenges community-chartered FCUs face when converting from a single or multiple common bond charter, as well as other issues, are not thoroughly addressed. For example:

See comment 6.

1. Despite recent growth in FCU community charters, they still only represent approximately 20 percent of FCUs and 30 percent of FCU membership. This is a significant portion of the FCU system, but, as noted in the Report, this growth has primarily been within the last five years. Additionally, it should be emphasized that much of this growth is a result of FCUs converting from an already existing occupational or associational FOM. Instead, the Report concentrates on the growth of this subset when characterizing the entire FCU system, in particular the perceived "blurring" of the distinction between FCUs and other depository institutions.

See comment 7.

2. A thorough assessment of the causes for the recent community charter conversions is not provided. The primary reason for these conversions has been to ensure continued viability of FCUs in changing economic and financial industry environments. A review of several examples documents this point. Clearview FCU (formally US Airways); Bethpage FCU (formally Grumman); JAX FCU (formally Jacksonville Naval Base); and New Cumberland FCU (formally New Cumberland Army Depot Defense Distribution Center) all converted to community charters in response to changes in their primary sponsors.

See comment 8.

3. The time necessary to successfully implement a different business model when converting to a community charter is not adequately addressed. This is critical since the cutoff for the SCF data is 2003, yet the period under review extends to and includes 2005. Consequently, the SCF does not allow for an assessment of any appreciable changes based on the recent growth of FCU community charters, as the majority of the conversions to a community charter have occurred since 2000, and 192 have occurred since 2003. Since the growth of community charters is discussed at length, it should also be fully explained that relative to the overall issue of reaching out to low- and moderate-income individuals, the impact of this growth can not be expected to be represented in the SCF data. Because the SCF does not overlay the time period of the review, its relevance is further diminished.

4. The intent of NCUA's regulations pertaining to community charters is not accurately described. On page 1 the Report states: "As a result of recent

legal and regulatory developments, field of membership requirements for credit unions have been relaxed – member groups now can include anyone who lives, works, worships, or attends school in areas as large as whole counties or major metropolitan areas." This statement suggests that the affinity requirement (lives, works, worships…) of NCUA's field of membership rules and the geographic limits on community charters are recent developments. That suggestion is not accurate. Both of these NCUA regulatory policies predate CUMAA. NCUA did grant community charters prior to CUMAA that encompassed whole counties and metropolitan areas. It is true that the documentation requirements for single political jurisdictions were reduced through regulatory amendments that post-dated CUMAA, but that change was based on NCUA's experience in chartering communities constituting a single political jurisdiction.

See comment 9.

5. The size and extent of the community charters approved by NCUA are not appropriately represented. By using the approval of Los Angeles County, on page 13, as an example of a community charter conversion, it misrepresents the size of the community charter conversions commonly authorized. The data provided to GAO reflects the average population size for those community charter conversions approved during the period from 2000 to 2005 was 304,886, and the median size was 125,000.

See comment 10.

6. The Report states in the Highlights, as well as on page 6 and elsewhere, that NCUA's change in chartering policy is "triggered partly by concerns about competing with states with more expansive credit union chartering rules. . ." It is inaccurate to indicate that FOM parity with state-chartered credit unions is a primary objective when revising FOM policies for FCUs. Although this issue has surfaced during the regulatory comment period on proposed policy changes, it has not been a factor in NCUA's policy making.

See comment 11.

C. The size and market share comparison of credit unions and banks

Although the Report attempts to compare credit unions to banks, it does not provide a framework for an objective analysis, which, in addition to the membership limitations discussed above, should reflect the relative industry position of the two types of financial institutions.

As with all institutions in the financial industry, FCUs have evolved to ensure their continued viability. Since 1934, dramatic changes in the overall economic environment in which FCUs must operate have occurred. These changes have required that FCUs 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.

See comment 12.

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. On page 1 the Report states "credit unions are now allowed to offer many products and services similar to those provided by banks, such as real estate and business loans." Such a conclusion, however, fails to adequately assess the changing economic environment. Further, this statement misrepresents the services credit unions have historically provided. FCUs, for example, have been offering member business loans since their inception, often providing loans to entrepreneurs initiating a small business. As to the issue of mortgage lending, the FCU Act first authorized mortgage lending for FCUs in 1978. State-chartered credit unions in several states, most notably in the New England area, have provided this type of lending since the 1950s.

See comment 13.

In regard to rate comparisons, the Report recognizes the rate differences between banks and credit unions on savings and lending products. However, it should further recognize the interest rate environment during the period of the GAO review when interest rates were at historic lows. An assessment of the interest rate environment alone may have explained the reason for the decreasing gap in the rate paid on savings. This analysis is also crucial in assessing the mortgage rates since these loans of long-term maturity significantly affect the asset/liability management and ultimately the safety and soundness of a financial institution.

Additionally, as shown in Table 3, credit unions are an important, but relatively small, segment of the financial industry. This size disparity draws into question the appropriateness of the comparison and conclusions in the Report.

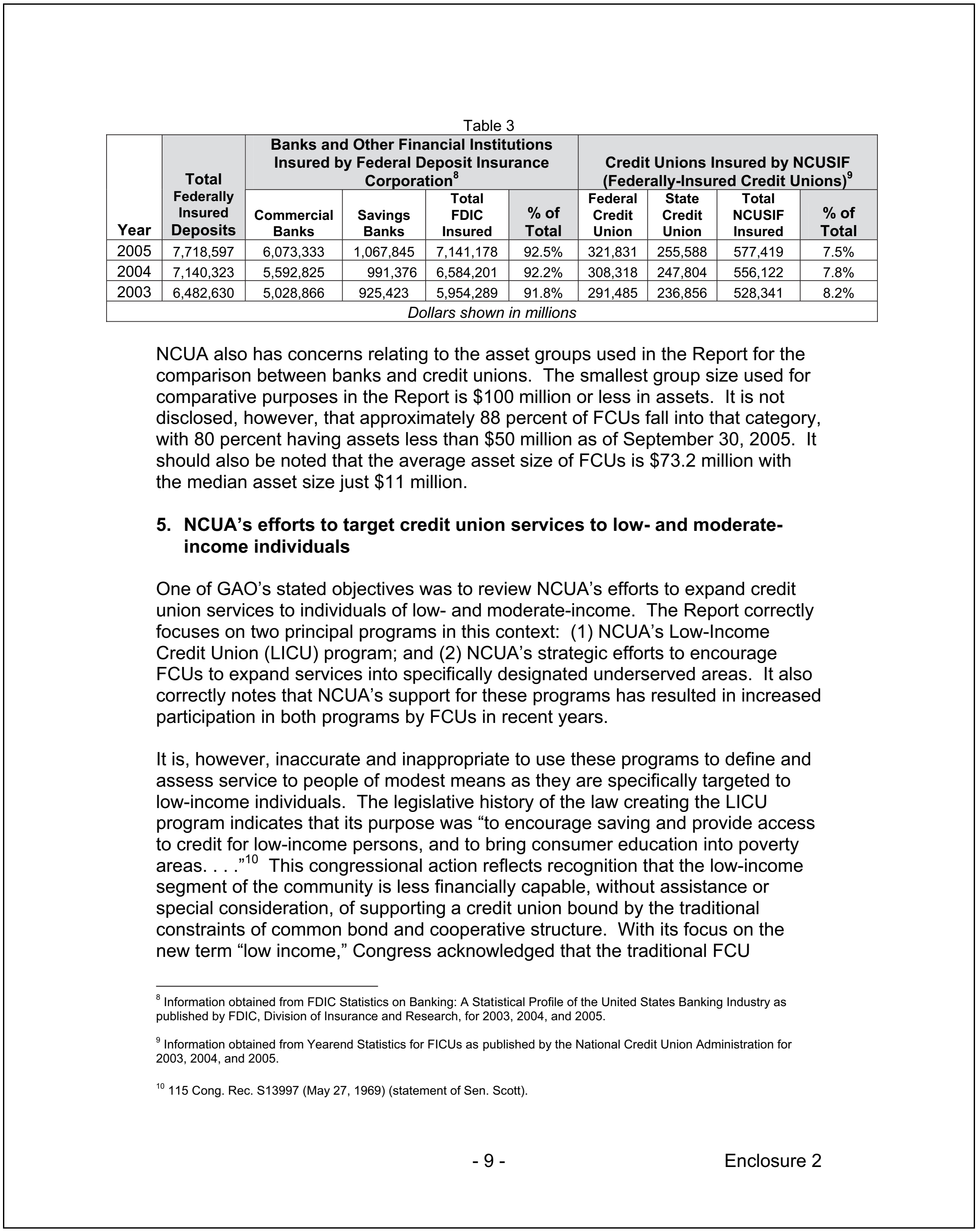

Table 3

Year	Total Federally Insured Deposits	Banks and Other Financial Institutions Insured by Federal Deposit Insurance Corporation[8]				Credit Unions Insured by NCUSIF (Federally-Insured Credit Unions)[9]			
		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									

See comment 14.

NCUA also has concerns relating to the asset groups used in the Report for the comparison between banks and credit unions. The smallest group size used for comparative purposes in the Report is $100 million or less in assets. It is not disclosed, however, that approximately 88 percent of FCUs fall into that category, with 80 percent having assets less than $50 million as of September 30, 2005. It should also be noted that the average asset size of FCUs is $73.2 million with the median asset size just $11 million.

5. NCUA's efforts to target credit union services to low- and moderate-income individuals

One of GAO's stated objectives was to review NCUA's efforts to expand credit union services to individuals of low- and moderate-income. The Report correctly focuses on two principal programs in this context: (1) NCUA's Low-Income Credit Union (LICU) program; and (2) NCUA's strategic efforts to encourage FCUs to expand services into specifically designated underserved areas. It also correctly notes that NCUA's support for these programs has resulted in increased participation in both programs by FCUs in recent years.

See comment 15.

It is, however, inaccurate and inappropriate to use these programs to define and assess service to people of modest means as they are specifically targeted to low-income individuals. The legislative history of the law creating the LICU program indicates that its purpose was "to encourage saving and provide access to credit for low-income persons, and to bring consumer education into poverty areas. . . ."[10] This congressional action reflects recognition that the low-income segment of the community is less financially capable, without assistance or special consideration, of supporting a credit union bound by the traditional constraints of common bond and cooperative structure. With its focus on the new term "low income," Congress acknowledged that the traditional FCU

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[8] 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.

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

[10] 115 Cong. Rec. S13997 (May 27, 1969) (statement of Sen. Scott).

membership base must necessarily be different, and broader. Although Congress recognized the difference, it did not believe an amendment to the overall statutory purpose for FCUs, which at that time was service to persons of "small means," was required.

Instead, Congress implicitly endorsed FCU service to the traditional membership base and specifically directed that NCUA should supply its own definition of low income for purposes of implementing the provisions of the new law. By regulation, NCUA did so, specifying that the term low income means individuals who make 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 national median household income as established by the Census Bureau.[11]

To qualify for low-income designation, a credit union must have more than 50 percent of its membership consisting of individuals defined as low income. This was a specific initiative by NCUA to recognize credit unions that predominately served a low-income population but were challenged in providing additional services and/or programs to their members. This initiative opened opportunities for these credit unions to obtain additional capital from philanthropic organizations and assistance from the Department of the Treasury's Community Development Financial Institution Fund (CDFI), the NCUA's Community Development Revolving Loan Fund (CDRLF), and other organizations to enhance and expand services to the low-income population.

Page 20 of the Report accurately describes the other unique characteristics of LICUs and correctly notes LICUs grew in number between 2000 and 2005, from 632 to 1,032, a 63 percent increase. This result was achieved with NCUA's vigorous encouragement and evidences dramatic success in NCUA's effort to increase service to low-income members. Although NCUA has not collected income and service usage data, the descriptive analyses conducted by NCUA on the data collected in MSAP reflect LICUs and FCUs with underserved areas are serving a relatively greater proportion of low- and moderate-income individuals than the FCU system as a whole.

See comment 16.

A more comprehensive analysis of the reasons that underlie NCUA's recent policy change concerning expansion into underserved areas is warranted. The American Bankers Association sued NCUA, challenging the decision to allow a community based FCU to expand its service into an underserved area. The fundamental issue in the case was the authority of NCUA to authorize any FCU, regardless of charter type, to expand into underserved areas. The Report should explain that settlement of the lawsuit resulted in the prohibition of single-bond and community FCUs from adopting underserved areas. This prohibition, which

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[11] 12 C.F.R. § 701.34(a)(2). As originally implemented, NCUA's rule used 70 percent of median as the relevant percentage indicator of "low income." The rule was changed to its current usage of 80 percent in 1993.

is contrary to congressional intent, inhibits the ability of both types of FCUs to increase service to low- and moderate-income individuals who are outside the credit union's FOM.

See comment 17.

In addition, the Report on page 22 uses Washington, D.C. as an example of an underserved area approved by NCUA without regard to location. This presentation is misleading. It is not explained that once an FCU identifies an area meeting the underserved requirement, as defined in Section 103(16) of the Community Development Banking and Financial Institutions Act of 1994,[12] it must apply to NCUA to add the area to its field of membership. A detailed marketing plan, emphasizing how the FCU plans to reach out and serve all individuals in the underserved area, must be submitted. A detailed business plan must also be submitted indicating how the FCU will meet the needs of the individuals in the underserved area by describing the products (e.g., free checking, micro-credit loans) and services (e.g., bilingual staff, financial education seminars) the credit union offers or is planning to offer. Once approved to serve a specific underserved area, the credit union must maintain or open an office or service facility in the underserved area within two years.

Other outreach initiatives by NCUA to increase service to underserved individuals have not been sufficiently acknowledged or described. NCUA has initiated several programs focused on assisting LICUs 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, which was established by Congress, to provide technical assistance grants and low-cost loans for any LICU interested in enhancing service to its membership. Under NCUA's auspices, 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 NCUA's activities for small and low-income designated credit unions, as well as those FCUs adopting underserved areas. The program was 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 low- and moderate-income individuals. 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 a working relationship with the Department of Health and Human Services, CDFI, and Fannie Mae to provide opportunities for credit unions to expand the products and services particularly useful to those members with low- and moderate-incomes.

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[12] Pub. L. 103-325, 108 Stat. 2163 (Sept. 23, 1994)(codified at 12 U.S.C. §§ 4701 et seq.).

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 all credit unions, especially in underserved areas and communities. The agency coordinates widely attended workshops where a mix of credit unions present programs focused on serving low- and moderate-income individuals. A few of these programs include partnering opportunities with the 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.[13] 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 overall objective of NCUA's initiatives is to provide increased opportunities for FCUs to diversify their membership profile and to assist small and low-income designated credit unions as they manage their operations in compliance with the increasing number of complex laws and regulations. If successful, the viability of some low-income designated FCUs will be preserved, thus further enhancing the opportunity for low- and moderate-income individuals in their FOM to join and participate in the financial services offered by small and low-income designated FCUs.

Each of these initiatives was in direct response to CUMAA. But these types of initiatives have long been a part of NCUA's, or its predecessor agency's, regulatory fabric. There have been others, such as the 1960s era initiative, undertaken jointly with the Office of Economic Opportunity, to establish FCUs to serve low-income communities, the drive to increase the number of LICUs, and the regulatory encouragement to add underserved areas.

More recently, in 1993, NCUA created the Office of Community Development Credit Unions which is 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 succeed. For example, in

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

2006 to date, OSCUI has 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.

6. Transparency of Executive Compensation

NCUA agrees with the conclusion that credit union executive compensation is not readily transparent. Absent compensation information captured by IRS Form 990, it can be difficult for FCU members to ascertain the exact compensation and benefits received by their executives. In the past, NCUA, while not objecting to disclosure of this information, has deferred to applicable state law on whether compensation and benefit information should be disclosed.

As the Report points out, staff have indicated more efficient methods to capture and disseminate executive compensation information in lieu of filing Form 990. Such methods include: (1) amending NCUA's regulations to require FCUs to include executive compensation information in their annual reports; (2) requiring the reporting of such information in NCUA's quarterly call reports; or (3) amending the standard FCU Bylaws to require disclosure of compensation information during an FCU's annual membership meeting. These and other methods may be considered by the NCUA Board in evaluating the transparency of executive compensation.

While NCUA agrees FCU executive compensation is not readily transparent, several matters in the Report warrant clarification. They include:

See comment 18.

1. Despite the absence of a standardized reporting mechanism, NCUA does not ignore the issue of executive compensation. Contrary to the implication on page 45, NCUA does assess executive compensation during the examination process primarily to determine its reasonableness as it relates to safety and soundness. There has never been a system-wide issue relating to executive compensation. As such, NCUA has not considered it necessary to collect or aggregate executive compensation data.

See comment 19.

2. On Page 42, it is implied that MSAP is deficient because it does not collect executive compensation information for banks, thereby preventing a direct comparison between FCUs and banks. However, it is not within NCUA's authority to collect data from banks or thrifts. Additionally, since this is not a safety and soundness issue for the credit union system, NCUA's authority to collect executive compensation extends only to FCUs.
3. Comparing executive compensation of FCUs and banks was not a stated objective for GAO's study. Attempting to make a direct comparison is not

See comment 20.

only irrelevant to the issue of transparency, but is impossible given the differences in the forms of compensation available to FCU versus bank executives. For example, as the Report notes, stock options and stock bonuses are routinely paid to bank executives, but are unavailable to credit union executives. Nevertheless, the discussion of this matter seems to imply that somehow credit union executive compensation may be askew. Only by delving into the data provided in Appendix IV of the Report is it clear that credit union executives on average make significantly less than their banking counterparts.

See comment 21.

4. Since the Report addressed comparisons between senior officers of credit unions and banks, it should have also included a more detailed comparison between directors of credit unions and banks. It neither discusses nor includes any data regarding the compensation paid to directors of banks, which in some instances can be rather lucrative. At least some discussion would have been appropriate, especially since FCU boards are comprised of volunteers.[14] Including such data and discussion would have made for a more thorough and accurate comparison of executive compensation.

See comment 22.

5. The Report states on page 48 that MSAP will not stratify executive compensation by asset size of credit unions. This is not accurate. MSAP compensation data can be stratified into two statistically valid subsets based on asset size of the credit unions surveyed. In addition, limited descriptive conclusions can be derived from the data about other asset subgroups.

7. Conclusion

As referenced in MSAP and this response, NCUA recognizes the difficulty in addressing the issues of membership profiles and the transparency of executive compensation in the absence of comprehensive data. NCUA also understands that the time allotted for completion of the Report did not allow for consideration of the MSAP data and similar data being compiled by NASCUS. Although the Report includes significant new detail and qualifies its reliance on the SCF, NCUA anticipates the general conclusions reached will be reported without the appropriate qualifiers. In order to assure a complete and thorough understanding of the FCU system, NCUA suggests that GAO include in its Report the information and data contained in MSAP. It is also suggested that the completeness of the Report would be further enhanced by inclusion of the data now being collected by NASCUS, thus allowing for a thorough assessment of the entire credit union system.

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[14] Pursuant to the FCU Act, no member of an FCU board may be compensated; however, an FCU may compensate one individual who serves as an officer of the board. For example, if the credit union's paid CEO is also a member of the board. See 12 U.S.C. §§ 1761(c) and 1761a.

The following are GAO's comments on the National Credit Union Administration's letter dated November 14, 2006.

GAO Comments

1. As noted in NCUA's letter, we did not receive the results of its pilot survey on the membership profile of federal credit unions (Member Service Assessment Pilot Program) in time to include it as part of our study. The report can be found at NCUA's website www.ncua.gov.

2. NCUA questioned GAO's use of low- and moderate-income as a proxy for the term modest means. As we note in our 2003 and current report, neither the legislative history of the Federal Credit Union Act, as amended, nor NCUA have established definitions as to what constitutes modest means. As a result, we used the low- and moderate-income categories that we defined in our 2003 report, which are based on what the other federal financial regulators use for Community Reinvestment Act purposes, as a proxy for modest means. Moreover, both citations identified by NCUA in the House and Senate reports for the bill that ultimately was enacted as CUMAA specifically identify low- and moderate-income as components of what is referred to as modest means. We agree that the term modest means also indicates a meaning broader than individuals with low- and moderate-income. Further, our analysis included comparisons between credit unions and banks of households with middle- or upper-incomes. This analysis showed that between 2001 and 2004 credit unions continued to serve a higher proportion of middle- and upper-income households and a smaller proportion of low- and moderate-income households than did banks.

3. NCUA stated that the text in footnote 27 of the draft report did not accurately reflect the income categories that the federal financial regulators established for CRA examinations. The text in question has been moved up into the body of the report and modified to more clearly state that our categories were based on, but not identical to, that used by the other federal financial regulators for CRA purposes. The primary difference between our income categories and those used for CRA purposes was the use of national median income rather than local metropolitan statistical area median income as a benchmark for the various income categories. We use the national measure since the SCF is a national survey. Further, we agree with NCUA's assertion that occupational and associational based credit unions have restricted membership bases, which limit their ability to serve all income categories. However, as we note in the report, although the number of

credit unions with single or multiple common bonds have been decreasing since 2000 and the number of credit unions with more inclusive community charters have been increasing, 2001 and 2004 SCF data indicated that credit unions continue to serve a higher proportion of middle- and upper-income households than banks.

4. NCUA questioned our use of SCF data as the primary source for conclusions reached in the report regarding the income characteristics of credit union members. We believe that the report as stated clearly outlines the limitations of SCF data in conducting the analysis, but as we noted in our prior report, the SCF is the only source of comprehensive data to conduct such an analysis. We agree that there are other ways of analyzing and presenting these data. However, we believe that figure 2 in our report provides a valid comparison of bank and credit union customers in the SCF data. In addition, it uses the methodology of our 2003 report, which allows us to directly compare the results of our 2003 report with our current report. We focus on the median income, as we did in our prior report, since this measure is less susceptible to the influence of extreme values than the mean. As noted in the report, we performed an additional analysis using the median family income to provide additional context to our analysis within the same methodological framework.

5. NCUA suggested that our report does not provide a framework for understanding the effect of statutory limitations on federal credit unions when comparing the income distribution of federal credit union members and bank customers. We explicitly acknowledged the importance of these limitations in our 2003 report and have added some additional text to reflect these limitations in our current report. Nevertheless, we believe that our analysis of SCF data on the income levels of credit union members versus bank customers provides important contextual information on the extent, if any, that credit union members are different from individuals that use banks. The lack of data on the income distribution of credit union members by charter type was one of the primary factors behind our recommendation that NCUA expand its pilot survey to allow the agency to systematically obtain and monitor credit union member income data by charter type.

6. NCUA stated that the report does not thoroughly address the proportion of federal credit unions that are community chartered. We believe our report addresses this issue correctly, as originally presented. Both in table 1 of our report and the related text, we note

that despite the growth in community charters, multiple-bond credit unions remain the largest group of federally chartered credit unions in number, total membership, and assets. However, as we noted in our report, it is important to emphasize that community-chartered credit unions overtook multiple-bond credit unions as the largest of the three federal charter types, in terms of average membership and average size in terms of assets, beginning in 2003.

7. NCUA stated that the report does not thoroughly address the agency's position on the need for charter conversions to ensure continued viability. We believe our report addresses this issue correctly, as originally presented. As noted in our report, we attributed to NCUA some of the causes for growth in the community charter, including the agency's belief that community charter expansion allows federal credit unions to attract a more diverse membership base that can enhance a credit union's economic viability or safety and soundness as well as provide greater opportunities to serve members of modest means. We further note in our report that NCUA explained that single- and multiple-bond credit unions often tend to be organized around employer or occupationally based associations, which in turn creates greater economic risk exposure since the membership base is intertwined with the economic cycles of a particular employer or occupation. Finally, we cite a Federal Reserve Bank of Atlanta research paper, which concluded that there are material benefits of credit union membership diversification and that these benefits derive from expanded investment opportunities and reduced concentration risk.

8. NCUA stated that the time necessary to successfully implement a different business model when converting to a community charter is not adequately addressed. We believe our report addresses this issue correctly, as originally presented. Specifically, the report cites NCUA's belief that it would take time for any results to appear in the SCF data as credit unions seeking to expand into new areas and reaching new types of customers would face a learning curve in their efforts. Our report further notes that the latest available data from SCF are 2-years old, so any more recent changes would not be reflected in our analysis.

9. NCUA stated that the intent of NCUA's regulations pertaining to community charters was not accurately described. Specifically, NCUA stated that introductory text in the draft report suggested that the affinity requirements of NCUA's field of membership rules and the geographic limits on community charters are recent developments.

NCUA noted that both of these regulatory policies predated CUMAA. We have clarified the text of our report to reduce the potential for confusion by stating that since the passage of CUMAA, NCUA has approved progressively larger geographic-based fields of membership.

10. Text has been added to reflect the average and median population size of community charter conversions approved from 2000 to 2005.

11. NCUA stated that we inaccurately attributed its change in chartering policy as being triggered partly by concerns about competing with states having more expansive credit union chartering rules. As we reported in 2003, NCUA stated to us at that time that a major reason for its regulatory changes was to maintain the competitiveness of the federal charter in a dual (federal and state) chartering system. In subsequent discussions with NCUA they indicated that it would be more accurate to attribute changes in chartering policy to factors such as the continued viability of federal credit unions in changing economic and financial industry developments. We have modified the text of our report to reflect the influence of these factors.

12. Text has been added to reflect that credit unions historically have had the ability to offer real estate and business loans.

13. Text has been added to the report to recognize that interest rates during the period of our credit union and bank rate analysis were at historic lows.

14. Text has been added to the background section of the report based on the information provided by NCUA in its comment letter regarding the proportion size of the credit union industry in comparison with other federally insured depository institutions and the relatively small size of most federally chartered credit unions. However, it is important to note that the disparity in size between the credit union and banking industries does not affect our rate analysis methodology or our conclusions since that analysis is broken out by asset groupings, starting with institutions with assets of $100 million or less.

15. NCUA stated that it was inaccurate and inappropriate to use its Low-Income Credit Union program and underserved area expansion program to define and assess service to people of modest means. As noted previously, we used low- and moderate-income as a proxy for modest means due to a lack of a legislative or regulatory definition or

other criteria. Moreover, we note that NCUA's regulations for its underserved program includes criteria (area in a metropolitan area where the median family income is at or below 80 percent of the metropolitan area median family income or the national metropolitan area median family income) that is roughly similar to that used to define low- and moderate-income for CRA purposes (less than 80 percent of the median family income for the Metropolitan Statistical Area).

16. We clarified in the report that both single-bond and community credit unions are currently not permitted to include underserved areas in their fields of membership. As noted in the report, the American Bankers Association contended that the Federal Credit Union Act allows multiple-bond credit unions, but it does not specifically identify single or community credit unions to add underserved areas to their field of membership.

17. We added additional information in the report on NCUA's criteria for federal credit unions applying to include underserved areas in the credit union's field of membership. However, we disagree with NCUA's assertion that the example we provided in our report is misleading.

18. We clarified in the report that NCUA examiners assess executive compensation during the examination process primarily to determine its reasonableness as it relates to safety and soundness, but that since it has not found a systemwide issue with executive compensation, NCUA has not considered it necessary to collect or aggregate executive compensation data.

19. NCUA noted that our characterization of NCUA's Member Service Assessment Pilot implies that the pilot is deficient because it does not collect executive compensation information for banks; thereby, preventing a direct comparison between federal credit unions and banks. It also noted that it is not within NCUA's authority to collect data from banks or thrifts and that its authority to collect executive compensation data extends only to federal credit unions in the context of credit union safety and soundness issues. We do not intend to imply that collecting compensation data from banks is the responsibility of NCUA but point out the lack of available data that would allow a direct comparison of credit union and bank executive compensation.

20. NCUA indicated that comparing executive compensation of federal credit unions and banks was not a stated objective for our study and that attempting to make a direct comparison is impossible, given the differences in the forms of compensation available to federal credit unions versus bank executives. We acknowledge that comparing executive compensation of federal credit unions and banks was not a stated objective for this study. Our report text merely points out that due to the lack of consistent, available, and transparent compensation data for credit unions, any overall comparison is difficult. For this reason, we did not provide bank executive compensation data in the main body of the report or make any direct comparisons between credit union and bank executive compensation. However, we believe that inclusion of bank executive compensation data in the appendix provides a useful benchmark on selected executive positions.

21. NCUA noted that the report neither discusses nor includes any data regarding the compensation paid to directors of banks and that including such data and discussion would make a more thorough and accurate comparison of executive compensation. We acknowledge this point and added some additional discussion on bank director compensation for context.

22. Our original characterization of NCUA's Member Service Assessment Pilot was based on a discussion with NCUA officials. We have revised the text of the report to reflect that compensation data that NCUA obtained can be stratified into two statistically valid subsets based on the asset size of the credit unions surveyed.

GAO Contact and Staff Acknowledgments

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