

November 16, 2006

## **CUNA Staff Summary of NCUA's Report to the NCUA Board On its Member Service Assessment Pilot Program (MSAP), Dated November 3, 2006**

Yesterday, the NCUA Board released a report entitled, "Member Service Assessment Pilot Program, A Study of Federal Credit Union Service," which clearly demonstrates credit unions are generally serving who they are supposed to – working individuals.

The report responds to Government Accountability Office questions, as well as requests for more information about credit unions from the House Ways and Means Committee, following a November 2005 hearing. The report is 80 pages in length and cost an estimated \$1.1 million to complete, according to the agency.

As most readers want to see the recommendations first, the summary below begins with Chapter VII, which discusses them. Importantly, the recommendations were developed by agency staff and are directed to the NCUA Board, not to Congress or the GAO. The NCUA Board would have to adopt them or, in the case of the one legislative recommendation, agree to request that Congress act. The summary includes other key points contained in the study, including significant data that support NCUA's findings. A copy of the study may be accessed [here](#). CUNA's website also features additional resources for leagues and credit unions in responding to questions the study may generate about credit unions.

### **Chapter VII - Recommendations**

#### **I. Members' Income Distribution**

- ✚ NCUA believes it will be requested again to provide data on the same issues addressed in the report, income distribution of members and executive compensation. The report recommends:
  - That the agency consider whether it should collect FCU member income distribution data as part of routine examinations. Data from all FCUs could be obtained within three years. Among other objectives, the data could assist in developing legislative amendments.
  - NCUA gather additional information on credit union outreach efforts.

## **II. Executive Compensation**

- ✚ NCUA should evaluate alternatives for collecting and aggregating executive compensation on a system wide basis.
- ✚ Consider requiring periodic disclosure of executive compensation to members, such as in annual reports.

## **III. Outreach**

NCUA should:

- ✚ Evaluate its own effectiveness with programs it has designed, such as Access Across America, to help low and moderate income individuals.
- ✚ Monitor more closely the Community Development Revolving Loan Fund Program.
- ✚ Reassess how the agency determines if an FCU qualifies as a low-income credit union.
- ✚ Consider working more closely with the Treasury Department's Community Development Financial Institutions Fund.

## **IV. Legislation**

- ✚ NCUA should consider requesting Congress to amend the FCU Act to permit all charter types to add underserved areas.

## **V. Work with State Regulators**

NASCUS has been requested by the House Ways and Means Committee to provide its own data on member income. NCUA should:

- ✚ Study the results obtained by NASCUS and coordinate with them on any follow-up.

## NCUA's Executive Summary

- ✚ NCUA designed the Member Service Assessment Pilot Program to collect data on the demographic profile of federal credit union members, the kinds of services federal credit unions (FCUs) offer and the total compensation provided to FCU senior management. It does not respond to specific questions from GAO or making comparisons with other financial institutions.
- ✚ The report analyzes information from 14 million member accounts from 448 randomly selected FCUs.
- ✚ The data provided statistically valid results for the FCU system and for FCUs groups by assets size.
- ✚ The report is the most comprehensive data on member profiles of FCUs.
- ✚ The report clearly demonstrates that federal credit unions serve those they were intended to serve, men and women who work for a living.
- ✚ It also shows that FCUs that have a low-income designation, serve underserved areas or have a community charter include members with more diverse income levels than FCUs that have greater restrictions on whom they may serve.
- ✚ Changes in charter types do not bring about immediate changes in member profiles. It takes a considerable period of time for a credit union converting to a community charter or adding an underserved group to achieve greater membership income diversity.
- ✚ Statutory common bond limitations restrict not only credit unions, but also NCUA in its ability to permit greater flexibility for credit unions to include underserved groups.
- ✚ Congress has recognized the inherent conflict of trying to serve underserved individuals and groups while complying with field of membership statutory restrictions.

## Chapter I - Overview

- ✚ Since 1934, which was when the Federal Credit Union Act was adopted, FCUs have been defined by whom they can serve.
- ✚ This results in a conflict between the statutory limitations and the congressional intent to include underserved groups and individuals.
- ✚ In response to the GAO and the Ways and Means Committee, NCUA initiated the study to review FCU member income by assessing share and loan account information of all members within 448 randomly chosen FCUS.
- ✚ NCUA's analysis of that data shows that overall, FCUs are serving those there are chartered to serve. It also shows:

- FCUs are making progress in reaching out to underserved areas.
  - The membership profile of FCUs is consistent with the fact that about 80% of FCUs have a limited occupational or associational common bond.
  - Common bond limitations are the overriding fact that impacts the demographics of credit union members.
- ✚ The Credit Union Membership Access Act (CUMAA) provides an opportunity for multiple group CUs to include underserved areas. Those FCUs that have included such areas have reached more individuals in lower income range than those which have not added underserved areas.
  - ✚ However, the flexibility in CUMAA has been curtailed extensively by the American Bankers Association's legal challenge which has resulted in a policy prohibiting community and single group credit unions from including underserved areas.
  - ✚ Credit unions that have converted to community charters need at least five years to serve a greater portion of lower income individuals.
  - ✚ Although NCUA examiners review FCU staff compensation, data was collected to respond to questions from GAO and Ways and Means on executive compensation system-wide.
  - ✚ FCU executive salaries are set by a volunteer board, elected by the members.
  - ✚ The average FCU CEO's compensation is only \$77,490 and the median is even less, at \$58,860.
  - ✚ Sixty-six per cent of FCUs had total CEO compensation of \$75,000 or less and 80% had total CEO compensation of \$100,000 or less.

## Chapter II – Historical Context

- ✚ To understand the data NCUA gathered, it is necessary to understand the historical context regarding the statutory provisions that govern FCUs.
- ✚ Congress has provided the following structure for FCUs:
  - Democratically controlled
  - One member, one vote
  - Each member is an equal owner
  - Volunteer boards are elected from the membership and manage FCUs
  - Not for profit
- ✚ Credit unions are limited to serve only those within a defined FOM based on employment, association or community. (80% of all FCUs have an occupational or associational common bond.)

- ✦ In 1934, language was included in the FCU Act that FCUs serve individuals of “small means.” This language was intended to mean working individuals.
- ✦ An important study in 1956 for the FDIC, which regulated FCUs then, stated: “Credit unions serve the American consumer, not the rich nor the very poor...It was this class of working people that the Federal Credit Union was designed to serve – people of ‘small means’.....”
- ✦ In 1970 Congress enacted amendments to the FCU Act to establish the low-income credit union program. NCUA has administered this program for more than 30 years.
- ✦ As of 12/05, 879 FCUs were designated as low income; these credit unions represent over 16% of the total number of FCUs and over 5.5% of the total assets of the FCU system. In 1979, the Community Development Revolving Loan Fund was created to provide loans and grants to loan-income credit unions. The clear implication of this information is that if Congress intended all FCUs to serve primarily low-income individuals, there would be no need to create a separate group of low-income credit unions.
- ✦ Changes in the overall economy and U.S. demographics have required NCUA to adjust its field of membership policies, including the development of an interpretation that established multiple group credit unions.
- ✦ While the Supreme Court overturned that interpretation, the Credit Union Members Access Act reinstated the multiple common bond.
- ✦ It also provides the most recent view of Congress’ intent in terms of who credit unions should serve.
- ✦ The findings in the Act state that credit unions have the “specified mission of meeting the credit and savings needs of consumers, especially persons of modest means.” The legislative history clarifies that individuals of modest means have to be within a credit union’s field of membership. It also clarifies that the statute does not mean credit unions serve only persons of modest means.
- ✦ CUMAA provides important authority for multiple group credit unions – 44% of all FCUS -- to include underserved areas.

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

This chapter presents the basic results of the data collection effort to determine the income distribution of credit union members.

- ✦ For MSAP, member income is estimated based on the median family income of the census tract in which the member lives.
- ✦ These median income levels are then compared to the local MSA median income to adjust for difference between high- and low-cost geographic areas.
- ✦ 44% of members have incomes below the MSA median.

- ✦ Compared to the US population, credit union member incomes are concentrated in middle income ranges rather than the lowest or highest income ranges. 96% of members have incomes below \$100,000. 85% of the US population have incomes below \$100,000
- ✦ Overall results are as follows:
  - 60% of members have a median family income below \$60,000
  - 82% of members have a median family income below \$75,000
  - 96% of members have a median family income below \$100,000
- ✦ Comparing credit unions by size, whereas 44% of members in credit unions nationwide have incomes below the median, these proportions are 49.4% for credit unions with assets under \$50 million, and 43.3% for credit unions with assets over \$50 million.
- ✦ By type of charter, credit unions with single association or single occupation FOMs have the lowest proportion of members below median income. Multiple common bond credit unions have a slightly higher than average proportion, and community credit unions have well above average proportions of members with incomes below median. For longer term community credit unions, the proportions are greater than for those credit unions that recently changed to community charter.
- ✦ By other characteristics, credit unions which have added underserved areas or are designated low-income credit unions have even higher proportions of members with incomes below the median.
- ✦ FCUs predominately serve a membership with family incomes in the range of \$30,000 to \$100,000 annually, consistent with the occupational or associational field of membership of 80% of all FCUs. The less restrictive community charters serve more of the population earning below the median than any other charter type. FCUs that added underserved areas or are designated as low income serve more of the membership earning less than the median than the FCU system collectively.

## **Chapter IV - Services Federal Credit Unions Offer Their Membership**

This chapter describes and provides data on a variety of services that credit unions offer targeted to lower income members.

- ✦ FCUs provide valuable services to participating members within their FOM, regardless of the membership income level.
- ✦ Survey responses on service offers are subjective because of interpretation and definitional issues.
- ✦ The average minimum balance required to maintain a share draft account is \$17.

- ✦ The vast majority of credit unions offer free checking, ATM services, and free bill pay. For operational reasons, credit unions are less likely to offer IDAs and low-cost wire transfers directly.
- ✦ Over half of FCUs offer credit builder loans, micro-consumer loans (under \$500) and share secured credit cards.
- ✦ FCUs are also likely to offer financial literacy programs and financial counseling.
- ✦ FCUs are also involved by assisting low-income credit unions, making charitable donations and collecting on behalf of charities.
- ✦ FCUs offer a wide range of services that would particularly benefit those with lower incomes. On average, 82% of FCUs offer at least one of the following programs: credit builder loans, first time home buyer programs, micro-consumer loans, and share secured credit cards.

## Chapter V - Executive Compensation

In this chapter, NCUA presents the results of the data collection on credit union executive compensation.

- ✦ Board members of FCUs are not compensated as such, with the exception that one individual who serves as an officer of the board may be compensated.
- ✦ About 95% of FCU CEOs are compensated. Four percent of FCUs are managed entirely by volunteers, and in about 1% of FCUs, the CEO is paid by the sponsor.
- ✦ For this study, compensation is defined as salary and benefits, including deferred compensation, medical and health care payments, debt forgiven, awards or similar income, and rent and legal fees paid.
- ✦ Excluding the 5% of CEOs that are not compensated, the average FCU CEO compensation is \$77,490 and the median is \$58,860.
- ✦ CEO compensation is \$75,000 or less in 66% of FCUs. It is \$100,000 or less in 80% of FCUs.
- ✦ CEO compensation varies by credit union size. The average for credit unions with less than \$10 million in assets is \$38,832. For credit unions with over \$500 million in assets, average compensation is \$374,081.
- ✦ Only 25% of FCUs have a staffed Chief Financial Officer (CFO) position, and these tend to be larger FCUs.
- ✦ For those FCUs with a CFO, the mean compensation is \$86,422 and the median is \$72,000.
- ✦ For comparable sized credit unions, CFO compensation averages between 50% and 75% of CEO compensation. For FCUs with assets under \$10 million, average CFO compensation is \$22,389. For FCUs with assets over \$500 million, average CFO compensation is \$200,502.

- ✦ Only 20% of FCUS have a staffed Chief Operating Office (COO) position, and these, too, tend to be the larger FCUs.
- ✦ For those FCUs with a COO, the average compensation is \$91,523 and the median is \$75,000.
- ✦ Except for the smallest size group, at which only 2% reported a staffed COO, for comparable sized credit unions, COO compensation averages between 58% and 70% of CEO compensation. For FCUs with assets between \$10 million and \$50 million, average COO compensation is \$53,338. For credit unions with assets over \$500 million, average COO compensation is \$218,793.
- ✦ NCUA Summary: The spirit of volunteerism is still an active part of the FCU business model since all boards and many committees remain volunteers. Additionally, as MSAP indicates, about 4% of FCUS are entirely operated by volunteers. While not all FCUS have staffed CEO, CFO and COO positions, for those that do, the executive compensation tends to increase with the asset size of the credit union, as expected. Overall, total executive compensation appears appropriate for the different asset-sized FCUs.

## **Chapter VI - Structure and Purpose of FCUs with the Financial Industry**

- ✦ The “predominate characteristic of credit unions relative to the tax exemption has been and remains their cooperative structure.”
- ✦ CUMAA restates and reinforces Congress’s support of credit unions’ tax exemption and support for their cooperative structures.
- ✦ Today, FCUs, unlike banks cannot issue stock to raise capital and are managed by a board elected by the membership. FCUS must have a supervisory committee, which cannot be compensated.
- ✦ FCUs are much more restricted in their operations than financial institutions that are not tax exempt.
- ✦ FCUs hold less than 6% of the assets of the entire federally insured financial institutions industry.
- ✦ Total assets of federal insured banks and thrifts overall grew steadily from 2003-2005 while assets of federally insured credit unions dropped from 6.3% in 2003 to 5.9% over the same period.