

November 26, 2012

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

Delivered Electronically

Subject: Chartering and Field of Membership Manual for Federal Credit Unions; RIN. NCUA-3133-AE02

Dear Ms. Rupp:

On Wednesday, Sept. 26, 2012, the National Credit Union Administration (NCUA) published a notice of proposed rulemaking to amend the definition of a rural district. The NCUA initiated the rulemaking after analyzing and processing numerous community charter conversions and expansions. From this experience the board accurately determined that the current population limit associated with establishing a rural district is too restrictive and limits the ability of some federal credit unions to serve rural America.

As the CEO of a rural credit union and a member of the Regulatory Advisory Committee for the Northwest Credit Union Association (Association)¹, I have actively participated at every level on issues affecting rural credit unions. I appreciate the opportunity to respond to the NCUA's proposal seeking input on the definition of a rural district and ask that the NCUA consider some alternative approaches to complement the 3-percent-of-population metric prior to finalizing this rule.

General Comments

I commend the NCUA for proactively analyzing the limitations of a rural district charter and agree that the current population limit is the main reason that only 43 federal charters are operating under a rural charter. It is also clear that when Congress passed the Credit Union **Membership Access Act** (CUMAA) of 1998 they intended for credit unions to operate under two **distinct** types of community charters that allowed greater access for membership to credit unions

- 1) Well-defined local community, or neighborhood; or
- 2) A rural district.

While still restrictive, the NCUA established a definition for "well-defined local community, or neighborhood" that resulted in a significant number of federal credit unions operating under this charter

¹ The Northwest Credit Union Association is a regional trade association representing the interests of more than 200 credit unions and their six million consumer-members; institutions that employ and engage more than 10,000 people and hold more than \$50 billion in aggregate assets. The Association is a nonpartisan advocacy organization representing the interests of its member institutions on a variety of systemically important banking issues.

Credit unions affiliated with the Association are principally domiciled in the Northwest quadrant of the United States, but the Association also has members from the states of Alaska, Idaho, California and Hawaii. Learn more about the Association at www.nwcua.org.

type. The rural charter has been attractive to only a fraction of federal credit unions, mainly because the numerical limit associated with the definition has been far too restrictive. Furthermore, the numerical metric is not a determinant of a group that has a meaningful affinity and bond, an interaction, and a sense of cohesion or identity as Congress intended.

Specific Concerns

The NCUA board correctly identified the current population limit as the main deterrent to operating under a rural district community charter, yet they did not address this in the proposed rule. Instead, the NCUA board proposed a rule allowing rural district credit unions in the 13 most populous states to expand their field of membership to include up to 3 percent of the state population while still meeting all other criteria.

Arguments and concerns about a rural district being unreasonably large are of questionable validity. Credit unions have the ability to serve their members over large geographic areas as evidenced by numerous examples, including Navy Federal Credit Union (FCU). Navy FCU is serving 4.1 million members across the globe, and the services they offer have improved as technology has advanced. The test for rural district should be a meaningful affinity and bond, an interaction, and a sense of cohesion or identity as Congress intended. Again, the numerical limit on the rural district field of membership is an arbitrary number that has nothing to do with this criteria set forth by Congress.

Alternative suggestions for defining rural district

It is encouraging that the NCUA has sought comments on changes to the other criteria not impacted by the proposed rule. I strongly encourage eliminating the 200,000-member cap currently associated with both rural district definitions. This would eliminate the need for the 3-percent-of-state-population provision and allow for rural charters based on metrics that pertain to rural characteristics. If the NCUA is concerned that this would allow for an unmanageable geographic area or too large a field of membership, than raising the numerical cap along with adding the 3 percent of state population as the NCUA has proposed would be advisable. This would allow rural charters to better serve their members by achieving economies of scale. Since the numerical cap is arbitrary to begin with, there is no need for the NCUA to rationalize the change in the proposed rule.

I also support adding a third alternative for credit unions to use to define the field of membership for a rural charter. The NCUA could employ the United States Department of Agriculture Frontier and Remote (FAR) Level One definition. FAR defines rural by zip codes located 60 minutes or more from urban areas of 50,000 or more people. This definition would accurately reflect a rural district with a shared sense of identity where interactions focus on socio-economic issues. Approximately 95 percent of agricultural support is concentrated in areas that meet the FAR Level One criteria, and mining and manufacturing also make up a significant portion of the economic activity. Credit unions have the knowledge and history to provide outstanding financial services to FAR Level One populations, which share a meaningful bond around a lack of financial services, advanced medical procedures and transportation options. Access to grocery stores, gas stations and basic health needs can also be limited. Allowing credit unions to provide financial services to areas that share these commonalities may result in greater access to many of the critical services lacking in these areas.

Conclusion

As with all community charters, FCUs serving rural districts must develop business and marketing plans that demonstrate how they will serve their entire community, eliminating the need for a numerical cap.

I support the proposed change to the definition of rural district if the NCUA is uncomfortable with removing the numerical cap. I also encourage the NCUA to add a third alternative or at minimum raise the numerical cap so that credit unions across the nation can choose a rural charter that accurately reflects the Congress' intent when it passed CUMAA and accounts for changes in technology when considering the ability of credit unions to serve their members. Credit unions serving rural communities need to be able to achieve economies of scale to better serve their members. With that in mind, I would encourage the NCUA to:

- 1) Remove the 200,000 statutory cap; or
- 2) Raise the statutory cap; and
- 3) Add a third alternative using the USDA Frontier and Remote Access Level One Criteria.

Finally, I support the proposed determination for a rural district that includes portions of two or more states as well as grandfathering current rural district charters.

Thank you for the opportunity to comment on this issue. I would be pleased to answer any questions you may have.

Respectfully,

Kathie Philp



CEO Pacific Crest FCU
Regulatory Advisory Committee
Northwest Credit Union Association