

PLEASE NOTE THAT THE FOLLOWING FINAL AMENDMENT IS THE VERSION THAT WAS APPROVED BY THE NCUA BOARD AT THE JANUARY 22D BOARD MEETING. THE OFFICIAL VERSION WILL PROBABLY BE PUBLISHED BY THE END OF JANUARY IN THE FEDERAL REGISTER. THERE MAY BE SOME MINOR NUMBERING OR FORMAT DIFFERENCES BETWEEN THE TWO VERSIONS.

## NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Part 701

Organization and Operations of Federal Credit Unions

AGENCY: National Credit Union Administration.

ACTION: Final Amendment to Interpretive Ruling and Policy Statement 94-1 (IRPS 98-1).

SUMMARY: The NCUA Board is updating the requirements for a credit union converting to a community charter. The final amendment deletes the requirement that a credit union converting to a community charter provide evidence of community support, since such evidence is not necessary for the agency to determine the economic viability of the credit union.

EFFECTIVE DATE: March 1, 1998.

ADDRESSES: National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.

FOR FURTHER INFORMATION CONTACT: J. Leonard Skiles, President, Asset Management and Assistance Center, 4807 Spicewood Springs Road, Suite 5100, Austin, Texas 78759, or telephone (512) 795-0999; Lynn K. McLaughlin, Program Officer, Office of Examination and Insurance, 1775 Duke Street, Alexandria, Virginia 22314-3428, or telephone (703) 518-6360; Michael J. McKenna, Staff Attorney, Office of General Counsel, at the above address or telephone (703) 518-6540.

### SUPPLEMENTARY INFORMATION:

#### A. Comments

On October 22, 1997, the NCUA Board proposed clarifying amendments on what is necessary for the approval of a community charter (62 Fed. Reg. 56134 (October 29, 1997)). Sixty-four comments were received. Comments were received from forty-two federal credit unions, two state-chartered credit unions, thirteen state credit union leagues, four national credit union trade associations, one state regulatory agency, one consumer group and one banking association.

#### B. Serving All Segments of the Community

In the proposal, the Board stated that all community charters must be prepared to serve all segments of the community. The Board suggested that membership and loan penetration rates, among other factors, could be reviewed to assess how well

the credit union is serving the entire community. The proposal also would have required that a credit union receiving a community charter review its business plan regularly, as well as membership and loan penetration rates throughout the community, to determine if the community is being adequately served. The Board specifically proposed that a new community charter or a credit union converting to a community charter be held accountable for its business plan/marketing strategy outlining how it will serve the entire community. The proposal also would have required that a credit union converting to a community charter provide information on the groups being served. Finally, the Board proposed deleting the requirement that a credit union converting to a community charter provide written evidence of community support such as letters of support, petitions or surveys.

At this time, the Board is addressing only one aspect of the proposal regarding credit unions converting to a community charter. The Board needs further time to study the remaining proposed amendments to ensure that they are necessary and will not unduly burden credit unions. The Board plans on addressing these issues in the near future and will respond to the issues raised by the commenters at that time.

### C. Written Evidence of Community Support

As stated above, the Board proposed deleting the requirement that a credit union converting to a community charter provide written evidence of community support such as letters of support, petitions or surveys. Twenty-nine commenters do not believe a credit union applying to convert to a community charter should be required to provide evidence of community support. Most of these commenters find the current requirement to be burdensome. Seven commenters specifically stated that the validity of these documents is questionable and the effort to obtain such documentation is time-consuming and expensive. Some commenters believe that community leaders are reluctant to give support because they fear a backlash from banks. Three commenters support any action by NCUA to simplify the application process and reduce the processing time for community charter conversions. Most of these commenters believe that credit union management is better able to gauge the depth of community support than a petition or survey. Two commenters stated that a letter from the board of directors showing evidence of the attitude of the credit union's sponsors and members toward a conversion should be sufficient documentation. One commenter stated that the elimination of this requirement offers modest relief from the burden of providing information in support of the conversion request.

Ten commenters believe a credit union applying to convert to a community charter should be required to provide evidence of community support before the conversion can be approved. Two commenters believe this evidence is a key element to any good marketing plan and would provide the credit union with valuable information about its new market as well as an introduction to potential new constituencies. These commenters state further that this evidence is useful to NCUA in making its determination whether the applied for area actually constitutes a community. One commenter also believes this evidence helps build a substantial administrative record in case of a legal challenge. One commenter believes that credit unions wishing to convert to a community charter should be required to demonstrate community support in a manner validating the credit union's business plan. One

commenter, although opposing this amendment, believes that, if we delete this requirement for converting credit unions, we should also eliminate it for new credit unions.

The NCUA Board believes that providing evidence of written support is expensive, burdensome and not a reliable indicator of the economic viability of the converting credit union. Such evidence is still needed for a new charter so that the agency may accurately determine the economic viability of the new credit union. Economic viability of an existing credit union is self-evident. Furthermore, a converting credit union can still submit such evidence if it believes it would be helpful to demonstrate that the area is a well-defined community where residents interact or will support some other aspect of the credit union's business plan or marketing strategy.

The final amendment deletes the requirement for a converting credit union to provide written evidence of community support. Nothing in this final amendment changes or relaxes the requirement that a credit union converting to a community charter must demonstrate that the proposed community is a well-defined area where residents interact.

#### D. Groups Outside the Community

The Board also proposed to eliminate the ability of a credit union converting to a community charter to continue to serve groups outside the new community boundaries. At this time, the Board is still considering the implications of such a policy change. As a practical matter, because of the injunction issued in the consolidated cases of *First National Bank and Trust Co., et al. v. NCUA* and the *American Bankers Association v. NCUA, et al.*, which was partially stayed by the Court of Appeals on December 24, 1996, a credit union converting to a community charter cannot continue to serve groups outside the new community boundaries, but may only serve members of record. The Board plans on addressing this issue in the near future and will respond to the concern raised by the commenters at that time.

#### E. Ongoing Litigation

Five commenters did not believe that this is the appropriate time to initiate changes to field of membership policies, because of the ongoing litigation involving multiple group credit unions. NCUA disagrees since NCUA's community chartering policy is not affected by the injunction issued in the consolidated cases of *First National Bank and Trust Co., et al. v. NCUA* and the *American Bankers Association v. NCUA, et al.*, which was partially stayed by the Court of Appeals on December 24, 1996. Nor would other ongoing chartering litigation be affected because this change in policy modifies only the requirement for evidence of support for conversion to a community charter, not the requirement for evidence that the community to be served is a "well-defined community."

The NCUA Board believes it is necessary to address the documentation requirements for converting credit unions because questions regarding cost and value have been raised during NCUA Board review of requests by credit unions converting to community charters. The NCUA Board has not been provided with any compelling rationale that would justify a delay in amending this aspect of community chartering policy at this time.

## REGULATORY PROCEDURES

### *Regulatory Flexibility Act*

The Regulatory Flexibility Act requires NCUA to prepare an analysis to describe any significant economic impact a regulation may have on a substantial number of small credit unions (primarily those under \$1 million in assets). The final amendment will not have a significant economic impact on a substantial number of small credit unions and therefore a regulatory flexibility analysis is not required.

### *Paperwork Reduction Act*

NCUA has determined that the final amendment does not increase paperwork requirements under the Paperwork Reduction Act of 1995 and regulations of the Office of Management and Budget (OMB). 60 FR 44978 (August 29, 1995).

### *Executive Order 12612*

Executive Order 12612 requires NCUA to consider the effect of its actions on state interests. This final amendment makes no significant changes with respect to state credit unions and therefore, will not materially affect state interests.

### *Congressional Review*

Awaiting OPM determination.

List of Subjects in 12 CFR Part 701

Credit, Credit unions, Reporting and record keeping requirements

By the National Credit Union Administration Board on January 22, 1998.

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Becky Baker  
Secretary of the Board

Accordingly, NCUA proposes to amend 12 CFR part 701 as follows:

#### PART 701-ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS

1. The authority citation for part 701 continues to read as follows:

Authority: 12 U.S.C. 1752(5), 1755, 1756, 1757, 1759, 1761a, 1761b, 1766, 1767, 1782, 1784, 1787, 1789. Section 701.6 is also authorized by 31 U.S.C. 3717. Section 701.31 is also authorized by 12 U.S.C. 1601, *et seq.*, 42 U.S.C. 1981 and 3601-3610. Section 701.35 is also authorized by 12 U.S.C. 4311-4312.

2. Section 701.1 is revised to read as follows:

§ 701.1 Federal credit union chartering, field of membership modifications, and conversions.

National Credit Union Administration policies concerning chartering, field of membership modifications, and conversions are set forth in Interpretive Ruling and Policy Statement 94-1, Chartering and Field of Membership Policy (IRPS 94-1), as amended by IRPS 96-1 and IRPS 98-1. Copies may be obtained by contacting NCUA at the address found in Section 792.2(g)(1) of this chapter. The combined IRPS are incorporated into this section.

(Approved by the Office of Management and Budget under control number 3133-0015.)

Note: The text of the Interpretive Ruling and Policy Statement (IRPS 94-1) does not, and the following amendments will not, appear in the Code of Federal Regulations.

3. IRPS 94-1, Chapter 1, Section II.C.2 is amended by deleting the words "field of membership expansion or conversion to a community credit union".

4. In IRPS 94-1, Chapter 2, Section IV.B is revised to read as follows:

#### IV.B -- Conversion to Community Charter

An existing occupational, associational, or multiple group federal credit union may apply to convert to a community charter. In most cases, groups currently in the credit union's field of membership but outside the new community credit union's boundaries may be included in the new community charter.

In order to support a case for a conversion to community charter, the applicant federal credit union must, in addition to the requirements for a community charter set forth in Chapter I (except for the requirement to demonstrate community support), develop a detailed business plan which may include, but not be limited to the following data:

- current financial statements, including the income statement and a summary of loan delinquency;
- a map or maps showing both the existing and proposed boundaries for the field of membership, as well as existing and planned service facilities;
- a written description of the area of community service for the proposed community credit union;
- the most current population figures for the existing and proposed boundaries;
- the source of the population information (census data are considered the most authoritative); the greater the population of the proposed area, the greater justification
- necessary to support the existence of the "community" and interaction among its residents;
- evidence that the proposed area is a "community" as defined in "Community Common Bond" in Chapter 1;
- information concerning the availability of financial services to the residents of the new area;
- a list of credit unions with a home or branch office in the proposed area (If

present credit union service to the residents of the new area is adequate, there may be no basis for the proposed conversion.);

- the attitude of the current credit union sponsors and existing credit union members toward the proposed conversion; and
- the anticipated financial impact on the credit union in terms of need for additional employees and fixed assets.

WITHDRAWN