NCUA is working hard to promote the success of low income credit unions. The purpose is to provide needed financial services to low income members. My credit union has worked hard to qualify as a low income credit union. We have 180,000 members in 12 counties in Northern California. When we applied the criteria for determining which members qualify as low income, we found that about 48% of our members are low income. The criteria to qualify as a low income credit union is 50% of our members plus one. The 48% of our membership that is low income represents over 86,000 members. That would make us one of the largest low income credit unions in the country. Yet despite the large number of low income members (not to mention the potential low income members we have in our field of membership) we don't enjoy any of the benefits that other low income credit unions receive. If the objective is to increase service to low income members by giving incentives to credit unions then it seems logical that the current criteria for low income credit unions isn't working. Why not have graduated benefits that either apply in proportion to your low income membership or perhaps some other formula that applies based on the number of low income members? I would recommend changing the criteria so that more credit unions will qualify. Large credit unions have resources that could make a big difference in low income communities.

My experience has been that serving low income member's is difficult. They don't provide a lot of income to the credit union and they are heavy users of the most expensive delivery channel—our branches. I have found that community development credit unions have fewer resources than credit unions in our asset size range. We can do more to help low income members. Give us more support and we can broaden our base of low income members at a faster pace.

I would like to comment as well on the risk based capital rules. I support risk based capital but I wonder why NCUA has not addressed an issue that is very critical to the question of whether credit unions are properly capitalized. Compared to banks, credit unions on average have one percent less capital than our capital ratio suggests. That is because we carry the share insurance deposit as an asset. That asset is pre-paid share insurance premiums and it should be amortized. We recently paid stabilization premiums. If we amortized our share insurance premium at 8 basis points a year it would have about the same effect as stabilization premiums and we would over `12 years write off the deposit. The deposit is a danger in an economic down turn. It adds to the risk of down turns because it poses the danger of increased pressure on earnings and capital during a financial crisis. In this respect it is pro-cyclical. During the financial crisis, banks shored up the FDIC with a pre-paid insurance premium. They have paid that off. We should do the same with ours.

I believe it is a mistake to limit risk based capital rules to some credit unions and not to others. Will we next suggest that prompt corrective action only applies to some credit unions and not to others. The threshold of $100 million in assets means that the vast majority of credit unions will not be subject to risk based capital. Is capital less relevant at some asset sizes than at others? Is there less risk in smaller credit unions? Recent data on credit union failures clearly contradict any claim that there is less risk in credit unions with under $100 million in assets. It appears that the theory is that we have to do everything possible to preserve and promote small credit unions. I would assert that is an unwise policy. The call report data show evidence that many small credit unions are not meeting member needs. That evidence comes from member growth, share growth and loan growth statistics. When credit union data is displayed by asset size range it is clear on every measure of member benefit that, on average, members do better when they belong to larger asset size credit unions. Granted in rural communities and in a few other special circumstances, small credit unions play a crucial role. In those instances, NCUA can offer waivers. But a blanket policy to exclude all credit unions under $100 million is unwise and it undermines the argument for risk based capital for any credit union.

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