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December 8, 2016

Mr. Gerald Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

***Re: Comments on Chartering and Field of Membership Manual, RIN: 3133:AE31***

Dear Mr. Poliquin:

The Pennsylvania Credit Union Association (PCUA) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) proposed amendments to Appendix B of 12 CFR Part 701, the Chartering and Field of Membership Manual (Chartering Manual). PCUA is a statewide advocacy organization which represents a majority of the credit unions located in the Commonwealth of Pennsylvania.

Field of Membership (FOM) regulations are so critical that PCUA consulted with its Board of Directors, Government Relations Committee, Regulatory Review Committee and State Credit Union Advisory Committee in order to provide comments on this new proposal. This group of credit union leaders consists of credit union CEOs and senior management staff who represent credit unions of all asset sizes. The comments contained in this letter reflect the input of Pennsylvania's credit union leadership and PCUA staff.

#### The Recent Final Rule

Before addressing the new proposal, we want to take the opportunity to thank the NCUA for its work on amendments to the Chartering and Field of Membership Manual that were finalized in October. Those new rules are a positive step, increasing the opportunities for federal credit unions (FCU) to reach new members: consumers and small businesses. We recognize that the final rule was crafted as the result of informal suggestions and the diligent work of NCUA's FOM Internal Task Force. We commend the members of that Task Force and their efforts to create new membership possibilities.

During the October NCUA Board meeting, Chairman Rick Metsger remarked that a handful of important issues were reserved for additional notice and comment. We agree that an additional round of public comment addressing the issues discussed below is prudent. PCUA supports the proposed measures and urges the NCUA to finalize them as soon as possible. Like the October final rule, the additional measures afford greater access to credit unions.

### Narrative to Support a Proposed Well-Defined Local Community

In addition to the “presumptive communities” defined in the Chartering Manual, the proposed rule provides for a well-defined, local community where compelling evidence of interaction or common interests exist. The Chartering Manual’s proposed Appendix 6 establishes the narrative criteria necessary to support the application and evidence of interaction and common interests.

First, we recognize the merits of establishing a single political jurisdiction or various statistical areas as well-defined local communities. In the case of a single town or county, local community is quite evident. Reliance on the work of agencies such as the U.S. Census Bureau or Office of Management and Budget in defining the various statistical areas takes advantage of research that has already been done lending efficiency to the process and solidifying NCUA’s use of its discretion in promulgating rules on chartering.

Second, credit unions welcome the opportunity to submit narrative, again, in support of a community charter conversion or expansion. There are groupings of townships or areas outside of a statistical area that may be part of a well-defined local community. PCUA frequently works with its member credit unions as they consider chartering options. In many cases the boundaries of a Metropolitan Statistical Area exclude a portion of the community that a credit union believes is relevant. Therefore, the option of providing narrative to prove up a community is very beneficial to a state like Pennsylvania and credit unions as a whole.

Third, overall the narrative criteria represent a rational exercise of NCUA’s discretion setting parameters or a system for evaluating narrative evidence of a well-defined, local community. Evidence of quasi-government agencies, shared public facilities, hospitals and major medical facilities, community media, and most of the other criteria included in Appendix 6 constituted the solid evidence of interaction and common interests that credit unions included in community charter packages prior to the adoption of the “presumptive communities.” This is a common sense measure. Also, NCUA is the chartering authority; therefore, it is the duty of NCUA to evaluate such evidence and render a decision on the record. We are happy to see narrative being restored to the community chartering process.

The proposed criteria state that an economic hub is evident when one political jurisdiction within a proposed local community has a relatively large percentage of the population or is the primary location for employment. 81 Fed. Reg. 78753. We agree that a concentration of population or employment is persuasive in terms of determining whether an area is a well-defined local community. However, we disagree with the 25% threshold for workers commuting to the central economic hub. The credit union should have the opportunity to demonstrate commuting patterns across the entire, proposed well-defined community.

#### 10 Million Population

The proposed rule included the following in the definition of well-defined, local community:

- A Core-Based Statistical Area designated by the U.S. Census Bureau, including a Metropolitan Statistical Area, with a population of 10 million or fewer; or

- A Combined Statistical Area designated by the U.S. Office of Management and Budget, with a population of 10 million or fewer.

We support the increased population cap. Reliance on designations issued by other federal agencies that have done extensive research in defining or identifying the various statistical areas is a rational exercise of NCUA's judgment in attempting to define the concepts of local and community. We further applaud the departure from the 2.5 million population cap. We maintain that population does not determine whether a well-defined, local community exists. It's the common interests and interaction that evidence a community. The various statistical designations demonstrate that interaction. Accordingly, increasing the population cap is a reasonable interpretation of the Federal Credit Union Act and furthers an important policy goal of increasing access by consumers and small business to credit unions.

#### Individual Portion of Statistical Area

Under the proposal, the well-defined local community requirement may be met in an individual portion of a statistical area and it need not conform to internal boundaries within the area. 81 Fed. Reg. 78753. We appreciate and support this additional flexibility in drawing up community boundaries. This is a welcome recognition that subsets within a statistical area are well-defined, local communities. It will benefit credit unions that may not have the capacity to serve an entire statistical area but can effectively serve an individual portion of such an area.

#### Additional FOM Needs

The October 27 final rule combined with the current proposal represent rational, well-conceived improvements to the Chartering Manual that are consistent with the Federal Credit Union Act. The NCUA staff has done tremendous work in creating new opportunities for credit unions, consumers and small businesses. We understand the importance of ensuring that regulatory changes are reasonable interpretations of the Federal Credit Union Act.

However, our member credit unions have frequently expressed additional needs in connection with chartering opportunities. These additional needs may require amendments to the Federal Credit Union Act. If that is so, our membership would welcome a dialogue with NCUA to address introducing the appropriate legislation.

The additional areas of need include:

##### a. Hybrid Charters

During PCUA's discussion with its board and committees, the most significant improvement to chartering rules that NCUA could make is creating what we describe as hybrid charters. Our vision of hybrid charters would enable an FCU to have any combination of chartering options included in the Federal Credit Union Act. Accordingly, a hybrid charter would include elements of the community charter, multiple group charter, or the trade industry or profession (TIP) charter. For example, if a community chartered credit union were approached by an employer group for service, that credit union could add the employer group to its charter. If a TIP-chartered credit union could prepare a satisfactory business plan to serve a well-defined, local community that is within reach, the FOM rules should permit such activity. The hybrid charter would truly enable an FCU to reach out to groups, communities or TIPs consistent

with its ability to serve such areas or groups. So, the concept affords growth opportunities and permits FOM expansion in a manner commensurate with the FCU's resources.

b. Mergers

Consolidation continues within the credit union system. The FOM and merger rules should be amended to permit strategic combinations of credit unions. For example, two community charters should not have to be exact in order to complete a merger especially where the existing communities overlap or are adjacent. The community boundaries should simply be redrawn. The prior determination that the areas covered constituted a well-defined, local community should be re-affirmed in the merger approval. Where a multiple group credit union merges with a community credit union, select employer groups, existing and potential members, that fall outside of community boundaries post- merger should be grandfathered and remain eligible for service by the continuing credit union.

NCUA has approved the concept of a network credit union, where, credit unions effectively merge, but the "non-surviving" credit union serves its former members as a division of the surviving credit union. NCUA Opinion Letter 16-0227. Credit unions welcome that flexibility. Consistent with that structure, additional but modest adjustments to merger rules should be feasible to allow strategic combinations, mixing all charter types into such transactions. A significant benefit of this approach is eliminating resort to emergency merger rules. Credit unions can combine when they determine the timing is in the best interests of the membership. In addition, this enhances safety and soundness of the entire credit union system.

Conclusion

The final rule NCUA adopted in October is fully consistent with the Federal Credit Union Act and provides new opportunities for consumers and businesses to access credit unions. The three proposed amendments to the Chartering Manual continue the quality work that NCUA has undertaken to modernize FOM. We support the proposed rule and emphasize the lengths that NCUA has gone to create new opportunities, notably for the community charter, that are consistent with the Federal Credit Union Act. We would be happy to discuss our comments in detail at your convenience.

Sincerely,  
PENNSYLVANIA CREDIT UNION ASSOCIATION



Richard T. Wargo Jr  
EVP/General Counsel

RTW:llb

cc: P. Conway  
Board of Directors  
Government Relations Committee  
Regulatory Review Committee  
State Credit Union Advisory Committee