From: Jeff Perra
To: _Regulatory Comments
Subject: Proposed Revision to Field of Membership
Date: Monday, January 25, 2016 4:24:26 PM

January 25, 2016
Mr. Gerard Poliquin,
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Comments on Proposed Revisions to the NCUA Chartering and Field of Membership Manual, Part 701

Dear Mr. Poliquin:

I am writing to the National Credit Union Administration (NCUA) today to urge you to withdraw the proposal to revise the NCUA Chartering and Field of Membership Manual.

I represent a community bank in a small town that is trying to compete with Credit Unions that don't pay income taxes. I understand the FCU Act and understand the place for an income tax exemption when one is appropriate. The common bond that allows the tax exemption has been pushed and expanded far too much already.

Federal agencies are supposed to implement the laws as they are written by Congress. In several important ways, this proposal ignores Congress's express language in the Federal Credit Union Act (FCU Act). For example, the FCU Act requires a multiple common bond federal credit union to have a service facility within reasonable proximity to any "additional group" added to its field of membership. With that statutory language, Congress clearly intended that credit unions with multiple common bonds be able to serve their different membership groups with actual physical credit union locations. In this proposal, the NCUA has ignored that Congressional mandate by declaring that online internet channels are included in the definition of a "service facility." Congress, not the NCUA, should make that kind of significant policy change.

Federal agencies are supposed to implement the laws as they are written by Congress. In several important ways, this proposal ignores Congress's express language in the Federal Credit Union Act (FCU Act). For example, the FCU Act states, "in general, the Board shall encourage the formation of separately chartered credit unions instead of approving an application to include an additional group within the field of membership of an existing credit union." Congress included a limitation in the FCU Act to support that preference. An additional group of up to 3,000 people may generally be added to an existing credit union, but a credit union can only add a larger group if certain conditions are met. In this proposal the NCUA has ignored that Congressional limit by creating a simple, streamlined process for adding an additional group of up to 5,000 people. Congress, not the NCUA, should make that kind of policy change.

The changes proposed for the geographic field of membership rules are far too broad. The FCU Act

requires that a geographic field of membership must be a "well-defined, local community." In this proposal, the NCUA mandates that a single Congressional district is automatically a "well-defined, local community." That change defies logic in many cases. Minnesota has eight Congressional districts, and a couple of them are very large, geographically. Minnesota's 7th Congressional District covers 33,429 square miles, and it takes seven hours to drive from one end of the district to the other. There is no way that people living seven hours apart from each other would believe that they are part of the same "local" community. And in seven states, it is even worse because there is just one Congressional district covering the whole state. It is very difficult to see how an entire state can be considered a "local" community. That aspect of the proposal clearly goes too far.

The proposal states that a single Congressional District is automatically a "well-defined, local community." Minnesota has eight Congressional Districts, and a couple of them are very large, geographically. In many cases the districts are also very different from an economic standpoint. While represented by the same member of Congress, the regions that make up Minnesota's 8th Congressional District could not be more different. This district includes the port city of Duluth, the resorts in the Brainerd lakes area, the mining operations on the Iron Range, the paper mills in Grand Rapids and the dairy farms of Morrison County. There is no overarching theme or defining characteristic that would suggest that this sprawling, 27,908 square-mile district is a single "local" community. And in seven states, it is even worse because there is just one Congressional district covering the whole state. It is very difficult to see how an entire state can be considered a "local" community. That aspect of the proposal clearly goes too far.

Credit unions receive extremely generous tax and regulatory advantages. In exchange for those advantages, credit unions have some limitations. The credit union industry does not like those limits, so it continually challenges them. They have asked Congress to give them more commercial lending authority. When Congress fails to give the credit unions this additional authority, the credit unions ask that the NCUA give them the additional authority. The NCUA then finds different ways to give the credit unions what they want, even though Congress has never authorized it. The credit unions want more expansive fields of membership. Congress has never given them this expanded authority. The NCUA then proposes this rule, which is inconsistent with the plain language of the National Credit Union Act. These types of significant policy changes should come from Congress, not the NCUA.

Some credit unions have remained true to the original credit union model. They continue to have a tight common bond, and they continue to focus on serving the credit needs of individuals, and especially people of modest means. Other credit unions have become massive institutions serving huge geographic territories. By requiring that a geographic credit union serve a "well-defined, local community," Congress clearly intended that the word "local" should serve as a limitation on credit unions. With this proposal, the NCUA is ignoring the plain language in the National Credit Union Act. A federal regulatory agency should know better.

Today's massive, aggressive growth credit unions bear no resemblance to the credit unions that had once earned their tax and regulatory advantages. No one should be surprised when Congress decides that it is time to eliminate those tax and regulatory advantages.

Credit unions have changed significantly in the past couple decades. Credit unions used to serve

members that were part of a strict “common bond,” a tightly-knit group of people working for the same employer, living in the same neighborhood or attending the same church. Credit union members knew each other, in the spirit of a true co-operative. The NCUA’s “field of membership” rules have gradually relaxed over time, allowing credit unions to rapidly grow. A Minnesota credit union was originally formed to serve a single church congregation. After multiple expansions, the credit union now serves 17 Minnesota counties. Credit union members no longer know each other and have only very weak ties to one another. Losing that defining characteristic now means that the massive credit unions are indistinguishable from the banks against which they compete. No one should be surprised when Congress reconsiders the credit unions’ tax and regulatory advantages.

The NCUA has been criticized for being a “cheerleader” for the credit union industry rather than a regulator. This proposal is a good example of how the NCUA has earned that reputation. The NCUA has always gone out of its way to encourage credit union growth and expansion. However, with this proposal the NCUA ignores the plain language of the FCU Act. I urge the NCUA to withdraw the proposed changes to the Field of Membership Manual.

Thank you for considering these concerns.

Jeff Perra

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