

Importance of Preserving Dual Chartering

Preserving the principles of dual chartering is critical for the credit union system.

Dual chartering provides an invaluable safety valve for the credit union system in its ability to allow credit unions to change charters between state and federal. A key feature of the dual chartering system is that individual institutions can select the charter that will benefit their members or consumers the most. While there are many reasons why credit unions seek to change charter or merge, it is clear that without dual chartering opportunities many might have left the credit union system entirely.

Moreover, maintaining a strong, diverse dual chartering system allows for autonomy from state to state and between states and the federal government. Dual chartering allows the system to work together on common challenges affecting the entire system and the continued strength and growth of credit unions. It ensures that the federal and state credit union systems challenge each other to constantly improve.

The entire credit union system — regulators, credit unions, leagues, associations and members (consumers) — must continue to understand the importance of maintaining a viable and an effective dual chartering system. All should work to ensure a meaningful dual chartering system.

NASCUS remains committed to preserving the dual chartering system and charter choice. A strong state and federal charter benefits the entire credit union system and is critical to safety and soundness of today's credit unions.

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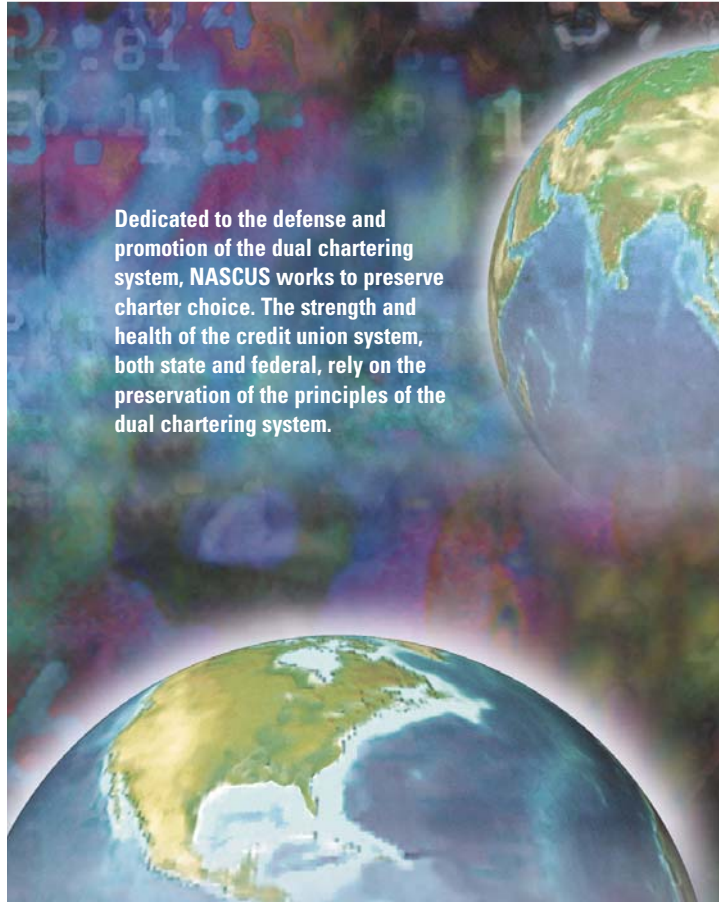
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The Case for Dual Chartering

NASCUS

Quick Guide



Dedicated to the defense and promotion of the dual chartering system, NASCUS works to preserve charter choice. The strength and health of the credit union system, both state and federal, rely on the preservation of the principles of the dual chartering system.

NASCUS Quick Guide: The Case for Dual Chartering

Dual chartering provides important diversity, competition and innovation in the credit union regulatory structure.

What is Dual Chartering?

Dual chartering is the system by which credit unions are chartered in the United States. Credit unions can be chartered by the federal government through the National Credit Union Administration (NCUA) or by state governments. Forty-seven states and Puerto Rico have laws permitting state-chartered credit unions.

The credit union system in the United States is approximately 40 percent state-chartered and 60 percent federally chartered. The majority of credit unions are federally insured by the National Credit Union Share Insurance Fund (NCUSIF). Some state laws allow their state credit unions to be privately insured. Less than five percent of state-chartered credit unions are privately insured.

Benefits of Dual Chartering

Dual chartering gives credit unions the option to choose the charter that best fits the unique needs of its members. A strong state and federal charter benefits the entire credit union system, and is critical to safety and soundness of today's credit unions. Dual chartering provides important diversity, competition and innovation in the credit union regulatory structure.

The differing laws governing state and federal credit unions is certainly positive. Credit union boards of directors and CEOs have the ability to examine the advantages and disadvantages of each charter and determine which charter matches the goals of the institution and its members.

Charter choice creates healthy competition and provides an incentive for regulators (both state and federal) to maximize efficiency in their examinations and reduce costs. It allows regulators to take innovative approaches to regulation while maintaining high standards for safety and soundness. These examination efficiencies and innovative approaches in turn, once proven successful, spread throughout the credit union system.

The examples of innovative success in dual chartering are numerous. The NCUA current member business lending (MBL) rules were inspired by the states that promulgated state specific MBL rules. What began as business lending relief for state credit unions in Texas, Washington, Wisconsin, Maryland, Connecticut and Oregon evolved into business lending relief for all federally insured credit unions. That is dual chartering at work.

Since state regulators are local by definition, they have an understanding of the interaction between communities and groups within their states. Thus, they can better articulate the need for innovative financial services decisions by their state lawmakers. With offices in the state capital, state regulators have direct access to legislative bodies. This allows state-chartered credit unions to develop flexibility in member services options and operating powers. The result is access to credit union services for more citizens, some of whom would otherwise be without a mainstream financial institution.

In brief, the choice between state and federal charter provides valuable diversity in the system to state and federal regulators, credit union executives, legislators, policymakers and American citizens.