NATIONAL ASSOCIATION STATE CREDIT UNION SUPERVISORS

NASCUS

NASCUS SURVEY OF THE STATE CREDIT UNION SYSTEM

Report to the U.S. House Committee on Ways and Means
by the National Association of State Credit Union Supervisors (NASCUS)
December 2007

Acknowledgements

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Special thanks are due to many participants. NASCUS members, a reflection of the state system, cooperated voluntarily in assembling and interpreting the massive amount of data collected. NASCUS gratefully acknowledges the contributions of its Board of Directors including Chairman George Reynolds, senior deputy commissioner, Georgia Department of Banking and Finance and Immediate Past Chairman Linda Jekel, director, Washington Division of Credit Unions. NASCUS and state regulators were committed to responding to questions posed in a request from former Representative Bill Thomas (R, Calif.), past Chairman of the House Committee on Ways and Means.

After NASCUS received the request, a group of state regulators including Jekel; Harold Feeney, commissioner, Texas Credit Union Department; James Forney, superintendent of the Iowa Credit Union Division; and Roger Little, deputy commissioner, Michigan Office of Financial and Insurance Services worked diligently to determine the appropriate data collection methodologies and craft a thorough survey to answer the questions. This group also coordinated the development of important information sharing agreements among the states to facilitate the data exchange required by this project.

The NASCUS task force of state regulators committed to writing the report made themselves available throughout the process and spent a significant amount of their time determining the structure of the report, examining the data and reviewing the report language. The task force included state regulators Forney; Thomas Candon, deputy commissioner of the Vermont Department of Banking, Insurance, Securities and Health Care Administration; and Jerrie Lattimore, administrator, North Carolina Credit Union Division.

In addition, NASCUS asked Dr. Randall Olsen, professor of economics, Ohio State University to create a representative sample of state-chartered credit unions using statistically-sound methodology. Dr. Olsen, assisted by Dr. Curtis Eberwein, research specialist, Ohio State University, provided the sample of state-chartered credit unions contacted in the survey process.

The Iowa Credit Union Division provided data support for the NASCUS Survey. Collecting the data, answering questions from state-chartered credit unions and analyzing and interpreting the information took significant effort by Amanda Swangel and Brad Huyser, information specialists in the Iowa Division of Credit Unions.

Drafting assistance was provided by Venable LLP attorneys Bruce Jolly and John Cooney and summer associates Rishi Kapoor and Kelly Bissinger.

The final report was prepared and presented to the NASCUS Board prior to its transmittal to Congress by Sandra Troutman, NASCUS Executive Vice President of Government Relations and Kate Hartig, NASCUS Director of Communications and Public Affairs, without whose tireless efforts, the project could not have been completed.

Respectfully,

Mary Martha Fortney

Mary Martha Fortney, President and CEO
National Association of State Credit Union Supervisors

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Executive Summary

The National Association of State Credit Union Supervisors (NASCUS) was asked by former Representative Bill Thomas (R, Calif.) of the U.S. House of Representatives Committee on Ways and Means to provide information regarding state-chartered credit unions use of their tax-exempt status to serve their members. This report presents the results of NASCUS' survey of the state-chartered credit union system and provides support for the conclusion that state-chartered credit unions serve member needs in a way that is consistent with their history as financial cooperatives and tax-exempt organizations.

The request focused on four areas: membership; executive compensation; Unrelated Business Income Tax (UBIT); and Credit Union Service Organizations (CUSOs). This information was not available in any pre-existing database and had to be collected through a survey of a representative sample of the nation's state-chartered credit unions.

NASCUS worked with state credit union regulators to craft a survey for collecting the data to respond to the questions. Using accepted statistical methods, 502 credit unions were selected representing different fields of membership, geographic locations, asset sizes and communities to create a representative sample of the nation's state-chartered credit unions.

Gathering the information from the responding state-chartered credit unions required the coordinated effort of each participating state regulatory agency. Geo-coding and analyzing the more than 28 million member records received from more than 14 million account holders was coordinated under carefully constructed conditions of privacy and security.

The data generated by this Survey present a comprehensive picture of the nation's 3,424 state-chartered credit unions.[1] Among the findings illustrated by the data:

- State-chartered credit unions serve their members in a manner consistent with their history as financial cooperatives serving groups based on occupation, association or community, by charging lower loan rates and providing higher return on savings;

- The income state-chartered credit union members is representative of the U.S. population;

- State-chartered credit unions provide a wide variety of needed financial services to the membership they are chartered to serve;

- Although no state enabling act establishes as a criterion for organizing state-chartered credit unions an explicit requirement that the institution serve the underserved or low- or modest-income groups, state-chartered credit unions do reach out and provide financial services to all income groups within their fields of membership, both through pricing and community outreach efforts.

[1] The number of state-chartered credit union is based on March 31, 2006 data provided by state regulators.

- State-chartered credit unions in 14 states participated in Internal Revenue Service (IRS) Group 990 filings in 2005. State-chartered credit unions that participate in the IRS Group 990s all report a staffed Chief Executive Officer position and are more likely to have staffed Chief Financial Officers (CFOs) and Chief Operating Officers (COOs) as the asset size of the credit union increases. The NASCUS Survey confirmed that as asset size increases, salaries of CEOs, CFOs and COOs at state-chartered credit unions increase.

- The recent release by the IRS of Technical Advice Memoranda[2] outlining the scope of state-chartered credit union income subject to UBIT may offer guidance to state-chartered credit unions on any obligation to pay tax on unrelated income. However, the NASCUS Survey results did not provide sufficient information to draw statistically valid conclusions about UBIT.

- State-chartered credit unions of all asset sizes participate in the formation and use of CUSOs. Income derived from CUSO operations appears to be a small percentage of the overall income of state-chartered credit unions. Most CUSOs formed by or used by state-chartered credit unions support, on a cooperative basis, the internal operations of state-chartered credit unions, e.g., data processing or service to members, e.g., shared branching. The use of CUSOs by non-members and revenue generated appear limited. The highest percentage of non-member use appears to be the use of surcharge-free ATMs, which many state-chartered credit unions provide through CUSOs.

The objective of the NASCUS response was to analyze and respond to questions from former Representative Thomas. There was no intent to compare or contrast the data with available information about other financial institutions or federal credit unions.

[2] A technical advice memorandum (TAM) is Internal Revenue Service guidance furnished upon the request of an IRS director or an area director, appeals, in response to technical or procedural questions that develop during a proceeding. Technical Advice Memoranda are issued only on closed transactions and provide the interpretation of proper application of tax laws, tax treaties, regulations, revenue rulings or other precedents. The advice rendered represents a final determination of the position of the IRS, but only with respect to the specific issue in the specific case in which the advice is issued. *Understanding IRS Guidance - A Brief Primer,* http://www.irs.gov.

Section 1—Introduction

The National Association of State Credit Union Supervisors (NASCUS), on behalf of state regulatory agencies that charter and supervise state credit unions in 47 States and one U.S. territory, submits the following information to the House Committee on Ways and Means to assist the Committee in its analysis of the tax-exempt status of credit unions.

I. National Association of State Credit Union Supervisors

NASCUS Purposes. NASCUS serves as the primary voice and resource for the nation's state-chartered credit unions. NASCUS is the sole organization dedicated exclusively to representing and advocating for the nation's credit union dual chartering system. Further, NASCUS seeks to advance the autonomy of state regulatory agencies designated to charter and provide oversight for state credit unions. NASCUS also administers an accreditation program which measures and recognizes the effectiveness of state regulatory agencies. In addition, NASCUS provides educational programs for state regulatory agency examiners.

As well as serving these policy objectives, NASCUS represents the interests of the state regulatory agencies on the federal level. In this capacity, NASCUS is frequently called upon by Congress to testify and provide information about state-chartered credit unions and the operation of the state regulatory system. In addition, NASCUS acts as the liaison for the state credit union system to both Congress and federal supervisory agencies such as the National Credit Union Administration (NCUA), which administers the insurance facility for the majority of state-chartered credit unions.

Since its inception in 1965, NASCUS has been committed to promoting and protecting the nation's state-chartered credit union system. NASCUS is the premier advocate for sound policies designed to enhance state credit union supervision.

II. Questions Presented in March 22, 2006 Letter

In a request to NASCUS, former Chairman of the House Ways and Means Committee Representative Bill Thomas (R, Calif.) asked state regulators to survey credit unions in their states and provide information to the Committee in four specific areas. The data presented is drawn from the responses to NASCUS provided by a representative sample of state-chartered credit unions.

Membership. NASCUS was asked to provide detailed information pertaining to the members of state-chartered credit unions. He requested that NASCUS submit data on state-chartered credit unions, their total assets and membership. NASCUS was also asked to provide information on the extent to which providing services to low- and modest-income individuals is an explicit or implicit criterion in the state-chartering requirements for credit unions; to submit data concerning the income characteristics of state-chartered credit union members; and to identify actions that state-chartered credit unions have taken to target low- and modest-income individuals, including the type and extent of services provided to these individuals.

Executive Compensation. Former Representative Thomas noted that the Committee wished to determine the extent to which state-chartered credit unions make information publicly available relating to the compensation of their executives. He requested that NASCUS survey its members in the States in which the credit union regulatory agency files a group Form 990 with the Internal Revenue Service (IRS) on behalf of all credit unions chartered in that State to determine what information is available from the regulator about executive compensation paid by those credit unions. He also requested that NASCUS provide the name of the entity (state regulatory agency or trade association) that is responsible for preparing the group returns in each State where this practice is followed.

Unrelated Business Income Tax. The Committee asked for information on the number of state-chartered credit unions that paid Unrelated Business Income Tax (UBIT); the amount of UBIT paid; and the services on which UBIT was paid, including any UBIT paid as a result of income generated from Credit Union Service Organization (CUSO) activities.

Credit Union Service Organizations. NASCUS was asked to survey state-chartered credit unions to determine the extent to which they invest in or use the services of CUSOs. Specifically, former Representative Thomas requested that NASCUS report on the amount that state-chartered credit unions have invested in CUSOs; a list of the services that the credit unions have obtained from CUSOs; and the annual income that the credit unions have derived from their CUSO investments, including their percentage of total net income in the last five years. In addition, NASCUS was asked to provide information on the most common services used by consumers in the last five years and the number and percentage of members and non-members of state-chartered credit unions that used a CUSO in the last five years.

NASCUS Survey and Response. The entire state credit union system worked cooperatively to answer Congress' questions. In response to former Representative Thomas' request, NASCUS organized a task force, comprised of the credit union regulators in several states. NASCUS designed an appropriate survey and worked with the regulatory agencies to gather information in response to the four areas.

The state credit union system dedicated many resources to the development of this report. State regulatory agencies purchased software at their own expense and allocated staff time to complete the data collection. Staff time and resources to respond to the NASCUS Survey were also required by the credit unions selected in the representative sample. Further, NASCUS committed staff resources and absorbed expenses for the development of this project. This report presents the results of NASCUS, state regulators and state-chartered credit unions' efforts.

III. History of State-Chartered Credit Unions

Credit unions are member owned, not-for-profit cooperative financial institutions formed to permit individuals in their field of membership to pool their savings, lend to one another and own the organization where they save, borrow and obtain related financial services.[3] Credit unions may be chartered under either state or federal law.

To understand the basis for the federal tax exemption granted to state-chartered credit unions, it is necessary to understand the historical context in which the credit union system developed in the United States. This in turn requires an understanding of the unique social and financial underpinnings of the credit union movement.

The first credit union in the United States was chartered in New Hampshire in 1909. State chartering remained the sole means for establishing a credit union for the next 25 years, until the passage of the Federal Credit Union Act of 1934 (the FCU Act).[4] State-chartered credit unions have consistently grown in membership and assets during the last century. Throughout their history, non-profit credit unions have offered their members a viable alternative to for-profit savings and loan associations, savings banks and commercial banks.

A. *Reasons for Creation of Credit Unions*

On April 6, 1909, New Hampshire enacted a special law authorizing the creation of La Caisse Populaire Ste. Marie (Saint Mary's Cooperative Credit Association), thereby granting legal status to the first credit union in the United States. Nine days later, Massachusetts passed its Credit Union Act, the nation's first law that provided a general statutory framework for chartering credit unions.

The purpose of state credit unions is illustrated in the state enabling acts. Several examples follow:

> North Carolina's statute provides: "A credit union is a cooperative, nonprofit association, incorporated … for the purposes of encouraging thrift among its members, creating a source of credit at a fair and reasonable rate of interest, and providing an opportunity for its members to use and control their own money in order to improve their economic and social condition."[5]

> Iowa's credit union law provides: "A credit union means a cooperative, nonprofit association, organized or incorporated in accordance with the provisions of this chapter or under the laws of another state or the Federal Credit Union Act, 12 U.S.C. § 1751 et seq., for the purposes of creating a source of credit at a fair and reasonable rate of interest, of encouraging habits of thrift among its members, and of providing an opportunity for its members to use and control their own money on a democratic basis in order to improve their economic and social condition."[6]

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[3] National Conference of State Legislatures, *State Federal Policies for the Jurisdiction of the Financial Services Committee: Dual Chartering of Credit Unions*, http://www.ncsl.org/statefed/financialsc.htm.
[4] 48 Stat. 1216 (June 26, 1934), codified at 12 U.S.C. § 1751 et seq. *See* J. Carroll Moody and Gilbert C. Fite, *The Credit Union Movement: Origins and Development, 1850-1970* (Dubuque, IA: Kendall/Hunt Publishing Co. 1984).
[5] N.C.G.S. § 54-109.1, Definition and purposes.
[6] Iowa Laws and Regulations § 533.102, Definitions.

> The California financial code provides: "A credit union is a cooperative, organized for the purposes of promoting thrift and savings among its members, creating a source of credit for them at rates of interest set by the board of directors, and providing an opportunity for them to use and control their own money on a democratic basis in order to improve their economic and social conditions. As a cooperative, a credit union conducts its business for the mutual benefit and general welfare of its members with the earnings, savings, benefits, or services of the credit union being distributed to its members as patrons."[7]

In the early 20th century, the United States experienced significant economic growth. At that time, the consumer loan market was in its infancy. It largely operated through informal methods, including processes for obtaining information about the creditworthiness of potential borrowers, and was unregulated by government. Commercial banks and other lending organizations perceived consumer loans as both too risky and involving significant transaction costs because little information was available about the creditworthiness of potential borrowers. Thus, at the time, commercial banks and other established lending institutions focused primarily on providing credit to businesses and collateralized loans, and disregarded the needs of large numbers of potential borrowers and the financial opportunities presented by the private consumer market.

The creation of cooperative, member-owned credit unions was an innovative response to the unmet demand in the consumer market for access to financial capital at fair and affordable rates. The earliest credit unions mitigated the risk that commercial banks perceived with consumer loans by forming institutions based on common bonds between the members and making loans based on members' knowledge of the borrower's character, rather than on collateral. In essence, credit unions developed a way to establish a reliable credit-rating process despite the technological limits of the time.

Consumers were able to join credit unions in which they shared common bonds with other members, such as working for the same employer, belonging to the same association or living in the same community. Even prior to the introduction of government insurance for the shares members deposited, credit unions effectively relied on common knowledge and an incentivized system of self-regulation—the result of requiring prior membership as a condition precedent to obtaining a loan.

Studies of credit unions have identified several reasons for the effectiveness of their approach. First, since members knew one another, borrowers faced strong social pressure to repay their loans, which created a strong disincentive for defaulting. Second, members' firsthand knowledge of the character and habits of the other members resulted in lower default rates on loans. These lower default rates meant that credit could be made available to members at lower interest rates than would be charged by other financial institutions willing to lend. By relying on essentially free forms of information and self-regulation, credit unions significantly lowered their operating costs and their credit losses below the levels experienced by commercial banks.[8]

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[7] California Financial Code § 14002.
[8] Walter, John R, *Not Your Father's Credit Union,* FRB Richmond Econ. Q. Vol. 92 , No. 4, pages 353-377, (Fall 2006).

B. ***State-Chartered Credit Unions: The Early Years***

Credit unions developed as a successful response to a gap in the underdeveloped financial infrastructure of the early 20th century. As noted, the first legislation authorizing the formation of credit unions was adopted by New Hampshire and Massachusetts in 1909, beginning the credit union "movement" in this country. Credit unions were chartered exclusively by the states until 1934. In the middle of the Great Depression, Congress passed the FCU Act to provide for a new federal form of this cooperative financial institution.

The growth of credit unions accelerated through the 1920s. By 1925, 26 states had enacted credit union laws and 176 state credit unions had been chartered. The number of state-chartered credit unions grew to 868 by 1929 and exceeded 2,500 by 1934.[9] This rapid growth resulted in part from a growing awareness campaign highlighting the advantages of collective savings and lending initiatives, including:

(1) Creating an alliance that provides consumers an alternative to high-rate lenders;

(2) Establishing a forum for the exchange of ideas and experiences between diverse groups of people interacting on a social scale with others interested in the credit union movement;

(3) Providing state officials with an arena to work out variations in business practices that naturally result from variations in state subcultures; and

(4) Allowing state regulatory agencies to act as clearinghouses for research and information to let credit unions develop to their maximum capacity.

The Great Depression proved the strength of the credit union model and enhanced the legitimacy of credit unions as a sound form of financial institution. A substantial number of financial institutions failed during the early 1930s. However, credit unions weathered the storms with resounding success, both in terms of their financial solvency and maintaining membership. Credit unions also benefited from a national desire to experiment with alternative means of obtaining credit. In fact, more states enacted legislation authorizing state credit unions during the Depression, bringing the total number to 42 states.[10]

C. ***Credit Union Duality: The Joint State-Federal Chartering System***

In 1934, Congress passed the FCU Act, which authorized the creation of federally chartered credit unions.[11] Since that time, the credit union movement has been strengthened by the viability of the dual chartering system. The cooperation between the two regimes has provided further durability to a system that operates amid heavy competition from other types of institutions in the financial services industry.

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[9] *Id*. at 55-108.

[10] Study of the Basic Objectives and the Principles Guiding the Federal Credit Union Program, Transmittal Memorandum from John T. Croteau to J. Deane Gannon, Director, Bureau of Federal Credit Unions, August 31, 1956, page III-4 (1956) (Croteau Memorandum).

[11] 12 U.S.C. § 1751 et seq.

The bank holiday of 1933 and the performance of state-chartered credit unions during the Great Depression brought cooperative, member-owned credit unions to the attention of the United States Congress as an effective and reliable method to address consumers' needs for new banking solutions to their financial concerns. The passage of the FCU Act was intended as a partial response to the contraction of credit that occurred during the banking crisis, by providing a financially secure means of additional credit to lower and middle class consumers. Congress determined that a federal credit union system was necessary, in addition to the state credit union system, in order to provide a national system of cooperatively owned credit unions.

Since 1935, state- and federally chartered credit unions have developed in parallel with each other. Today, both types of institutions enjoy a healthy share of the overall credit union industry. Approximately 42 percent of credit unions in the United States are state-chartered and the remaining 58 percent are federally chartered. The credit union movement has realized several benefits as a result of the dual chartering system. First, local economies benefit from state-chartered credit unions. The flexibility within each state system promotes healthy competition among credit unions, which in turn benefits consumers. Further, this flexibility allows the states to act as laboratories for innovation. As a result, credit unions have been able to create value-added approaches to financial services that are tailored to the needs of the members of individual credit unions, whether the common bond for that institution is through an occupation, association, or community involvement.

Second, the dual chartering system provides regulators the ability to distinguish between types of geographic membership. For example, state regulators understand the needs of local residents and are better able to serve their needs as specific circumstances dictate. By contrast, the federal regulatory agency is able to implement policies whose effects can only be realized on a larger scale – like that of economic diversity among its members.[12] The capacity to capitalize on geographically correlated factors has not only provided greater competition, but also a greater amount of safety to the dual chartering system in its entirety.

D. *Creation of the National Credit Union Administration and National Credit Union Share Insurance Fund*

Congress created a new agency in 1970, the National Credit Union Administration (NCUA), and delegated to it chartering and supervisory authority for federally chartered credit unions.[13] NCUA was the first independent federal agency that had oversight of federal credit unions as its sole mission.[14] Congress also created the National Credit Union Share Insurance Fund (NCUSIF) to insure the funds of credit union members, whether those members belong to state-

[12] Lincoln Clark, *The Credit-Union Legal Framework*, 17 J. Bus. U. Chi. 51, 56 (1944).
[13] Public Law 91–206 (March 10, 1970, 84 Stat. 49) created the National Credit Union Administration as an independent agency and transferred to it all functions of the Bureau of Federal Credit Unions.
[14] Initially, when the FCU Act was passed in 1934, federal credit unions were supervised by the Farm Credit Administration, a constituent entity within the U.S. Department of Agriculture. Congress thereafter transferred the regulator on several occasions, first to the Federal Deposit Insurance Corporation, then to the Federal Security Agency and finally to the Department of Health, Education and Welfare.

or federally chartered credit unions.[15] In concept, the insurance provided by the NCUSIF is similar to the deposit insurance provided by the Federal Deposit Insurance Corporation (FDIC).

In the 1970s, state- and federally chartered credit union accounts were only partially federally insured. Losses, however, remained historically small.[16] Legislation, particularly at the federal level, gradually expanded the types of accounts offered and loans that could be made by a credit union. These developments increased the need for share insurance coverage paralleling that available to banks and thrifts. This led to the recapitalization of the NCUSIF by credit unions with credit union funds in the 1980s, which is more fully described on page 16.

IV. History of the Tax Treatment of State-Chartered Credit Unions

For nearly 100 years, credit unions have operated as cooperative, not-for-profit, democratically controlled organizations despite periodic financial crises, the evolution of financial markets and the changing demographics of the United States. Credit unions have consistently strived to: (1) provide facilities for credit union members to save money; (2) protect the working classes against usurious money lenders; and (3) educate credit union members in matters of consumer finance.[17]

Throughout their existence, state-chartered credit unions generally have been exempt from federal income tax when the institution operates without profit for the mutual benefit of its members.[18] The historical context and philosophy of the credit union movement explain why previous Congresses have determined that it is important and appropriate that state-chartered credit unions be exempt from federal income taxation.

A. *The Origins of Tax-Exempt Status for Credit Unions in the United States*

At the time of their creation, the first credit unions in the United States were not explicitly exempt from federal taxation. However, there was no need for such a tax exemption at the federal level at the time because it was not until the states ratified the Sixteenth Amendment of the United States Constitution in 1913 that Congress obtained the authority to tax the income of individuals and corporations.

The Revenue Act of 1916 provided a federal tax exemption for cooperative banks, mutual savings banks and savings and loans associations but did not include a tax exemption for credit unions, an organizational structure that was then in its infancy. In 1917, U.S. Attorney General Thomas Watt Gregory issued an opinion affirming that credit unions were exempt from federal

[15] Public Law 91-468 (October 19, 1970, 84 Stat. 994) amended sections of the FCU Act and added Title II – Share Insurance.

[16] Credit Union National Association, Basic Information About Credit Unions, http://www.cuna.org/press/basicinfo.html.

[17] Croteau Memorandum pages I-1, II-2 (1956); *Credit Unions*: Hearing before the Subcommittee of the Senate Committee on Banking and Currency, 73rd Cong., 1st Sess. 35 (1933) (statement of Roy Bergengren).

[18] IRS Rev. Rul. 69-282, 1969-1; IRS Rev. Rul. 72-37, 1972-1. Historically, state-chartered credit unions have been exempt from paying federal income taxes, but not federal unrelated business income tax. The laws of individual states determine the state and local tax treatment of the credit unions they charter. Former Representative Thomas did not inquire into the state tax treatment of credit unions, and that subject is not further discussed in this Report.

taxation.[19] The Attorney General concluded that credit unions were "substantially identical" with cooperative banks, which were exempt from federal income taxation under the Internal Revenue Code (the Code). Finding that the Code provided for the exemption of certain classes of organizations, principally those conducted for the mutual benefit of the individuals belonging to them and where no part of the net income inured to the benefit of any private stockholder or individual," the Attorney General ruled that credit unions were exempt from the federal tax.[20] The 1917 Attorney General opinion remained the basis for the tax-exempt treatment of state-chartered credit unions until 1951.

B. *Tax Treatment of Federal Credit Unions in the Federal Credit Union Act of 1934*

The FCU Act, as enacted in 1934, did not provide a federal tax exemption for federally chartered credit unions, even though state-chartered credit unions were treated as exempt from federal taxes under the 1917 Attorney General's opinion. In 1937, Congress amended the FCU Act to grant an express exemption from federal income taxes to federally chartered credit unions. Initially, states were permitted to impose state and local taxes on federally chartered credit unions; however, later in 1937, Congress exempted federally chartered credit unions from state taxes except those taxes applying to real property and tangible personal property.[21] Since 1937, both state- and federally chartered credit unions have been exempt from federal income taxation.

C. *Codification of the Tax-Exempt Status of State-Chartered Credit Unions*

In 1951, Congress came under strong pressure from commercial banks to repeal the federal tax exemption for cooperative banks, mutual savings banks and state- and federally chartered savings and loan associations.[22] At the same time it repealed the federal tax exemption for these institutions, Congress adopted a specific statutory provision codifying the 1917 Attorney General's opinion explicitly exempting state-chartered credit unions from federal income taxation.[23]

Section 501(c)(14)(A) of the Code currently provides federal tax exemption for "credit unions without capital stock, organized and operated for mutual purposes and without profit."[24] The term credit union is not further defined by the statute. The Conference Committee Report stated that "[c]redit unions without capital stock organized and operated for mutual purposes and without profit will remain tax-exempt under section 101(4) of the code."[25] The IRS implementation rule repeats the language of the statute.[26]

Between 1969 and 1972, the IRS issued two Revenue Rulings clarifying and supplementing Section 501(c)(14) and the accompanying regulation. Revenue Ruling 69-282 requires that "an

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[19] 31 U.S. Op. Atty. Gen. 176, 1917 WL 749 (U.S.A.G.).
[20] *Id*.
[21] Pub. L. No. 75-416, 51 Stat. 4 (1937)), codified at 12 U.S.C. § 1768 (2007).
[22] The Revenue Act of 1951, Pub. L. 82-183, 65 Stat. 490.
[23] Federally-chartered credit unions are considered to be instrumentalities of the United States and, therefore, qualify for an exemption under Code Section 501(c)(1) of the Internal Revenue Code. 12 U.S.C. § 1768 (2007).
[24] *Id.*
[25] H.R. Conf. Rep. No. 586, 82nd Cong., 1st Sess., reprinted in 1951 U.S.C.C.A.N 1781.
[26] 26 C.F.R. § 1.501(C)(14)-1 C.B. (2007).

organization must be formed and operate under state law governing the formation of credit unions to qualify for exemption under section 501(c)(14)(A) of the Code as a state chartered credit union."[27] Revenue Ruling 72-37 further clarified that the credit union must operate without profit and for the mutual benefit of its members.[28]

Prior to 1969, state-chartered credit unions were not subject to unrelated business income tax (UBIT). In the Tax Reform Act of 1969, Congress applied UBIT to state-chartered credit unions.[29] A credit union with gross income from unrelated business of $1,000 or more in any taxable year is required to pay a tax at corporate rates on UBIT.[30] A business activity carried on by a credit union will be "considered" unrelated unless the activity is substantially related to the credit union's exempt purpose.

Recent IRS Technical Advice Memoranda (TAMs) assert that activities that will be subject to UBIT include, but are not limited to, insurance sales, non-member automated teller machine (ATM) fees, income from the sale of securities products and other investment products and car buying and warranty services.[31]

D. *Challenges to the Tax-Exempt Status of Credit Unions*

In 1977, the IRS challenged the tax exemption of La Caisse Populaire Ste-Marie (St. Mary's Bank). The resulting litigation established that the individual states, and not the IRS, have the authority to determine the criteria under which organizations qualify as state credit unions and therefore qualify for the federal income tax exemption provided by Section 501(c)(14).

St. Mary's Bank was directly chartered by the New Hampshire legislature; although not specified in its charter, the institution was intended to serve residents in a French-speaking community. By its charter, the credit union was permitted to offer services comparable to those offered by banks. The IRS maintained that St. Mary's Bank was not entitled to tax exemption because it had no written or enforced common bond requirement for its membership among other factors.

The federal district court in New Hampshire held that St. Mary's Bank was entitled to the federal tax exemption on the grounds that Section 501(c)(14) requires only that the entity must be organized as a credit union under state law without capital stock and that it be operated for mutual purposes, without profit; and that St. Mary's Bank met these requirements.[32] The district court also held that a common bond need not be written into the charter for a state-chartered credit union if such a restriction on membership was followed in practice.[33] It found that St. Mary's Bank had a <u>de facto</u> common bond because it primarily served the Franco-American community in a specific area.

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[27] Rev. Rul. 69-282, 1969-1 C.B. 155.
[28] Rev. Rul. 72-37, 1972-1 C.B. 152.
[29] As federal instrumentalities, federally chartered credit unions remained exempt from UBIT because the Tax Reform Act of 1969 did not extend this treatment to federal instrumentalities.
[30] Tax on Unrelated Business Income of Exempt Organizations, Department of Treasury, Internal Revenue Service, Publication 598, Rev. March 2005.
[31] The IRS has indicated that debit or credit card interchange fees and income from ATM transactions from credit union members are not subject to UBIT.
[32] *La Caisse Populaire Ste-Marie (St. Mary's Bank) v. United States*, 425 F. Supp. 512 (D.N.H. 1976).
[33] *Id.* at 522-23.

On appeal, the U.S. Court of Appeals for the First Circuit rejected the IRS challenge on the ground that the Code implies that state law controls the definition of what constitutes a credit union, and thus of which institutions qualify for the federal tax exemption. The court noted that Congress did not further define the term credit union in the statute, and that the law of the individual states thus controls with respect to the meaning of that term. The court held that it would defer to the State of New Hampshire's conclusion that St. Mary's Bank qualified as a credit union under its law, as long as that treatment was not a "gross misuse" of the definition of credit union. In reaching that conclusion, the First Circuit relied upon the definition of "state chartered credit union" in the Model Credit Union Act (Model Act), for the commonly understood definition of credit union. The Model Act defines credit union as follows:

> A credit union is a democratically controlled, cooperative, nonprofit society organized for the purpose of encouraging thrift and self-reliance among members by creating a source of credit at a fair and reasonable rate of interest in order to improve the economic and social conditions of its members. A credit union is fundamentally distinguishable from other financial institutions in that customers may exercise effective control.[34]

Applying this definition, the First Circuit found that St. Mary's Bank met the requirements of Section 501(c)(14)(A) and held that the State of New Hampshire had not grossly misused the term by treating St. Mary's Bank as a credit union.[35] The court also found that St. Mary's Bank could offer demand deposits and real estate loans without losing its status as a credit union.

Thirty years later, the La Caisse Populaire decision remains the controlling decision on which state-chartered credit unions qualify for tax-exempt status under federal law.

In the 1970s, the Carter Administration was pressured to repeal the tax exemption for both state- and federally chartered credit unions and to make these institutions subject to the same federal corporate income tax treatment as banks.

On January 20, 1978, the Carter Administration submitted to Congress a Tax Reduction and Reform Message, which contained a series of recommendations to reform the tax system. The submission included various proposals to reform the taxation of financial institutions, including state and federal credit unions, on the ground that their tax-exempt status provided credit unions with an unfair financial advantage over competitors, in particular commercial banks.

The Department of the Treasury proposed language to implement President Carter's recommendation in H.R. 12078, "The Revenue Act of 1978." According to David J. Melvin, the author of a June 1981 study for the Defense Credit Union Council on the credit union tax exemption, the Treasury proposal would have taxed "credit unions to the same extent as all corporations while making some small allowance for treating loan loss reserves similar to the way they are treated for tax purposes by commercial banks, savings and loans associations, mutual savings banks and cooperative banks."[36] However, the Senate Finance Committee

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[34] *Id*.
[35] *Id*. at 509-10.
[36] Donald J. Melvin, "The Federal Income Tax Exemption of Credit Unions: A Historical, Competitive and Legal Analysis" Page 5, (Defense Credit Union Council, June 1981).

rejected the Administration's proposal to eliminate the credit union tax exemption. Treasury's suggested language was stricken from the bill which eventually became the Revenue Act of 1978.[37] The Carter Administration proposal and the IRS' challenges to the credit union tax exemption are two examples of a series of unsuccessful attempts to revoke credit union's tax-exempt status.

E. *The Deficit Reduction Act of 1984 and the Recapitalization of the National Credit Union Share Insurance Fund*

In the early 1980s, arguments were renewed that Congress should eliminate the tax exemption for state- and federally chartered credit unions. Congress again rejected this proposal. Instead, as part of the Deficit Reduction Act of 1984, Congress approved the recapitalization of the NCUSIF, the fund which insures the funds of credit union members, by requiring that each insured credit union must deposit one percent of its insured shares in the NCUSIF.[38]

Under the 1984 statute, state- and federally chartered credit unions have self-funded their own federal deposit insurance fund on a pay-as-you-go basis. This recapitalization was accomplished at no cost to taxpayers. In fact, the deposits by credit unions required by that law resulted in a one-time, dollar-for-dollar reduction of $780 million in the federal deficit.[39] On an ongoing basis, state- and federally chartered credit unions have continued to deposit funds as needed in the NCUSIF to ensure that the Fund's equity ratio is maintained at approximately 1.3 percent of members' insured funds. The law provides that, upon failure of a credit union, all the moneys in the Fund must be exhausted first before taxpayer funds can be used to pay insured deposits.[40] Thus, taxpayer funds would be spent only after all the moneys deposited by credit unions over the years have been committed. As with FDIC insurance, credit union accounts are insured up to $100,000. [41] In its history, credit union losses have never had an impact on taxpayers.

V. Passage of the Credit Union Membership Access Act

Previous attempts made to persuade Congress to abolish the credit union tax exemption were unsuccessful and by the mid-1990s, a litigation strategy was adopted to place limits on a credit union's ability to offer financial services to their members.

Historically, each credit union had one common bond between its members usually in the form of a common place of employment, membership in an organization or specified geographic boundaries. Starting in the 1970s, as a result of both socio-economic developments and changes in financial markets, the NCUA expanded its interpretation of the persons who are eligible to join federally-chartered credit unions.

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[37] Pub. L. No. 95-600, (92 Stat. 2763, Nov. 6, 1978).
[38] Pub. L. No. 98-369, (98 Stat. 1203, July 18, 1984).
[39] National Credit Union Administration, 1995 Annual Report (1995).
[40] The NCUSIF is backed by the full faith and credit of the United States Government.
[41] In certain circumstances, however, depending upon how a member structures account ownership interests and rights with other parties, the coverage level may exceed $100,000. Effective April 1, 2006, insured credit union retirement accounts, such as individual retirement accounts (IRAs) and Keough accounts, which previously were insured up to $100,000, are now insured up to $250,000. Under the new rules, traditional and Roth IRAs at one credit union are insured in aggregate up to $250,000. Keough accounts are insured separately, but in the aggregate up to $250,000.

In 1982, responding to dramatic changes in the historic industrial base of the nation, NCUA issued an Interpretative Ruling and Policy Statement, IRPS 82-3 (the 1982 Ruling) allowing the creation of multiple common bond federally-chartered credit unions. The banking industry challenged the NCUA's interpretation of the common bond requirement in court. In *NCUA v. First National Bank & Trust Co*., 522 U.S. 479 (1998), the Supreme Court held by a vote of 5 to 4 that the NCUA's interpretation of the common bond requirement for federal credit unions was unlawful.

Congress responded quickly to court's decision. In October 1998, Congress enacted CUMAA which created several new categories of federally chartered institutions, including single common-bond, multiple common-bond and community credit unions.[42]

CUMAA reflects Congress' conclusion that it was important that credit unions should continue to carry out their traditional role of serving individuals of modest means.[43] The preamble of the bill states that Congress finds the following:

> (4) Credit Unions, unlike many other participants in the financial services market, are exempt from Federal and most state taxes because they are member-owned, democratically operated, non-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers especially persons of modest means.[44]

The modest means language in Finding 4 may be viewed as a ratification by Congress of the belief that credit unions, state- and federally chartered, warrant and should retain their tax-exempt status.

The language in CUMAA does not appear in any state credit union statute as a chartering criterion. The foundation of the state credit union laws is accurately represented in the Congressional findings about the significance of volunteer boards of directors and committees, democratic control and absence of personal gain for entrepreneurial risk – that is, that all members participate equally in a credit union without regard to the size of their shareholdings.

VI. NASCUS Survey of the State Credit Union System

The NASCUS Survey provides insight into the strong state-chartered credit union system and reflects the continuing vitality of more than one credit union charter option.

The NASCUS Survey illustrates the attraction of a cooperative form of financial institution to those eligible for membership that seems not to wane as the structure of the American economy changes. The statutory and regulatory framework of the state-chartered credit union system provides the basis for differentiation and innovation among financial service providers. State-chartered credit unions continue to innovate to respond to the changes in our economy by introducing new services and products designed to meet their member's needs. Finally, as

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[42] Pub. L. No. 105-219, 112 Stat. 913 (August 7, 1998).
[43] S. Rep. No. 105-472, at 22 (1998).
[44] Pub. L. No. 105-219, § 1, 112 Stat. 913, codified at 12 U.S.C. § 1759(b).

demonstrated by the NASCUS Survey, state regulators are committed to ensuring the credit union dual chartering system remains safe, sound, relevant and in concert with the underlying basis of the tax-exempt status of the state-chartered credit unions that they regulate.

Section 2—State-Chartered Credit Union Membership and Service

To respond to the questions from former Representative Thomas, NASCUS worked with all 47 state credit union regulators[45] to create a questionnaire that was sent to a representative sample of 502 state-chartered credit unions (SCU).[46] Of the 502 entities included in the representative sample, 469 completed the questionnaire; 416 credit unions also participated in geo-coding[47] member information with income levels. Using various processes, NASCUS analyzed more than 28 million account records. NASCUS confirmed that these records represented accounts held by more than 14 million members of state-chartered credit unions.

In many areas, the data generated by the NASCUS Survey had never previously been collected in a systematic manner. The survey methodology provided statistically valid results for the state-chartered credit union system generally, and for state-chartered credit unions grouped by asset size. The data also was useful in preparing the empirically-based analyses of different state-chartered credit union charter types, which provides a more in-depth understanding of the state-chartered credit union system.

The collection of income data for members of state-chartered credit unions was a challenging project and required a substantial period of time to plan and execute. There were no pre-existing databases concerning member income data. State-chartered credit unions generally do not collect actual member income data, except in underwriting loans.[48] To make estimates about state-chartered credit union member income, member addresses were compared with U.S. Census Bureau data.

Rather than actual member income, the NASCUS Survey also used the Census 2000 median family income (MFI)[49] for each member's respective census tract[50] to estimate membership income. To achieve a more complete picture, the NASCUS survey also compared the member's estimated income to median family income of the local Metropolitan Statistical Area (MSA). The Government Accountability Office (GAO) requested that NASCUS provide relative comparability with the snapshot of the federal credit union system presented in the National

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[45] Forty-seven states have adopted laws governing the chartering and operation of state-chartered credit unions. As noted, the District of Columbia and three states do not have credit union enabling legislation.
[46] See Appendix A for additional information on the methodology used.
[47] Geocoding applies Metropolitan Statistical Area (MSA), State, County, and Census Tract codes for street addresses.
[48] Member income data from loan underwriting was not collected or reviewed as part of the NASCUS Survey.
[49] According to the U.S. Census Bureau, a family is a group of two people or more related by birth, marriage, or adoption and residing together. The national median family income for the Census 2000 was $50,732. Census 2000 data on median family income also are available and vary by metropolitan statistical area. The data in this report is based on Census 2000 figures with no inflation adjustment.
[50] Census tracts are small, relatively permanent statistical subdivisions of a county. Census tracts are designed to be relatively homogeneous units with respect to population characteristics, economic status and living conditions. Census tracts average about 4,000 inhabitants.

Credit Union Administration's (NCUA) Member Services Assessment Pilot.[51] To that end, similar presentation techniques were used in this report.

Membership of State-Chartered Credit Unions

NASCUS requested that each state credit union regulator provide information on the number of state-chartered credit unions in its jurisdiction, their total assets and membership. While aggregate data by state exists for federally-insured credit unions, no single source of federal information captures the data for all state-chartered credit unions.[52]

Chart 1

Number of SCUs	Total Assets	Members
3,424	$323,284,653,823	38,625,623

State	# SCUs	Total Assets	Members		State	# SCUs	Total Assets	Members
AK	1	$500,747,553	51,336		MT	11	$1,178,202,267	119,671
AL	71	$5,034,916,943	676,460		NC	77	$15,919,320,275	1,841,480
AZ	27	$4,157,187,729	536,551		ND	34	$1,267,428,236	149,781
CA	206	$66,647,288,739	5,864,392		NE	23	$558,166,977	84,440
CO	67	$7,294,786,954	889,282		NH	20	$3,346,113,400	360,009
CT	41	$2,537,771,319	289,812		NJ	19	$465,252,335	68,590
FL	96	$17,439,583,349	2,038,538		NM	25	$1,221,309,134	190,816
GA	67	$7,067,067,698	753,884		NV	12	$3,144,905,925	295,479
HI	3	$204,676,233	26,412		NY	27	$3,821,488,448	560,031
IA	150	$5,467,681,066	857,858		OH	200	$8,980,086,504	1,526,747
ID	40	$1,475,492,155	231,267		OK	26	$2,885,331,456	398,669
IL	351	$19,897,820,387	2,297,912		OR	21	$8,682,192,897	880,407
IN	46	$6,491,441,233	809,953		PA	71	$6,012,162,160	770,967
KS	91	$2,816,360,048	491,229		RI	11	$3,365,272,391	305,104
KY	31	$1,298,223,114	216,386		SC	18	$800,304,234	163,713
LA	53	$1,041,198,890	169,741		TN	120	$5,795,963,474	766,199
MA	101	$11,545,526,238	1,148,465		TX	223	$18,003,729,822	2,684,549
MD	10	$3,089,213,781	412,014		UT	61	$1,789,165,221	280,262
ME	12	$1,036,255,535	138,538		VA	59	$4,309,033,931	580,705
MI	238	$19,490,440,619	2,715,415		VT	24	$682,220,366	124,622
MN	100	$3,575,402,310	518,078		WA	79	$19,148,414,781	1,940,699
MO	152	$7,901,080,014	1,205,923		WI	273	$15,193,564,777	2,046,760
MS	30	$603,379,557	117,049		WV	6	$101,483,348	29,428

Data as of March 31, 2006.

Individual state laws and implementing rules determine both membership eligibility for state-chartered credit unions and their powers. Credit union statutes in the majority of states identify

[51] The NCUA Member Services Assessment Pilot (MSAP), published in November 2006, is a report of federal credit union (FCU) service to members including information on the income distribution of FCU members, the types of services FCUs provide to their members and the transparency of FCU executive compensation.

[52] State-chartered credit unions may choose non-federal insurance in a number of states. NCUA does not capture detailed data on those credit unions. The data was obtained by NASCUS after consulting with each state regulatory authority.

thrift, common bond and mutual benefit to members as part of a credit union's purpose. Each application to form a credit union is evaluated by the state-chartering authority as to whether the proposed institution has the requisite common bond to meet state legal requirements and to provide the prospect of long-term economic viability.

State-Chartered Credit Union Survey Results – Member Income

To create a picture of state-chartered credit union member income and facilitate comparison with federal credit union data, the NASCUS data is presented in terms of the median in the applicable MSA.[53]

Chart 2

Share Account Distribution as a Percentage of Median Family Income (MFI) in the Member's MSA		
Percentage of MSA MFI	**Distribution Percentage**	**Cumulative Distribution Percentage**
0 – 10%	0.00%	0.00%
10 – 20%	0.05%	0.05%
20 – 30%	0.19%	0.24%
30 – 40%	0.56%	0.80%
40 – 50%	1.74%	2.54%
50 – 60%	3.05%	5.59%
60 – 70%	5.31%	10.90%
70 – 80%	8.39%	19.29%
80 – 90%	12.42%	31.71%
90 – 100%	14.95%	46.66%
100 – 110%	14.29%	60.95%
110 – 120%	12.28%	73.23%
120 – 130%	8.77%	82.00%
130 – 140%	5.36%	87.36%
140 – 150%	3.91%	91.27%
150 – 160%	2.81%	94.08%
160 – 170%	1.99%	96.06%
170 – 180%	1.13%	97.19%
180 – 190%	0.97%	98.16%
190 – 200%	0.55%	98.71%
> 200%	1.29%	100.00%

[53] NASCUS considered using other approaches to the presentation of the data. The GAO requested that NASCUS provide relative comparability with the snapshot of the federal credit union system presented in NCUA's MSAP. To that end, similar presentation techniques were used in this report. Specifically, NASCUS decided that using medians allowed for a better description of the general tendency in the data. Use of averages, for example, may have skewed the results, as the data analyzed were not symmetrically distributed and were characterized by extreme values. Medians are also commonly used by other governmental agencies, such as the U.S. Census Bureau, in their income analyses.

One hundred percent of the median family income for an MSA is hereafter referred to as the median. Chart 2 shows that in the average state-chartered credit union, 47 percent of the members earn less than the median and 53 percent earn more than the median.

In Chart 2, state-chartered credit union member income distribution is displayed in ranges of ten percent of the median family income for the applicable MSA, as set forth in the first column. The second column sets forth the percent of state-chartered credit union member share accounts within these income ranges. The third column represents the cumulative percent of member share accounts within these income ranges. For example, column two shows that approximately 14 percent of state-chartered credit union members earn between 100 and 110 percent of the median family income for their MSA. Column three shows that approximately 61 percent of state-chartered credit union members cumulatively earn less than 110 percent of the median family income for their MSA.

State-Chartered Credit Union Member Income Compared to the United States Population

In order to compare the NASCUS Survey results to data for the United States population generally, the MSA median family income data was converted to income dollars. Again, to build a picture of the state-chartered credit union system, the NASCUS Survey adopted the methodology used by the U.S. Census Bureau, which analyzes the income distribution of the United States population in 16 specific income ranges.

Chart 3 shows that 85 percent of members in the NASCUS representative sample earn less than $100,000 annually, which is the same as that of the United States population. Most state-chartered credit union members (approximately 67 percent) earn between $30,000 and $100,000 annually.

The first column in Chart 3 represents the income ranges used for comparison between state-chartered credit union member data and U.S. population data. The second column sets forth the U.S. Census data. The third column shows the percent of state-chartered credit union's membership in the NASCUS representative sample within that particular stated income range. The final column represents the aggregate cumulative distribution of the average state-chartered credit union's membership in the NASCUS representative sample within these income ranges. For example, approximately six percent of both state-chartered credit union members and the U.S. population earn $30,000 to $35,000 annually.

As noted, state-chartered credit unions were formed to provide financial services on a cooperative basis to groups joined by common bonds. Eligibility for membership is not defined by a person's income. For convenience, Chart 4 sets forth the cumulative percent of membership earning less than three stated annual income levels.

Chart 3

Share Account Distribution by Income Dollars Compared to U.S. Census 2000 Data			
Income Dollars ($)	**Census (%)**	**SCU (%)**	**SCU Cumulative Percentage**
Less than $10,000	5.80%	1.46%	1.46%
$10,000 to 14,999	4.30%	2.68%	4.14%
$15,000 to 19,999	5.00%	3.77%	7.91%
$20,000 to 24,999	5.70%	4.32%	12.23%
$25,000 to 29,999	5.90%	5.35%	17.58%
$30,000 to 34,999	6.10%	5.89%	23.46%
$35,000 to 39,999	5.90%	6.60%	30.06%
$40,000 to 44,999	5.80%	6.67%	36.73%
$45,000 to 49,999	5.40%	7.07%	43.80%
$50,000 to 59,999	10.10%	12.19%	55.99%
$60,000 to 74,999	12.20%	14.73%	70.72%
$75,000 to 99,999	12.50%	13.84%	84.56%
$100,000 to 124,999	6.50%	6.99%	91.54%
$125,000 to 149,999	6.50%	3.33%	94.88%
$150,000 to 199,999	2.70%	3.17%	98.04%
$200,000 or more	2.90%	1.96%	100.00%

Chart 4

Membership Income Distribution (Cumulative Percentage)	
Median Family Income < $60,000	55.99%
Median Family Income < $75,000	70.72%
Median Family Income <$100,000	84.56%

In the average state-chartered credit union represented in the NASCUS sample, about 56 percent of the members earn less than $60,000 annually. This level is close to the annual income of the United States population in general. According to the Census 2000 data, 60 percent of the United States population earns less than $60,000 annually.

Actions Benefiting Low- and Moderate-Income Members

The NASCUS Survey gathered information about whether state-chartered credit unions have made specific services available to members of low- and moderate-income, including the type and extent of services provided to these members.

State credit union chartering statutes do not mention service to any particular income category. As noted, credit unions are organized according to a different criterion, to provide products and services to persons who share a common bond at a low cost. Only some states have a charter type or category that is the equivalent of the federal credit union charter designation for "low-income" or that allows addition of fields of membership in areas designated as "underserved."

The NASCUS Survey asked participating credit unions questions regarding that institution's involvement in its local community or field of membership. The responses illustrate the commitment of state-chartered credit unions to financial literacy and low-cost pricing of services and products.

In the credit union system, the basic transaction account relationship is known as the "share draft account" commonly referred to as a checking account in depository institutions. As indicated in Chart 5, nearly 89 percent of state-chartered credit unions allow members low-cost access to share draft accounts by offering free checking and debit card access. About 66 percent of state-chartered credit unions have no minimum balance requirement for their share draft accounts.

Chart 5

Analysis of Checking Types	
Type of Account	**Percentage of Credit Unions**
Free Checking	88.72%
No Minimum Balance	66.30%
Access to Debit Cards	88.49%

A number of credit unions, predominately smaller ones, do not offer share draft accounts. Chart 6 shows that state-chartered credit unions that do offer these accounts maintain a low minimum balance requirement.

Chart 6

Minimum Share Draft Balance		
Share Draft Balance Range	**Percentage of Credit Unions**	**Number of Credit Unions**
$0 - $25	75.40%	391
$25.01 - $50	1.21%	5
$50.01 - $75	0%	0
$75.01 - $100	0.56%	4
Over $100	1.26%	4
No Share Draft Services	21.57%	65

Chart 7 shows that a considerable number of state-chartered credit unions that have ATMs provide access at no cost. This suggests that ATM services are not a profit center for 51 percent of credit unions.[54] The other 49 percent indicate that they have some fee structure for consumers who use their ATMs.

Chart 7

Analysis of ATM Services	
Type of Service	**Percentage of Credit Unions**
No ATM Surcharging	51.08%
ATM Surcharge	48.92%

One of the fundamental elements of the cooperative credit union movement is the ability and willingness to share costs among participants. This issue is explored in greater detail starting on page 33 in the discussion of Credit Union Service Organizations (CUSOs). Chart 8 illustrates the degree to which members of state-chartered credit unions have access to branch and ATM services provided through shared branching and ATM networks.

Chart 8

Analysis of Shared Services	
Type of Service	**Percentage of Credit Unions**
Shared Branches	61.51%
Shared ATM Services	82.93%

State-chartered credit unions reflect their cooperative nature in the types of loans and loan products provided. Ninety-six percent of the state-chartered credit unions responding to the NASCUS Survey offer members small loans of less than $1,000 on an unsecured basis. Those loans are subject to state limits on state-chartered credit union interest rates and often satisfy the short-term needs of members for cash. See Chart 9 for amounts of unsecured loans.

[54] This does not mean, however, that the service is entirely free. While the state-chartered credit union member is not assessed a charge at the ATM, a state-chartered credit union providing "no-surcharge" ATMs generally would have elected to absorb the ATM system charges as an overhead cost.

Chart 9

Smallest Unsecured Loan Amount		
Loan Amount Range	**Percentage of Credit Unions**	**Number of Credit Unions**
$0 - $500	81.51%	396
$500 - $1,000	14.81%	59
$1,000 - $1,500	2.21%	9
$1,500 - $2,000	0.81%	3
Over $2,000	0.67%	2

The NASCUS Survey results also show that more than 75 percent of state-chartered credit unions offer members secured loans in amounts of less than $1,000 (see Chart 10). The responses did not set forth the purpose for which these small secured loans may be made or the type of collateral that is required.[55] It would appear that the loans are made to meet the short-term cash needs of state-chartered credit union members or to finance the purchase of essential household goods and services.

Chart 10

Smallest Secured Loan Amount		
Loan Amount Range	**Percentage of Credit Unions**	**Number of Credit Unions**
$0 - 1,000	75.38%	375
$1,000 - 2,000	11.85%	47
$2,000 - 3,000	5.89%	21
$3,000 - 4,000	2.73%	12
Over $4,000	4.15%	14

In addition to determining the types of low-cost loans and share account services that state-chartered credit unions provide members, the NASCUS Survey sought to identify the types of consumer financial education and community involvement activities in which state-chartered credit unions participate. The responses show that across all asset size and charter types, state-chartered credit unions are involved in financial literacy and counseling of members.

Chart 11 shows that nearly half of the participants in the NASCUS Survey maintain formal programs to meet these member needs. Given their size and close knowledge of state-chartered

[55] A regulation adopted by the Federal Trade Commission prohibits state-chartered credit unions from obtaining non-purchase money security interest in household goods. 16 C.F.R. Part 444 (2007).

credit union members, many of the smaller employer and community based credit unions report providing financial counseling without designating it as a formal program.

Chart 11

Other Credit Union Services	
Service Description	**Percentage of Credit Unions**
Financial Literacy & Education Program	35.06%
Shared Services	39.51%
Volunteer Income Tax Assistance (VITA)	2.95%
Brochures in Other Languages	14.89%
Bilingual Employees	33.27%
Financial Counseling (Debt & Investment)	42.08%
Student Run Branches	6.57%

State-chartered credit union community involvement does not end with providing financial education and support to their members. As demonstrated by Chart 12, many state-chartered credit unions in the NASCUS Survey provide education scholarships to their members and family members, make charitable contributions and collect for charitable causes.

Chart 12

Community Involvement Activity	Percentage of Credit Unions
Credit Union Assistance[56]	10.49%
Charity Donations	70.10%
Charity Collections	53.78%
Scholarships	32.49%
Loans for Employment	64.91%
Small/Select Employee Groups	59.16%

Many of the ways in which state-chartered credit unions provide services to persons of low- and moderate-income cannot be quantified in response to a questionnaire. Accordingly, the state regulatory authorities also asked state-chartered credit unions not participating in the NASCUS Survey to respond to the Committee's request for examples of the ways they used their tax-exempt status to benefit low- and moderate-income members. The results, reflected in Appendix B, are not empirical data but nonetheless help illustrate the factors that drive member-owned, democratically controlled financial institutions to respond to member needs.

[56] Credit union assistance includes support to low-income or community development credit unions.

Section 3—Executive Compensation

NASCUS was also asked to obtain executive salary information in those states where a Group 990 is filed with the IRS. The NASCUS Survey collected compensation and benefit information[57] for senior executive staff, including the chief executive officer (CEO), chief financial officer (CFO) and chief operating officer (COO) where the credit unions participate in an IRS Group 990 filing.

Many individual state-chartered credit unions file the IRS Form 990.[58] These forms are available to the public and set forth executive compensation information. By custom and IRS practice, however, a Group 990 is filed on behalf of state-chartered credit unions in a number of states. As of 2005, 14 state regulatory agencies filed the Group 990 on behalf of their state-chartered credit unions.[59] In these states, no database exists on executive compensation for officers of specific institutions. Not all credit unions file a Group 990 with the IRS. The responding credit unions represent 63 percent of the total of credit unions participating in the NASCUS Survey.

State-chartered credit unions participating in the filing of an IRS Group 990 were asked to provide responses that could be identified by their type of charter and asset size. In all, 296 state-chartered credit unions participated in this portion of the NASCUS Survey. [60]

Several factors should be noted concerning the collection of data concerning executive compensation. State-chartered credit unions are managed by their board of directors who are elected by and from the membership. The board is responsible for directing and controlling the affairs of the credit union and establishing policies and procedures for the conduct of its affairs. Most directors of state-chartered credit unions serve as volunteers. Several state laws, however, do permit directors to be compensated.

The board's most important task is to select and retain competent management to carry out the policies and procedures it has established and to monitor credit union performance. State-chartered credit unions do not always staff all three senior executive officer positions. In some cases, one executive officer is responsible for more than one position. In other cases, senior executive officers are paid by the credit union's sponsor, which introduced another variable into the data collection process.

Credit unions cannot issue stock, so therefore credit union executives are not eligible for stock options as part of their compensation packages.

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[57] Compensation and benefit information includes salary, fees, bonuses, severance payments as well as current year payments of prior year's reportable compensation.

[58] IRS Form 990 is an informational filing required by law for the majority of tax-exempt organizations. Among other things, IRS Form 990 requires submission of information regarding the compensation and benefits paid to a tax-exempt organization's current officers, directors, trustees and key employees.

[59] *NASCUS Profile of Credit Union Supervisory and State Regulatory Structures, 2005-2006.* As of 2005, the states filing the Group 990 on behalf of their state-chartered credit unions included: Alabama, Arizona, California, Colorado, Connecticut, Idaho, Iowa, Michigan, Missouri, New Jersey, New York, Texas, Virginia and Wisconsin.

[60] State regulators do not currently collect or aggregate executive compensation information for each state credit union. The focus of their information collection and analysis is on the safety and soundness of the state system and individual credit unions in the system.

Chief Executive Officer Compensation[61]

The NASCUS Survey indicates that the 296 responding state-chartered credit unions have a median CEO compensation range of between $50,000 and $100,000 and an average CEO compensation of $92,073.

The columns in Chart 13 represent the percent of state-chartered credit unions, on average, with CEO compensation in specified income ranges that participate in an IRS Group 990. As shown, CEO compensation in 2005 was $50,000 or less in 27 percent of state-chartered credit unions, and $100,000 or less in 62 percent of state-chartered credit unions.

Chart 13

CEO Compensation by Income Ranges[62]

Income Range	Number of SCUs	Weighted Percentage
0 to $25,000	29	11.46%
$25,000 to $50,000	52	15.01%
$50,000 - $100,000	104	21.95%
$100,000 - $150,000	49	7.98%
$150,000 - $200,000	37	4.38%
Over $200,000	25	2.71
Totals	**296**	**63.49%**[63]

Chart 14 sets forth the average and median CEO compensation by state-chartered credit union asset size. The chart groups state-chartered credit unions in the NASCUS Survey by their asset range and the number they represent of the total state-chartered credit unions in the NASCUS Survey. As might be expected, as state-chartered credit union assets increase, CEO compensation increases.

As shown in Chart 14, the average CEO compensation in 2005 for the 31 responding state-chartered credit unions with assets of more than $500 million that participated in an IRS Group Form 990 was $197,621.[64] Average CEO compensation for the 90 responding state-chartered credit unions with assets less than $10 million that participated in an IRS Group Form 990 was $48,856.[65]

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[61] Out of 296 participating in an IRS Group 990 filing, all provided CEO compensation data.
[62] Results do not sum to 100 percent because not all credit unions file an IRS Group 990.
[63] Not all credit unions file a Group 990 with the IRS. The responding credit unions represent 63 percent of the total of credit unions participating in the NASCUS Survey.
[64] These credit unions represent 10.47 percent of state-chartered credit unions who participated in IRS Group 990 filings in the NASCUS Survey.
[65] These credit unions represent 30.4 percent of state-chartered credit unions who participated in IRS Group 990 filings in the NASCUS Survey.

Chart 14

2005 CEO Compensation				
Asset Size (in millions)	**Mean (Average) Compensation**	**Median Compensation Range**	**# Which Filed an IRS Group 990**	**# Reporting CEO Compensation**
$0 - 10	$ 48,855.94	$25,000 - 50,000	90	90
$10 - 50	$ 93,335.95	$50,000 - 100,000	88	88
$50 - 100	$ 135,281.01	$100,000 - 150,000	35	35
$100 - 500	$ 173,213.80	$150,000 - 200,000	52	52
> $500	$ 197,621.09	Over $200,000	31	31
Overall	**$ 92,072.99**	**$50,000 - 100,000**	**296**	**296**

Chief Financial Officer Compensation

For those state-chartered credit unions that participate in an IRS Group 990 included in the NASCUS Survey, approximately 41.6 percent have a staffed CFO position.[66] In 2005, the median CFO compensation for these state-chartered credit unions was between $50,000 and $100,000, and the average CFO compensation was $101,441 (Chart 15).

Chart 15 reflects that approximately 64.2 percent of responding state-chartered credit unions with staffed CFO positions had total CFO compensation for 2005 of less than $100,000, while 35.8 percent had total CFO compensation for 2005 of $100,000 or more. The columns in Chart 15 represent the number of state-chartered credit unions with CFO compensation in certain income ranges.

Chart 16 contains the average and median CFO compensation by the asset-size of responding state-chartered credit unions that participate in an IRS Group Form 990. The Chart also includes the number of state-chartered credit unions in the NASCUS Survey, grouped within their asset range, and the number reporting CFO compensation.

Chart 16 also presents a picture of the limited staffing of the CFO position in smaller credit unions. For example, in responding state-chartered credit unions with less than $50 million in assets only 12.92 percent have a staffed CFO position. Because of the diffuse nature of the state-chartered credit union system, the NASCUS Survey could not identify whether the reason for the absence of a CFO was a matter of position title or a business determination that the role was adequately addressed by other officials.

[66] Only 123 of 296 state-chartered credit unions in the NASCUS Survey reported that income data had a staffed CFO position. The data from two credit unions was incomplete on this question.

Chart 15

CFO Compensation by Income Ranges		
Income Range	Number of SCUs	Weighted Percentage
$0 to 25,000	2	0.68%
$25,000 to 50,000	11	3.22%
$50,000 to 100,000	66	10.38%
$100,000 to 150,000	28	3.34%
Over $150,000	16	1.45%
Do not have a CFO	173	44.40%
Totals	**296**	**63.48%**[67]

Chart 16

2005 CFO Compensation				
Asset Size (in millions)	Mean (Average) Compensation	Median Compensation Range	# Which Filed an IRS Group 990	# Reporting CFO Compensation
$0 - 10	$ 43,824.29	$25,000 - 50,000	90	4
$10 - 50	$ 72,303.82	$50,000 - 100,000	88	19
$50 - 100	$ 100,000.00	$50,000 - 100,000	35	23
$100 - 500	$ 116,924.90	$50,000 - 100,000	52	46
> $500	$ 142,507.61	$100,000 - 150,000	31	31
Overall	**$ 101,441.06**	**$50,000 - 100,000**	**296**	**123**

Chief Operating Officer Compensation

On average, approximately 34 percent of responding state-chartered credit unions in the NASCUS Survey (100 of 295) have a staffed COO position. In those credit unions, the median COO compensation in 2005 was between $50,000 and $100,000 and the average COO compensation was $100,058.

The columns in Chart 17 represent the number of state-chartered credit unions with COO compensation in certain income ranges. As shown, approximately 66 percent of responding state-chartered credit unions with a staffed COO position had COO compensation of $100,000 or less in 2005, while 34 percent of state-chartered credit unions surveyed reported total COO compensation of $100,000 or more.

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[67] The data presented is from the 63 percent of state-chartered credit unions that participated in an IRS Group 990 that were included in the NASCUS Survey. Not all credit unions participate in a Group 990 with IRS.

Chart 17

COO Compensation by Income Ranges[68]		
Income Range	**Number of SCUs**	**Weighted Percentage[69]**
$0 to 25,000	1	0.33%
$25,000 to 50,000	16	3.42%
$50,000 to 100,000	49	8.60%
$100,000 to 150,000	18	2.04%
Over 150,000	16	1.44%
Do not have a COO	195	47.42%
Totals	295	63.25%

Chart 18 contains the average and median COO compensation by asset size of responding state-chartered credit unions. Chart 18 also shows the number of responding state-chartered credit unions in each asset range. As illustrated, average and median COO compensation increases with the state-chartered credit unions asset size. Chart 18 also demonstrates the limited staffing of the COO position in smaller credit unions. Even for institutions with more than $500 million in assets, only 81 percent report a staffed COO position.

Chart 18

2005 COO Compensation				
Asset Size (in millions)	**Mean (Average) Compensation**	**Median Compensation Range**	**# Which filed a IRS Group 990**	**# Reporting COO Compensation**
$0 - 10	$ 50,000.00	$25,000 - 50,000	90	2
$10 - 50	$ 72,849.89	$50,000 - 75,000	88	22
$50 - 100	$ 89,714.22	$50,000 - 100,000	35	16
$100 - 500	$ 121,208.81	$50,000 - 100,000	52	36
> $500	$ 140,272.59	Over $150,000	31	25
Overall	100,058.07	$50,000 - 100,000	296	101

As shown, in 2005, average COO compensation for the 25 responding state-chartered credit unions with assets of more than $500 million was $140,273. The average COO compensation for the two responding state-chartered credit unions[70] with assets of less than $10 million was $50,000.

[68] The data presented is from the 63 percent of state-chartered credit unions that participated in an IRS Group 990 that were included in the NASCUS Survey. Not all credit unions participate in a Group 990 with IRS.
[69] Invalid data was received from one reporting credit union.
[70] This represents two percent of the 90 state-chartered credit unions responding to executive compensation questions in the NASCUS Survey.

Section 4—Unrelated Business Income Tax – UBIT

As the Committee is aware, in April 2007 the Internal Revenue Service (IRS) published a number of Technical Advice Memoranda (TAMs) redefining its interpretation of the scope and nature of unrelated business income tax (UBIT) obligations of state-chartered credit unions. The advice had been sought as long as 10 years ago, to provide guidance to state-chartered credit unions on their obligations under the federal tax laws.

The NASCUS Survey included a request for information on payment of UBIT by the state-chartered credit unions selected to participate in the survey. The results, however, did not produce sufficient data from which statistically valid conclusions could be drawn.

Section 5—Credit Union Service Organizations

The NASCUS Survey, responding to the questions presented, asked state regulators to inquire about state-chartered credit unions activity with Credit Union Service Organizations (CUSOs). NASCUS was asked about the amount state-chartered credit unions invested in CUSOs, the services they receive from CUSOs and the annual amount of income derived from CUSO investments. Information was also requested about which services are most used and the percentage of use by both members and non-members. This section is dedicated to addressing these questions.

CUSOs are organizations that are wholly- or multi-owned by credit unions to provide additional services to the credit union or its members. They can be established to serve specific back-office needs for a credit union or they can provide services to members directly. CUSOs spread the cost of services among participants. Higher participation in CUSOs results in lower costs to credit unions and their members.

CUSO ownership may not be apparent to a credit union member using its services. Members only see that deposits are properly posted or that checks clear their accounts. CUSOs can provide benefits including expanded access through shared branching, surcharge-free ATMs and lower mortgage closing costs.

The representative sampling technique used in the NASCUS Survey did not seek to compile data on CUSO investment on a state-by-state basis. The purpose of this section is to create a summary of state-chartered credit unions across institutions of various asset sizes and to establish general conclusions about the entire state credit union system. The survey does not study CUSO activity in any particular state.

State-Chartered Credit Union Investments in CUSOs

The NASCUS Survey addressed the questions presented by asking about the amount that state-chartered credit unions invest in CUSOs. As reflected in Chart 19, the data collected indicates that state-chartered credit unions of all assets sizes invest in CUSOs. The data also shows that larger state-chartered credit unions were far more likely to have made CUSO investments. Nearly 80 percent of those state-chartered credit unions with more than $500 million in assets reported at least one CUSO investment. Approximately 25 percent of state-chartered credit unions with less than $50 million in assets also reported CUSO investments.

Chart 19

Percentage of Credit Unions Reporting CUSO Investments	
Asset Size (in millions)	**Percentage**
$0 - 10	4.66%
$10 - 50	20.84%
$50 - 100	44.99%
$100 - 500	68.35%
> $500	79.91%

The data in Chart 20 shows that state-chartered credit unions increase the dollar amount of investment in CUSOs as the asset size of the investing credit union increases. It should be noted, however, that a state-chartered credit union may obtain CUSO services or services from a CUSO for its members without making an investment. The NASCUS Survey did not attempt to isolate the use of CUSO services on a purely contractual basis, without an investment.

Chart 20

Amount of CUSO Investments by Credit Unions				
Asset Size (in millions)	**Less than $10,000**	**$10,000 - 50,000**	**$50,000 -100,000**	**Over $100,000**
$0 - 10	1.74%	2.61%	0.00%	0.31%
$10 - 50	9.06%	6.03%	2.98%	2.76%
$50 - 100	6.42%	24.33%	8.88%	5.36%
$100 - 500	10.34%	22.78%	7.08%	28.17%
> $ 500	11.19%	12.94%	4.90%	50.88%

Services Provided by CUSOs

State law or interpretation by a state credit union regulator determines the type of CUSO investments permissible by state-chartered credit unions. There is no single template for what states consider a permissible CUSO investment. The NASCUS Survey provides a summary of services provided by CUSOs to state-chartered credit unions.

Chart 21 demonstrates that state-chartered credit unions form CUSOs to provide essential services to facilitate the daily operations of the credit unions and reduce the cost of direct services to members. For example, approximately 67 percent of smaller credit unions (those with less than $100 million in assets) use their CUSO investments to provide back office services. Even among large state-chartered credit unions (those above $500 million) a substantial number, nearly 54 percent, reported using CUSOs to provide back-office services.

Chart 21

Services Provided to Credit Unions by CUSOs					
Type of Services	***Asset Size in Millions***				
Back Office Services	**$0 - 10**	**$10 - 50**	**$50 - 100**	**$100 - 500**	**> $500**
Mortgage Processing	1.53%	1.95%	3.80%	9.51%	5.92%
EDP Processing	0.66%	0.72%	2.57%	4.14%	3.20%
Shared Branching	0.51%	8.90%	12.61%	7.20%	11.28%
Item Processing	1.19%	1.72%	2.55%	3.16%	4.22%
Other /ATM	1.19%	6.50%	15.92%	28.68%	22.64%
Credit Cards	0.00%	1.27%	3.58%	12.56%	6.67%
Back Office Services Total	5.08%	21.07%	41.03%	65.24%	53.93%
Other Services					
Insurance Services	0.00%	0.11%	0.74%	1.47%	14.49%
Investment Services	0.00%	1.26%	0.00%	6.76%	8.59%
Auto Buying, Leasing, Indirect Lending	2.24%	1.68%	2.68%	1.44%	6.80%
Trust Services	0.00%	0.00%	0.00%	0.28%	3.84%
Tax Preparation	0.00%	0.00%	0.00%	0.11%	1.32%
Travel	0.00%	0.00%	0.00%	0.00%	1.12%
Member Business Lending	0.31%	1.61%	4.65%	4.33%	15.98%
*Other Services Total**	2.54%	4.65%	8.07%	14.39%	52.14%

**Totals do not add up to 100 percent because a CUSO may offer more than one service.*

Income Derived from CUSO Activity

To better gauge the purpose and use of CUSOs by state-chartered credit unions, the NASCUS Survey also examined the amount of net income generated by CUSO activity. Chart 22 shows that among state-chartered credit unions with less than $50 million in assets, only 3.25 percent of those reporting CUSO investments received more than $10,000 in annual net income. Approximately 39 percent of large state-chartered credit unions with CUSO investments (those with more than $500 million in assets) reported earning more than $10,000 annually in net income from a CUSO. By context, approximately 34 percent of these large institutions indicated that net income in a CUSO accounted for less than $1,000 of their income.

Chart 22

Annual Income From CUSOs and as a Percentage of Total Credit Union Income in the Last Five Years[71]						
Asset Size (in millions)	Annual Income Ranges					
	< $0	$0 - 1,000	$1,000 - 2,000	$2,000 - 5,000	$5,000 - 10,000	Over $10,000
$0 - $10	1.03%	3.32%	0.00%	0.00%	0.00%	0.31%
$10 - $50	1.77%	13.86%	0.05%	1.71%	0.51%	2.94%
$50 - $100	9.02%	23.46%	1.83%	1.34%	5.91%	3.41%
$100 - $ 500	3.85%	27.15%	2.46%	8.18%	1.74%	24.98%
> $ 500	11.30%	22.87%	3.74%	0.54%	2.56%	38.91%

State law, rules and interpretations have permitted CUSO investments by state-chartered credit unions for decades. Data on the percentage of income generated by CUSO activity as a percentage of total state-chartered credit union income during the past five years shows these investments are relatively small.

The data in Chart 23 shows that very few state-chartered credit unions generate significant income from CUSO activity. For example, approximately 68 percent of the state-chartered credit unions with less than $100 million in assets reported CUSO investment income during the past five years of less than 10 percent of total income. The data indicates that approximately 76 percent of the participating state-chartered credit unions with more than $500 million in assets derive less than 10 percent of their annual income from CUSOs.

The NASCUS Survey did not attempt to determine whether the income generated by CUSO investments was derived from services to members, e.g., ATMs, or generated by CUSOs providing services (for a fee) to credit unions, e.g., data processing. The numbers suggest, however, that the predominate purpose of the CUSO investments was to provide services at a lower cost to the state-chartered credit unions and their members, not to generate profit.

Chart 23

Percentage of Annual Income from CUSO in Past Five Years[72]				
Asset Size (in millions)	Annual Income Percentage			
	0 - 10%	10 - 25%	> 25%	Total Percentage
$0 - $10	4.35%	0.31%	0.00%	4.66%
$10 - $50	20.41%	0.14%	0.29%	20.84%
$50 - $100	43.48%	0.75%	0.75%	44.99%
$100 - $ 500	65.12%	0.75%	2.48%	68.35%
> $ 500	75.98%	2.99%	0.50%	79.47%

[71] The numbers do not add up to 100 percent because not all respondents invest in CUSOs.
[72] The numbers do not add up to 100 percent because not all respondents invest in CUSOs.

Most Commonly Used CUSO Services

A state-chartered credit union may decide to form a CUSO or invest in an existing organization for a variety of business reasons. The NASCUS Survey answered the Committee's request to understand the most common CUSO services used by consumers, both members and non-members. Chart 24 illustrates that range.

Chart 24 also reflects that the largest number of state-chartered credit unions made investments in CUSOs to secure basic services for the credit union, e.g., data processing, or for its members, e.g., shared branching.

Chart 24

Most Common CUSO Services Used by Consumers in the Last Five Years					
Types of Services	***Asset Size in Millions***				
Back Office Services	**$0 - 10**	**$10 - 50**	**$50 - 100**	**$100 - 500**	**> $500**
Mortgage Processing	1.53%	1.95%	0.41%	8.32%	2.90%
Electronic Data Processing (EDP)	0.66%	0.84%	2.57%	4.14%	2.94%
Shared Branching	0.00%	7.29%	12.61%	6.25%	11.28%
Item Processing	0.88%	1.72%	2.55%	5.09%	2.18%
ATM/Other	0.88%	6.67%	15.92%	20.95%	15.87%
Credit Cards	0.00%	0.78%	3.58%	10.44%	4.89%
Total Back Office Services	3.96%	19.26%	37.65%	55.19%	40.07%
Other Services					
Insurance Services	0.00%	0.11%	0.00%	1.18%	10.31%
Investment Services	0.00%	0.00%	0.00%	6.05%	6.99%
Auto Buying, Leasing, Indirect Lending	0.70%	0.62%	2.68%	1.33%	6.48%
Trust Services	0.00%	0.00%	0.00%	0.28%	1.55%
Tax Preparation	0.00%	0.00%	0.00%	0.00%	0.07%
Travel	0.00%	0.00%	0.00%	0.00%	0.24%
Member Business Lending	0.00%	0.85%	4.65%	4.33%	14.19%
Total Other Services	0.70%	1.58%	7.33%	13.17%	39.84%

Member and Non-member CUSO Usage

As requested, the NASCUS Survey captured information about the characteristics of CUSO investments to determine the degree to which these entities were used by state-chartered credit union members and non-members. The NASCUS Survey sought to measure the degree of member and non-member usage of state-chartered credit union CUSOs and the extent to which income is generated from those activities.

It is difficult to determine the extent to which natural-person members and non-members use CUSOs. Many CUSOs provide services only to a single credit union or, more frequently, to a group of investing credit unions, e.g., for data processing services. Consequently, these entities are not used by any natural persons, whether member or non-member. In many other cases, a CUSO is used by a group of non-investing credit unions, e.g., a shared branch. If tracked, a shared branch used by a single credit union's members might only constitute three percent of total transaction volume, yet by definition, 100 percent of the use was by members of credit unions since only those holding accounts at credit unions could access them at a shared branch. Chart 25 reflects the percentage of member CUSO use by credit union asset size.

As requested, the NASCUS Survey also examined non-member CUSO use during the past five years. The data in Chart 26 shows that regardless of asset size of state-chartered credit unions, non-member use of CUSO services during the last five years was consistently low.

Chart 25

Percentage of Member CUSO Use by Asset Size					
Percentage of Members	**Asset Size in Millions**				
	$0 - 10	**$10 - 50**	**$50 - 100**	**$100 - 500**	**>$500**
0%	33.99%	25.15%	21.65%	24.88%	27.19%
1% - 10%	32.93%	26.15%	22.72%	40.41%	31.42%
11% - 20%	15.53%	13.42%	10.49%	10.44%	2.85%
21% - 30%	0.00%	6.12%	13.37%	4.43%	14.88%
31% - 40%	0.00%	8.70%	12.03%	7.22%	5.32%
41% - 50%	0.00%	6.17%	8.17%	5.19%	3.02%
51% - 60%	3.34%	3.31%	0.00%	1.89%	0.26%
61% - 70%	0.00%	1.59%	11.57%	3.43%	2.30%
71% - 80%	0.00%	4.65%	0.00%	0.16%	1.99%
81% - 90%	0.00%	0.00%	0.00%	0.00%	1.14%
91% - 100%	14.21%	4.74%	0.00%	1.97%	9.63%
Totals	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Chart 26

Percentage of Non-Member CUSO Use by Asset Size					
Percentage of Non-members	**Asset Size in Millions**				
	$0 - 10	**$10 - 50**	**$50 - 100**	**$100 - 500**	**> $500**
0%	93.33%	87.39%	77.05%	82.26%	78.86%
1 - 10%	0.00%	2.20%	5.34%	9.07%	4.59%
11 - 20%	0.00%	2.95%	6.44%	2.90%	3.48%
21 - 30%	0.00%	0.00%	0.00%	0.00%	1.09%
31 - 40%	0.00%	0.25%	3.21%	0.00%	2.44%
41 - 50%	0.00%	2.11%	6.36%	1.52%	1.35%
51 - 60%	0.00%	0.00%	0.00%	0.00%	0.69%
61 - 70%	0.00%	0.78%	0.00%	0.56%	1.06%
71 - 80%	0.00%	0.00%	0.00%	3.69%	0.32%
81 – 90%	0.00%	0.00%	0.00%	0.00%	0.00%
91 - 100%[73]	6.67%	4.32%	1.61%	0.00%	6.13%
Totals	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

[73] Detailed analysis of data indicates state-chartered credit unions reported non-member use when they held an investment in a CUSO but did not use the CUSO service; or, the state-chartered credit unions accurately tracked the use by member and non-members alike, e.g., shared branching.

Chart 27

Overall Number of Non-Member CUSO Use	
Number of Non-Members	**Percentage of Credit Unions**
0	82.11%
1 - 5,000	14.77%
5,000- 10,000	2.13%
10,000 - 15,000	0.27%
15,000 - 20,000	0.00
20,000 - 25,000	0.04%
25,000 - 30,000	0.04%
> 30,000	0.63%
Totals	**100.00%**

Chart 27 shows that less than one percent of state-chartered credit unions responding reported annual CUSO use by more than 30,000 non-members. By contrast, more than 82 percent of responding state-chartered credit unions reported no use of CUSO services by non-members. It can be inferred from the data collectively that non-members are most likely benefiting from low-cost ATM services since the majority of services offered by a CUSO require credit union membership.

The data collected by the NASCUS Survey shows that state-chartered credit unions form CUSOs and invest in existing service organizations to provide services primarily to the credit unions themselves, and secondarily to their members. The income generated from CUSOs represents a small proportion of total state-chartered credit union income.

In addition, the use of CUSOs by non-members is a small proportion of total usage. The data reflects that these entities do not serve as a significant source of revenue for the state-chartered credit unions. Further, the data supports the hypothesis that CUSOs were not created for nor do they serve the general public.

Conclusions

In response to former Representative Thomas' questions, the principal findings of the NASCUS Survey are:

(1) More than 38 million members of state-chartered credit unions receive low-cost financial services from these member-owned, democratically controlled institutions.

(2) State-chartered credit unions are formed to serve specific fields of membership, generally based on employment, association or standards of community defined by state law.

(3) Although no state statute, law or regulation specifies that credit unions shall serve individuals of low and modest means, the NASCUS Survey data demonstrates that the members of credit unions, measured by income, track that of the U.S. population. Further, state-chartered credit unions provide low-cost services to their members and make significant outreach efforts into the communities served, regardless of their charter type.

(4) The incidence of unrelated business income tax (UBIT) on state-chartered credit unions could not be readily monitored, as requested, because the tax guidance from the IRS necessary to conduct this inquiry has only recently been released. The NASCUS Survey results did not provide sufficient information to draw statistically valid conclusions about UBIT. The questionnaires were sent to the credit unions selected in the Survey well before the tax guidance was issued.

(5) Among the 296 credit unions surveyed who participated in a state's IRS Group 990, all indicated that they had a paid CEO position. The likelihood of a paid CFO or COO position increased with asset size. As expected, larger state-chartered credit unions tend to pay their executives more than smaller credit unions. Average CEO salaries in state-chartered credit unions with less than $10 million in assets were under $49,000; the average salary was approximately $197,600 in credit unions with more than $500 million in assets.

(6) Credit Union Service Organizations (CUSOs) appear to be formed to provide operational services to state-chartered credit unions. Many are owned by more than one credit union. However, regardless of asset size of state-chartered credit unions, their use of CUSOs does not appear to generate significant income as a percentage of total income, measured in actual dollars or as a percentage of income. CUSO use by non-members does not serve as a significant source of income for state-chartered credit unions. The services most widely used by non-members are the low-cost, convenient ATM services.

In sum, the NASCUS Survey shows that state-chartered credit unions provide low-cost, convenient financial services to their member owners and actively serve their communities.

Appendix A—Methodology

Prepared by Dr. Randall J. Olsen, professor of economics, Ohio State University

1. Technical Notes on Sampling

This document describes the sampling technique used for the NASCUS Survey as well as the construction of sampling weights. It also describes the proper use of weights to obtain estimates of population means and the construction of confidence intervals.

Prior to sampling, the population of state-chartered credit unions was divided into 13 strata. The data provided by state regulators was assigned a code for the "type" of each credit union. There are six types: (1) Associational; (2) Community; (3) Community Development; (4) Employee; (5) Low Income; and (6) Multiple. Two of these types – types 3 and 5 – include very few credit unions (40 combined); so these two types were grouped together to form the first stratum, which was not further divided.

Types 1 and 2 included a substantial number of credit unions (more than 300 credit unions nationwide for each type). These types were then divided into two strata each, by separating those above or below the population median for both loans and deposits per member. These two types thus produce four strata.

Types 4 and 6 include even more credit unions (nearly 1,000 type 6 credit unions and considerably more type 4 credit unions). Each of these types was first divided into two cells by separating those above the median for deposits and loans per member from those below the median. Each cell was then further divided by separating those above the median for unsecured loans per member from those below the median. Thus, Types 4 and 6 are divided into four strata each, for a total of eight strata. In total, there are 13 strata.

Table 1 sets forth each stratum and the number of credit unions in each stratum.

Table 1: Strata for NASCUS Sample

Stratum ID	Type(s)	Loans/Deposits	Unsec. Loans	# CUs
1	3 and 5	Both	Both	40
2	1	Above Median	Both	212
3	1	Below Median	Both	97
4	2	Above Median	Both	197
5	2	Below Median	Both	388
6	4	Below Median	Below Median	482
7	4	Below Median	Above Median	413
8	4	Above Median	Below Median	186
9	4	Above Median	Above Median	420
10	6	Below Median	Below Median	231
11	6	Below Median	Above Median	142
12	6	Above Median	Below Median	227
13	6	Above Median	Above Median	389

The first stage of sampling selected approximately seven percent of the credit unions from each stratum to receive the questionnaire. To do this, credit unions were sorted by size of membership within the stratum. One credit union is selected randomly, with each having the same probability of being selected. Next, every 14th credit union was sampled in order beginning with the one randomly selected (moving both above and below that credit union in the ordering). For the two smallest strata, this process was adjusted to make certain that at least eight credit unions were selected at this stage (i.e., the sample included every 5th instead of every 14th credit union for stratum 1 and every 12th credit union for stratum 3).

The second stage of the process sampled from among those credit unions not already selected in the first stage. In the second stage, a credit union within any stratum had a chance of being selected that was proportional to the number of members in that credit union. Thus, credit unions with large memberships were more likely to be selected than small credit unions. This process was repeated until the same number of credit unions has been selected within each stratum as in the first stage.

Because such a sophisticated sampling method had been used, it was necessary to weigh the raw survey data to produce accurate results. Simply analyzing the raw data without using weights would have resulted in statistics, such as means and standard deviations that were inaccurate. We computed the weights using a computer simulation. Two weights were provided. The Credit Union Weight was the inverse of the probability that any one credit union would have been selected into the sample. The Membership Weight was the Credit Union Weight multiplied by the credit union's membership.

Using different weights will yield different results with different interpretations. The following gives an example. We estimate the means of loans per member and unsecured loans per member using the Credit Union Weight. The results are in Table 2.

Table 2: Means Using CU Weights

	Sample Mean	95% CI		True Mean
Loans/Mem.	3535.8	3302.0	3769.6	3629.7
Unsec./Mem.	382.6	339.8	425.4	377.7

The estimates use only the 502 credit unions selected to be in the sample. The sample mean is the estimated mean from the sample. The next two columns give the lower and upper bounds on the 95 percent confidence interval. The last column gives the true population mean (i.e. the mean value for all 3,424 credit unions in the population). The estimates in Table 2 give no indication that the sample was a 'bad draw' since the true mean falls well inside the 95 percent confidence interval.

While there is no evidence of bias in the estimates in Table 2, one needs to be careful in interpreting the results. If one were to say that the total loans per member in the industry lies in the confidence interval reported in Table 2 with 95 percent confidence, the statement would be wrong. The true loans per member in the industry are 5,800.8, which is well outside the 95 percent confidence interval. The true mean of 3,629.7 reported in Table 2 is just the simple mean of the variable ‘loans per member’ in the population. This treats all credit unions equally. However, the industry-level loans per member are influenced much more by large credit unions than small credit unions. To get correct estimates for industry level means for members, one needs to use the Membership Weights. Table 3 repeats what was done in Table 2, except the Membership Weights were used.

Table 3: Means Using Membership Weights

	Sample Mean	95% CI		True Mean
Loans/Mem.	5484.5	5121.1	5847.9	5800.8
Unsec./Mem.	441.1	400.2	482.0	448.2

In this case the true mean for loans per member is the sum of all loans in the industry divided by the sum of all members in the industry (and analogously for unsecured loans per member). Using the Membership Weights, the true means again are inside the 95 percent confidence interval.

Thus, which weights one wants to use is determined by what question one seeks to answer. For example, suppose the credit unions are asked whether they offer ATM services. A variable is coded 1 if the credit union answered yes and 0 if the credit union answered no. If one wants to estimate what fraction of all credit unions offer ATM services, the Credit Union Weights should be used to calculate the mean of this variable. But, if one wants to know what fraction of members belong to a credit union that offers ATM services, the Membership Weights should be used. As the above examples show, these weights can yield quite different answers.

The above weights were for the full sample drawn. However, some of the selected credit unions did not participate or had been merged. In addition, some credit unions who took the survey did not provide geo-coded data. Thus, we utilized adjusted weights. There are a total of four adjusted weights. First, there are weights for the geo-code data (both credit union and membership weights). Next, there are weights for the survey data (both credit union and membership weights). The survey weights should be used if only survey data is used for calculating a statistic. The geo-code weights should be used if geo-code data is needed.

The adjusted weights were obtained by taking any credit union with no data and distributing all of its weight to its four “nearest neighbors” in the sample that have data. Here, “nearest neighbors” means the four credit unions in the same stratum that have most nearly the same number of members. Closer credit unions were allotted more of the weight. The credit union without data is given a weight of zero.

The following tables repeat what was done above using the adjusted weights. Table 4 gives the results for the adjusted credit union weights for geo-code weights. Table 5 does the same for the membership weights. Tables 6 and 7 repeat this for the survey weights.

Table 4: Means Using Adjusted Credit Union Weights, Geocode

	Sample Mean	95% CI		True Mean
Loans/Mem.	3609.1	3299.1	3919.1	3629.7
Unsec./Mem.	399.3	340.1	458.6	377.7

Table 5: Means Using Adjusted Membership Weights, Geocode

	Sample Mean	95% CI		True Mean
Loans/Mem.	5391.7	5022.2	5761.2	5800.8
Unsec./Mem.	436.8	393.0	480.6	448.2

Table 6: Means Using Adjusted Credit Union Weights, Survey

	Sample Mean	95% CI		True Mean
Loans/Mem.	3543.6	3299.2	3788.0	3629.7
Unsec./Mem.	384.6	340.2	429.0	377.7

Table 7: Means Using Adjusted Membership Weights, Survey

	Sample Mean	95% CI		True Mean
Loans/Mem.	5469.8	5102.1	5837.5	5800.8
Unsec./Mem.	440.4	399.1	481.7	448.2

In only one case does the true mean lie outside the estimated confidence interval: loans per member, geo-code with membership weights. Even in this case, the true mean lies just above the upper bound on the confidence interval.

2. Estimation of Means and Confidence Intervals When There are Strata and Unequal Sampling Weights

This section describes the methods used for estimation of means when there are strata and sampling weights. Some, but not all, statistical packages provide easy procedures to deal with these types of survey designs. Strata, for example, provides an easy procedure using svyset and svymeans commands. The methods described below have been checked and yield output that agrees with Strata.

Let x_{ij} be the value of some variable, where i indexes strata and j indexes individuals within strata. For example suppose the 9th credit union in stratum 6 has a value of 34 for this variable.

Then when i = 6 and j = 9 this variable equals 34. Let w_{ij} be the sampling weight for credit union j in stratum i. Then the estimate of the mean is given by:

$$\overline{X} = \frac{\sum_i \sum_j w_{ij} x_{ij}}{\sum_i \sum_j w_{ij}}. \tag{1}$$

This can be calculated fairly simply for any variable using the following three steps: 1. create a new variable by taking the product of the variable and the sampling weight; 2. get the sum total for this new variable and the sum total for the sampling weights; 3. divide the sum total for the new variable by the sum total for the weights.

Unfortunately, the calculation of the confidence interval is not so simple. To get this one first needs to calculate the variance of $\overline{X}$. Define:

$$z_{ij} = w_{ij}(x_{ij} - \overline{X}). \tag{2}$$

Also define:

$$\overline{z}_i = \frac{1}{n_i} \sum_j z_{ij}. \tag{3}$$

Here n_i is the number of credit unions in the sample that are from stratum i. So, z_i is the simple mean of z_{ij} within stratum i. The estimate of the variance is:

$$\hat{V}(\overline{X}) = \frac{\sum_i \sum_j \frac{n_i}{n_i - 1}(z_{ij} - \overline{z}_i)^2}{[\sum_i \sum_j w_{ij}]^2} \tag{4}$$

The estimated standard error is the square root of the estimated variance. The margin of error for a 95% confidence interval is 1.96 times the estimated standard error. The lower bound of the confidence interval is $\overline{X}$ minus the margin of error. The upper bound is $\overline{X}$ plus the margin of error.

Appendix B

"How Does Your Credit Union Use its Tax-Exempt Status to Help Members?"

Examples Provided by State-Chartered Credit Unions

In Response to the House Ways and Means Committee Request

NASCUS explored the request posed by former Representative Thomas about the use of the tax-exempt status of state-chartered credit unions through empirical methods. NASCUS' leadership went further by asking state regulators to inquire with the state-chartered credit unions that were not part of the NASCUS survey for examples of how they use the tax exemption to benefit members. The following illustrations were selected as representative of the illustrations provided. All responses were voluntary and are unedited.[74]

CONNECTICUT

The credit union offers its members free of charge loan protection and life savings insurance. The loan protection insurance pays off any outstanding loan balance (in compliance with terms) in the event of death or permanent disability. The life savings insurance offers members free share insurance. In the event of death, the insurance matches the amount of a member's savings, provided that amount was on deposit before the member's 55th birthday; otherwise, the amount is prorated up to a maximum of $3,000.

The credit union supports its community at-large with collections at the credit union and directs credit union contributions to programs such as the "Adopt a Bear" program for the Connecticut State Police; the balloon campaign for the Children's Miracle Network; and Connecticut Credit Union Charitable Foundation events that support local food kitchens and other non-profit community efforts.

FLORIDA

John Hirabayashi, President and CEO, Community First Credit Union of Florida, Jacksonville, FL

Community First Credit Union of Florida has $1.1 billion in assets and 104,000 members. Approximately 25 percent of our members live in economically distressed or "underserved" areas, as defined by the Community Development Financial Institutions Fund. Our tax-exempt status makes it more economically feasible to serve these areas and provide affordable products and services that improve the overall standard of living. Our research shows that, on average, each member of Community First receives $224 in economic benefit annually from doing business with the credit union, as opposed to doing business with for-profit financial institutions.

[74] Comments without references to credit unions or their executives are not listed because they requested anonymity.

From our perspective, providing a high level of economic benefit to our members is an essential element of providing good service. Our tax-exempt status assists in creating this value that we pass along as a benefit to members, especially those with lower incomes.

LOUISIANA

Summary Provided by Louisiana State-Chartered Credit Unions

Louisiana state-chartered credit unions use their tax exemption to provide affordable interest rates to people who ordinarily would not qualify for standard loans from banks and would use finance companies and payday lenders. Louisiana state-chartered credit unions also provide low-cost (and sometimes free) services such as no monthly charge checking, VISA debit cards without fees and paying the closing costs associated with second mortgage loans. These are just some of the things they do to help people of modest means, and these would have to be curtailed to some degree if we were to be subject to income taxation. They also try to educate our members on fiscal responsibility by offering financial counseling to show members how to use budgets and reconcile bank accounts. They also provide disability insurance which helps them in time of need and no cost loan cancellation insurance.

MISSISSIPPI

Nell Stevens, Elevator Credit Union, Olive Branch, MS

Our credit union is managed by an unpaid volunteer board and committee members, all of which are elected by its members. Each member has equal voting rights (one vote) regardless of the amount of money they may have deposited in the credit union.

All of its earnings are transferred either into undivided earnings, loss reserves or distributed to its members. These factors allow the credit union to:

- Make lower interest rate loans to its members;
- Charge low, if any, fees for various transactions; and
- Distribute earnings back to its members at a higher interest rate than usually available through a bank savings account.

Our credit union encourages its members to save on a regular basis through payroll deductions. (“What you don’t receive in your check, you’re not as likely to miss.”) In addition, it takes less discipline to save through payroll deduction than having to carry the money to the bank each payday.

It provides a means for its members who may be of modest means to meet financial needs, up to a certain amount, without the need for collateral.

Guylean Cooper, Valley Gas Employees Credit Union, Jackson, MS

If you have never had to live from paycheck to paycheck, you will not understand how much our Credit Union helps members. We have members who would be in line at the payday loan shops. Our Credit Union makes loans to members that banks would not even consider. I have loaned as little as $100. Most of our members would be in trouble if they miss even one paycheck and yet, life still happens to these people. Vehicles break down, grandmothers pass away, kids get sick – even $20 will get them to work for a week when unexpected things happen.

If not for our tax-exempt status, our Credit Union would probably not be able to continue.

Dividends to the few, mostly older members, who have savings in the credit union, would be greatly diminished without our tax-exempt status. Of course, the only funds we have to loan the member who lives from paycheck to paycheck is what someone else saves. The member who worked hard all their life and has probably done without to save what they could will in effect get taxed again.

Our Credit Union works out of an office that consists of 419 square feet with one very part-time employee besides me. The Credit Union cannot pay me much and we have no benefits, not even health insurance because the Credit Union cannot afford the expense. I have worked for credit unions for about 37 years, only because I can make a difference in someone's life. Here I am at 64, with no retirement because I've worked for small credit unions all my life, but I was able to help when someone needed to go out of town because a relative passed away or when a child needed medicine. Money is not everything.

What I am trying to say is the Credit Union helps the little guy by loaning when no one else will.

Also, the Credit Union gives everything back to the members in the form of dividends. We gave back 73 percent of all our income last year. The member pays tax on the dividend. The member paid tax on the money when they worked for it. So now, please don't tax them again by taking away the Credit Union's tax-exempt status. Please don't send our members to the payday loan companies. Please!

Pete O'Shea, New Horizons Credit Union, West Point, MS

In response to your question "How does your state-chartered credit union use its tax-exempt status to serve members?" the following is submitted:

- Tax exemption allows this credit union to follow the doctrine of small loans first. However, this doctrine has enormous cost consequences as the administrative work for a small loan is practically equal to that of a large loan (i.e. a $1,200 personal loan for a term of one year compared to a $30,000 auto loan over five years). Taxes would force us to set minimum loan amounts and restrictive payback measures to insure costs can be recovered.
- Tax exemption allows this credit union to serve financially challenged members and take greater risks by reducing the expense (taxes) associated with operations.

- Tax exemption allows this credit union to charge lower interest rates on loans commensurate with the risk involved and pay higher dividends (interest) on our member's investments.
- Tax exemption allows this credit union to operate in an underserved area where banks and other financial institutions find full service operations less profitable than desired.
- Tax exemption requires this credit union give up stakeholder financing and operate at the behest of a membership willing to provide the funds (investment) and then request and payback the loans that make the credit union a viable institution.

It's very difficult to answer this question without turning philosophical. I believe it was Chief Justice John Marshall who wrote, "The power to tax involves the power to destroy." If state-chartered credit unions are taxed simply because of their charter, then you can kiss state chartering goodbye. I cannot see how a board paying additional taxes just to be called a state-chartered credit union would be acting in the best interests of our membership.

Richard Campbell, Chief Financial Officer, Hope Community Credit Union, Jackson, MS

Hope Community Credit Union (HOPE) is a tax-exempt low-income designated, community development credit union that stimulates local economic activity, builds assets and improves lives in economically distressed areas of the Mid-South. HOPE accomplishes its mission by securing deposits, largely from socially responsible individuals and institutions and offering a range of products and services designed to meet the needs of low-income individuals and businesses in low-income areas.

Tax-exempt status aids in this process by lowering the cost structure of the organization allowing HOPE to pursue an underserved market niche with acceptable albeit lower margin returns. For example in 2006, Geographic Information Systems (GIS) analysis on member addresses in HOPE's two largest markets revealed more than 70 percent of members residing in Jackson and New Orleans lived in low-income communities.[75]

According to 2005 Home Mortgage Disclosure Act (HMDA) data, low income blacks and Native Americans in Mississippi were denied approximately 40 percent of the time when applying for mortgages. HOPE mortgage lending totaled $15,932,118 in 2006 with nearly 39 percent closed to minority borrowers and over 40 percent closed to rural borrowers. The Median Annual Income (MAI) of ECD/HOPE borrowers' was less than 80 percent of the Median Family Incomes of Arkansas, Louisiana and Mississippi.[76] The MAI of an ECD/HOPE borrower ($28,954) is less than both Mississippi and U.S. median household incomes, $32,938 and $46,242, respectively.[77]

[75] The low-income designation utilizes the Community Development Financial Institutions (CDFI) criteria. A low-income community is located in a census tract with a poverty rate greater than 20 percent or with a median family income that does not exceed 80 percent of the area median income of a metro or rural area.
[76] 2005 American Community Survey. Several government agencies including the U.S. Treasury and the Department of Housing and Urban Development use an indicator of less than 80 percent of the Median Family Income as a measure of economic distress.
[77] 2005 American Community Survey.

HOPE uses its access to subsidy programs as a way to connect low-income borrowers to its mortgage program. For example, a mother with two children had a total monthly income slightly over $1,500. The mother aged 67 and adult children in their 30s are all disabled persons. The mother had a poor credit payment history and could not acquire financing to afford a home that offered more adequate space. HOPE granted a $15,000 subsidy enabling the family with affordable financing to acquire a home near Cleveland, Mississippi that met their needs.

Laurin F. Avara, President/CEO, Navigator Credit Union, Pascagoula, MS

The first thought that comes to my mind regarding this question would be the bonus dividend that we paid to our members at the end of last year. We paid a 13th monthly dividend totaling $383,000. These were funds that would not have been returned to our members were we not a tax-exempt credit union. In addition, were we not a credit union we would likely not be able to afford the 10 branches that provide convenient service for our members in some remote locations. Furthermore, as you are well aware, we make many small loans to our members that many other institutions would not make. It's not uncommon for us to make a $500 unsecured loan to a member with questionable credit and while our delinquency is less than one percent, I am sure our loan losses are higher than that of a comparable bank. Our philosophy is that because we are member owned, we should strive to help our members whenever we can. That is why we frequently make loans as small as $150. As a tax-exempt credit union, we provide financial services to people of modest means and that is why we offer a no fee checking account and have 17 ATMs for our members to use at no charge. What fees we do charge are very reasonable as our member/owners would not have it any other way.

To my mind all of this stems from our philosophy that "People are worth more than money." Because we are tax-exempt, we are able to focus more on people and less on profits.

Put another way, were we to lose our tax-exempt status, I'm sure we would over time convert to a bank so as to avoid restrictions in field of membership and our focus would be on profits and our fees would go up, we'd close a few branches and act just like a bank. While the compensation package for the CEO would probably increase our member/owners would be the ones that lost.

Nancy Boney, Biloxi-Municipal Credit Union, Biloxi, MS

The Biloxi Municipal Credit Union strives to serve all our members financial needs and still provide them with the best return for their deposits possible. We work on a very lean and strict budget in order to achieve these goals. We strive to offer a fair rate on all loans relevant to the members' credit history that will still allow the credit union to operate fiscally sound at the same time. Our tax-exempt status allows us to achieve these goals. Credit unions were originated to help people of modest means save and earn a return on their money that other financial institutions were not interested in as well as to help them obtain loans at a reasonable rate. These are the people that we serve and the very people who will be negatively affected by taxation of credit unions through lower dividends and higher interest rates.

NORTH CAROLINA

Alison Yonas, Director of Finance, Latino Community Credit Union, Durham, NC

Latino Community Credit Union (LCCU) is a low-income designated, community development credit union established in 2000 with the mission of providing accessible, affordable financial services and education to the underserved Latino community and other unbanked people in North Carolina. Since that time, LCCU has grown to serve 51,000 members out of five branches across the state (Durham, Raleigh, Charlotte, Fayetteville and Greensboro). True to its mission, approximately 95 percent of members are Latino, 95 percent are low-income and 75 percent were previously unbanked.

The Latino Community

North Carolina has one of the fastest growing Latino populations in the country. According to a 2005 report by the Kenan-Flagler School of Business at the University of North Carolina, over 600,000 Latinos live in North Carolina, accounting for seven percent of the state’s population, compared to over 76,000 in 1990. Poverty, homeownership and net worth rates show significant disparities for the Latino population. In North Carolina, 26 percent of Latinos live in poverty, compared with the non-Latino rate of 14.5 percent. Disparities in national homeownership rates are equally as pronounced. In 2004, the Department of Housing and Urban Development reported that 76 percent of whites owned a home, compared with just 48 percent of Latinos, the lowest rate of homeownership of any racial or ethnic community in the nation. In terms of net worth, the average Latino family has less than $8,000, compared to $89,000 of net worth for the average white family. This disparity is much greater than the income gap, where the average Latino worker earns two-thirds of the average white worker. In fact, 36 percent of Latinos have a zero or negative net worth, according to the Center for Responsible Lending. Moreover, 82 percent of the wealth held by Latino families is in home equity. Homeownership is the principal way to accumulate wealth.

How LCCU serves low-income communities

LCCU provides a full range of affordable and accessible financial services that are designed to help low-wealth people build assets and transform economic conditions in their communities. Membership in LCCU contributes to more stable families and stronger communities as members are able to improve their employment opportunities, save money, access affordable housing, contribute to the tax base and commit to their schools and other local institutions. Since 2000, LCCU has made more than 12,500 consumer loans for $62 million. Three-quarters of LCCU borrowers have no credit history when they first receive a loan from the credit union. LCCU addresses this inability to establish credit with mainstream lenders with its CreditBuilder (share-secured), secured VISA credit card and other secured loans, which have totaled more than 4,500 since 2000.

LCCU began its mortgage lending initiative in mid-2004, and as of September 30, 2007 had made a total of 239 mortgages for nearly $23 million. LCCU’s mortgage program is designed for low-income, first-time homebuyers, offering 90, 95, and 100 percent loan-to-value with no private mortgage insurance. LCCU participates in the Federal Home Loan Bank of Atlanta’s

First-time Homebuyers Program, which provides no cost, forgivable second mortgages to low-income first-time homebuyers. In 2006, 97 of LCCU's 102 first mortgage loans went for home purchases and 52 percent of LCCU's mortgage borrowers were able to access a total of $264,500 of subsidies from the Federal Home Loan Bank of Atlanta's First-time Homebuyer Program. The average household income for our mortgage applicants was $36,900 in 2006. In 2005, 89 percent of LCCU's mortgages were originated to first-time homebuyers, 88 percent of mortgage borrowers were low-income (at or below 80 percent of Area Median Income, as defined by HUD), and 100 percent were Latino.

LCCU offers free accounts and low cost transaction services. For example, LCCU's minimum balance for a regular share account is only $10. LCCU also offers fee-free, low balance accounts, and low-cost transaction services. We have no minimum balance on our share draft (checking) account, which includes a VISA debit card and free ATM access at nearly 1,000 ATMs across the state.

LCCU sends more remittances than any other credit union in the nation. To further help to create wealth for members and their families, in 2006 LCCU became the first credit union in the U.S. to begin to use "Directo a México" to provide low-cost remittance products through the Federal ACH system to Mexico, for which we charge a mere $3 per remittance. LCCU signed an agreement with BANSEFI, which is one of Mexico's largest banks, and L@ Red de la Gente, a partnership of financial institutions, giving LCCU the ability to pre-open new accounts for recipients in Mexico and access to a network of 72 member institutions with 1,211 branches located in semi-urban and rural areas, where commercial banks usually have no presence. This helps members' families to create relationships with financial institutions in Mexico as well as to save money for education, retirement, buying a house, or health expenses, on both sides of the border. In 2006, LCCU sent 6,200 international remittances for $4.3 million for its members.

Given its target population, LCCU recognizes that the overwhelming majority of its members has little or no experience with financial services and therefore needs extensive financial literacy education. As a result, financial education is a fundamental part of LCCU's mission. LCCU has created a financial education curriculum targeted to low-income, unbanked individuals called Building a Better Future. Over 9,000 people have attended LCCU's in-branch financial education workshops since 2000. LCCU has distributed approximately 2,500 copies of its curriculum and teacher guide free of charge to other credit unions and groups interested in providing financial education to this population across the nation. In 2006, LCCU introduced a certificate program, having graduated 175 students to become peer educators in their communities.

One example of LCCU's impact on members is that of a member from Greensboro who came to the credit union to refinance an abusive rate on his car loan. He attended one of the financial education workshops, and brought his two children, ages 8 and 11, to attend as well. He wanted to expose his children to this educational opportunity, since he felt that he did not get many such opportunities in his native Mexico. During the process of attending the workshops, he purchased his first home through the credit union. In April 2006, father and children were all members of the first ceremony of 21 graduates who earned a certificate for having completed the series of seven workshops. In addition to graduating his children through the program, he is one of

LCCU's first peer educators, recruiting 13 of his community members to attend the series of workshops, all of whom graduated.

LCCU has received national recognition for its success in providing services to low-income and unbanked individuals. In 2007, LCCU was awarded the Dora Maxwell Award for Social Responsibility by the NC Credit Union League in recognition of its financial education program. In 2006, LCCU was awarded the Credit Union Excellence in Lending Award for Consumer Lending for under $250 million in assets from the Credit Union National Association Lending Council. Also in 2006, the North Carolina Credit Union League awarded LCCU the Louise A. Herring Award for Philosophy in Action for its homeownership program. LCCU was also the 2003 recipient of the Herb Wegner Memorial Award for Outstanding Organization, the largest single-site recipient of the U.S. Treasury Department's First Account award, and is a six-time awardee of funding from the U.S. Treasury Department's CDFI Fund.

Through financial education, free and low-cost financial services and loans to build member equity, LCCU is helping to create opportunities and improve the economic outlook for Latinos and other underserved populations in North Carolina.

Toni Lipscomb, President, Self Help Credit Union, Durham, NC

As a state-chartered credit union, Self-Help Credit Union uses its tax-exempt status to provide financial services to low-income persons and communities at reasonable cost. While we seek to operate in a fiscally prudent manner, we are driven by our desire to serve our predominantly low-income and economically disadvantaged members, rather than to make profits. This allows us to provide financial services that create ownership and economic opportunity for people of color, women, rural residents and low wealth families and communities.

In 2006, for example, 95 percent of our 369 home loans were made to low-income and/or minority borrowers, most of whom could not obtain conventional mortgages. In fact, a full 35 percent of our 2006 home loans were to households with an income totaling less than half of the Area Median Income, which qualifies them as "very low-income" under HUD standards. Since Self-Help Credit Union began making home loans over 25 years ago, the average household income for our borrowers has been 63.5 percent of the Area Median Income.

We demonstrate our dedication to helping our members build wealth through home ownership by spending extra time and resources to shepherd first time buyers through the loan approval process. We participate in various programs that reduce the cost of homeownership for low-income homebuyers, including the Federal Home Loan Bank of Atlanta's First-Time Homebuyer Program. In 2006, 81 of our members used the First Time Homebuyer Program to obtain matching funds for down payments and closing costs associated with their loans. In that same year, 29 of our members qualified for and used down payment assistance or deferred second mortgage loans from the North Carolina Housing Finance Agency to dramatically reduce the cost of their monthly mortgage payments.

Our home mortgage lending totals for the last decade reflect our long-term, substantial commitment to working in low-income communities and with underserved borrowers. From 1997-2006, we made 2,422 loans for $189 million. Eighty-two percent of those loans were to minority borrowers, 27 percent were to female-headed households and 36 percent were to rural residents. The average household income of our borrowers over that period was $34,800, with 8l percent of loans being made to low-income borrowers and 33 percent of loans being made to very low-income borrowers.

We finance up to 100 percent of the value of a home without private mortgage insurance, even as the vast majority of our members who purchase homes are disadvantaged. Many of our homebuyers have either no credit score or a score below 620, and are therefore unlikely to be served by traditional for-profit banks. We also devote resources toward working with members to save their homes when they experience financial difficulties.

On the business loan side, in 2006 we made 81 business purpose loans to members for $6,415,770. Thirty-six percent of these loans went to minority-owned businesses and minority-led nonprofits while 59 percent of the loans went to women-owned businesses and women-led nonprofits. Thirty-seven percent of our business loans were made in rural communities, and 37 percent of our borrowers were low-income. Our members reported that these business loans created 214 jobs and maintained another 189 jobs. Ten of these loans for $1,412,100 funded community facilities, creating 200 spaces for students in charter schools and 253 slots for children in quality child cares, while maintaining another 309 child care slots.

Thirty of these loans for $624,100 were made under our micro-enterprise lending program. With a maximum loan size of $35,000, micro-enterprise loans are simply too small to be profitable, but we continue to make these loans because they are vital to our mission of creating economic opportunity for our members.

We have had a similar impact throughout our existence. For example, over the last decade (1997-2006), 37 percent of our business loans went to minorities, 49 percent to women, 41 percent to rural communities and 41 percent to low-income borrowers. During that same time period, we have created 1,600 child care slots and maintained an additional 1,980 child care slots, while creating 2,170 spaces for students in charter schools. Our loans have helped create 1,500 jobs and maintain an additional 1,700 jobs.

As a nonprofit, tax-exempt institution we recognize that generating income is secondary to serving our members who use our deposit services. To this end, Self-Help Credit Union explicitly does not offer common income-generating products that are harmful to consumers, such as overdraft protection (also known as courtesy pay).

We leverage our nonprofit, tax-exempt status to take on projects that we could not contemplate if we were operating for profit alone. For example, in the past few years, we have worked with the N.C. Credit Union Division to merge with several small, financially distressed credit unions in our state serving nearly 11,000 members, combined. These mergers have not been financially lucrative for us, but they allow critical, member-directed financial services to continue to be available to citizens of some of North Carolina's poorest rural areas.

Maintaining tax-exempt status helps us to build trust among our current members and to reach out to new ones by returning tax savings to them in the form of higher deposit rates. By so doing, we raise funds that will help revitalize the underserved communities where we are active and benefit our members; being tax-exempt means that more of these funds will go toward creating permanent economic change for the good of those communities.

Huyla I. Jackson, CEO, Southern Select CCU, Kannapolis, NC

Southern Select Community Credit Union, Kannapolis, NC, is a former textile-sponsored credit union, having changed to a community charter in 2001 in the face of a declining textile industry. While we have added members from our increased field of membership, a great number of our members are former textile workers.

When Pillowtex Corporation closed its doors in 2003, causing the largest layoff in NC history, the credit union offered a deferred loan program to affected members. Those who took advantage of the offer appreciated the program, as it assisted during a critical period by allowing them time to plan and adapt to their financial situation.

The credit union offers a variety of services to its members at little or no cost. Our Select Access Internet Branch is one example of a convenient, no-cost service. Members can access their account through our website and perform transfers, make loan payments and access account history. So far this year, 1645 transactions totaling $481,000 have been performed, and there have been 19,094 log-ins to the service.

Fees charged by credit unions are normally below those of other financial services providers. For example, our fee for non-sufficient funds (NSF) is $25; one local bank currently charges $37 per NSF.

While Southern Select has not yet been able to enjoy paying its members an annual bonus dividend, we continue to strive to meet that goal. Each member would receive an equal share of that bonus dividend … just like their vote …regardless of their total deposit in the credit union. And, in the long run, our members pay taxes on dividends received.

Credit unions pay taxes on their property, their equipment, their furnishings, their payroll and their supplies. Isn't it interesting that "tax exemption" is such a controversial issue if you truly compare apples to apples?

VIRGINIA

Betty Washington, CCC Martinsville Employees Credit Union, Martinsville, VA

Our credit union is a very small one. We serve members in an area that has the largest unemployment rate in the state of Virginia. Our members are mostly semi skilled plant workers who struggle daily to save a little money and be able to get a loan when they need it. Many times this is small amounts (to fix their auto, repair the home, vacation, etc). These are loans the banks don't want to fool with because they are small.

We also offer life savings and borrowers insurance so that our members families don't have to worry when a member dies.

Our membership is so small that we could not function without our tax-exempt status. This would mean that our type of credit union would pass by the wayside. We feel we offer a service that would not be available otherwise.

<u>Mary Carr Roberts, Manager, Portsmouth Police Credit Union, Inc., Portsmouth, VA</u>

We are a very small credit union in Portsmouth, VA serving the city Police Department since 1957. Our tax-exempt status enables us to return our small income to our members in the form of higher interest share savings accounts, share certificate of deposits and low interest loans. It is likely that without our tax-exempt status we would not be in the business of serving our police officers, family members and department employees.

WASHINGTON

<u>Matt Devlin, Vice President, Marketing, TwinStar Credit Union, Olympia, WA</u>

TwinStar Credit Union strives to promote and provide financial literacy education and programs to members of all ages through multiple channels. These efforts develop more financially capable consumers.

From our early beginnings in 1938 as a public school teachers' credit union to present day, TwinStar offers classroom financial education programs, special accounts and money management tools, ongoing newsletter and web site articles focused on money management, special loan programs to first time borrowers and home buyers, free financial planning services, and a long running partnership with Balance which provides members with free financial counseling, assistance, and budget management services.

These efforts are supported by funds allocated to these programs and employees whose sole job function is to educate credit union members and prospective members.

When a Select Employer Group announced the sudden closure of its local coal mining operation and the loss of 600 jobs in fall 2006, TwinStar responded by placing a Balance financial counselor at the local branch, offering special transition loan programs including zero interest loans; and making a $30,000 contribution to the local food bank and public schools for student supplies.

WISCONSIN

<u>Sherry L. Aulik, VP Marketing and Human Resources, CoVantage Credit Union, Antigo, Wisconsin</u>

For the past 25 consecutive years, CoVantage Credit Union has paid a unique form of patronage to our borrowing members in the form of a loan interest rebate**. The 2006 rebate alone returned over $1.2 million to 13,638 of the credit union's borrowing members. Over the past 10 years, this loan interest rebate has put over $7.5 million back into the hands of CoVantage's member-owners.** Here's how the rebate works. Each year the board determines whether a rebate should be paid. Once a rebate has been authorized, all borrowing members, whose loans are in good standing, are automatically mailed a check. There's no need for members to apply or take any other action!

For members who save at CoVantage, we strive to provide above market rates on deposit accounts. Throughout all of 2005, 2006, and 2007, **when many other financial institutions were paying less than one percent on regular savings accounts, CoVantage maintained an annual percentage rate of two percent on regular share accounts with a minimum deposit of just $10.**

During 2005, CUNA conducted a study of the value CoVantage Credit Union provides to members. They concluded that for the year ending June 30, 2005, **CoVantage provided members with $8.5 million more in financial benefits than these members would have received at a typical bank.** This amount consisted of $3.2 million that borrowing credit union members received in the form of lower interest rates on loans and through the loan interest rebate program (explained above). Also included in the $8.5 million was $5.3 million that went to members who save at CoVantage. This value to savers was provided in the form of higher rates that members receive on their deposits. **According to the CUNA study, another way to view this return to members would be to say that the average CoVantage member received benefits of approximately $395 per household by belonging to CoVantage Credit Union.**

Other ways that CoVantage Credit Union provides financial value to their member-owners, include:

- Offering a special first-time homebuyers program with no closing costs to help members accomplish the dream of home ownership. This program was offered in combination with CoVantage's already competitive mortgage rates, and even allowed members the opportunity to finance up to 103 percent of their home value.
- We work to educate members on the value of making weekly or biweekly payments on their home, auto, or other loans as a way of saving members a significant amount of interest. Unlike some financial institutions that charge a fee for the ability to make weekly or biweekly payments, **CoVantage offers this option at no charge and even promotes this payment plan to members as a way of encouraging thrift.**
- CoVantage offers and promotes several alternatives to costly payday loans, that include: Small dollar loans (sometimes even $50) with no application fee or penalty, fast loan turnaround that is often 15 minutes or less, Kwik Cash overdraft protection loans with no service charge or transfer fees, courtesy pay checking account services without hefty fees. We also offer one, low fixed rate on our credit cards, regardless of a member's credit score. This rate is 8.95 percent APR.
- Offering fee-free, interest bearing, personal checking accounts to all members, regardless of what other account relationships they have with CoVantage.
- We still offer up to $2,000 share life insurance to the primary member on our share savings accounts.
- CoVantage actively promotes thrift to members and to young people in the communities we serve. **The credit union is currently working directly with over 750 students at six area middle schools where we cover the costs of providing financial education curriculum and help teachers promote the habit of saving**. This is accomplished using the Mad About Money (formerly Googolplex Goes to School) Financial Education

Curriculum. Each of these six schools has their own in-school credit union where CoVantage staff work side-by-side with student “employees” to collect deposits. Deposits of any amount are accepted and there is no minimum balance required so essentially all students can get started with saving.

- Consumer credit counseling is offered to members having financial difficulty with the costs of these services being partially covered by the credit union.
- CoVantage staff is active within the communities we serve and participate in groups such as: Northwoods Saves, VITA Sites, Optimist, Kiwanis, Boys & Girls Club, Chamber of Commerce, Habitat for Humanity, Education for Employment Council, Toys for Tots and many others.
- CoVantage also provides financial support to many efforts, which make the communities we serve a better place for the members who live in them.

At CoVantage Credit Union a portion of our Mission is to: “combine outstanding financial value with exceptional service, while at all times striving to improve the financial well being of members.” The above are just a few examples of how we strive to fulfill our mission.

Thomas L. Poole, President, First Choice Credit Union, Marshfield, WI

I am very concerned about credit unions becoming taxed. Understand that under present economic conditions and competition any increase in expense such as taxes will be directly forwarded on to the members. We provide free life insurance up to $20,000 on all loans except mortgages and we also provide free life insurance on savings up to $4,000. We would no longer be able to offer this benefit to our members if we were taxed.

We would review our policy on granting small loans of $300 to $500 because we actually lose money, the cost of processing the loan is greater than the interest.

We would also look at our fee structure. I know our fees are below the local banks.

We may be forced to lower the rate on regular savings which is almost .5 percent higher than most local banks, and might have to raise loan rates.

Basically if the credit union was to pay income taxes the cost would be transferred to the members. This is not a benefit to our members. The bigger problem then would be why remain a credit union whose main purpose is to serve its member instead of profit. If we switch to a bank charter, as president I could make more money and the stockholders would gain. The only one to lose would be our many members who live paycheck to paycheck and can not afford to buy stock.

Dennis D. Degenhardt, President/CEO, Glacier Hills Credit Union, West Bend, WI

“How does your state-chartered credit union use its tax-exempt status to serve members?”

We do not use our tax-exempt status to serve members. Instead, we are a credit union and that means that we serve our members, period. The tax exemption only allows us to grow our capital so we continue to do so.

How do we serve our members? All kinds of ways:

- We have members with poor credit histories who need a car to get to work. We find a way to make them a loan and start rebuilding their tarnished credit with scores below 600 and even below 500. The banks will not even talk to these consumers.
- We make a loan to a retired college professor who got trapped in the payday lender cycle and a poor credit history to get out of the trap.
- We've designed a payday lending product we will be rolling out with a low 32 percent APR not the 1,157 percent that the professor had.
- We make mortgage loans to members that the secondary market may not take for various reasons.
- We have very competitive rates and walk a fine line so that the borrowers and savers can both benefit.
- We have an Annual Meeting that has become a day filled with learning opportunities before the meeting to help consumers of all walks improve their financial well being.
- We opened a branch in the local high schools to support the financial education taught in the schools as well as providing students with real world job opportunities. No other financial institution was interested in helping the students because the branch is not a profit center.
- Our first reply to a difficult member question is let me see how we can help you not no because we cannot earn enough off that person.
- We had a staff member leave to work at a bank and returned in seven weeks because she could not help people like we do. At the bank she was told to only work with the banks top 100 customers. As she said, everyone who walks in our door is one of our top 100 members.

There are all kinds of examples of our helping our members none of which has anything with the tax exemption, it's what we do. And I believe that is what all credit unions do, too.

Mike Schmidt, Vice President – Business Development Community & Government Relations, Kohler Credit Union, Kohler, WI

As a not-for-profit financial cooperative, Kohler Credit Union believes it is critical that our member-owners benefit from working with their credit union. With that in mind, it was gratifying to see that, according to an independent study, Kohler Credit Union members saved over $3.2 million by working with the credit union. Based on our 30,000 members, this translated to an average of $109 per member.[78]

In addition to helping our member-owners save money with their finances, Kohler Credit Union believes it is important to give back to the communities that we serve. Through volunteerism or contributions, Kohler Credit Union supports over 100 local worthwhile organizations in the communities that we serve. The credit union has been a leader in financial literacy; in fact, Kohler Credit Union recently received a 2007 Business Friend of Education Award *(the only financial in the state so honored)* as a result of our efforts in this area.

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[78] Results from analysis on 2005 data compiled by the Credit Union National Association Economics and Statistics Department; available upon request.

Kohler Credit Union is also proud to co-sponsor an affordable tour of homes, in which we are working locally with Consumer Credit Counseling Services and the Wisconsin Housing and Economic Development Authority (WHEDA) to showcase homes priced at less than $130,000. Additionally, informative seminars are being held in conjunction with this tour.

Buying a new or used automobile can be a stressful experience, with that in mind, Kohler Credit Union has introduced a car buying service to assist with the car buying process. Kohler Credit Union is one of the only financials in the state to provide this service.

By providing money saving options with the products and services that we offer, combined with financial education, either through schools, or in the community, Kohler Credit Union can help our member-owners succeed financially.

Linda J. Ruppel, President, Medical Employees Credit Union, Sheboygan, WI

Our credit union is sponsored by a large medical group. However, the hospital, clinics and doctor's offices are staffed by many persons of lower income. Housekeeping, floors, offices, patient assistants, etc. are predominately female, single parent, head of household who appreciate the lower costs and better earnings received by being a member of the credit union.

We make small loans. We have lines-of-credit at a maximum of $1,000. We offer a unique credit rebuilder loan at a maximum of $1,000, at 9.9 percent, with an 18 month repayment; proceeds are deposited into a savings account securing the loan until it is paid in full and the member receives the full principal deposited plus interest earned on the savings all the while receiving credit for timely repayment.

The most important point is the nature of a credit union. Individuals join together to help one another financially. A credit union is NOT formed to make a profit. There are no profits taken, in the business sense of the word, therefore no tax should be due.

Michele Spanbauer, Oshkosh Postal Employees CU, Oshkosh, WI

I am President of a small state-chartered credit union, Oshkosh Postal Employees Credit Union, in the State of Wisconsin. I would like to answer the question: "How does my state-chartered credit union use our tax-exempt status to serve my members?"

Since we serve the FAMILIES of Postal Employees as well as the postal employees themselves, we do have our share of low income members, who work elsewhere. By comparing our fees, you would be able to see that they are much lower than most financial institutions in our area. We strive for that. Our members can get a loan as low as $50 which is usually never heard of in these days. We pay a fair dividend – much higher than the banks in our area, and even higher than most credit unions; however, it is not necessarily the highest rate (one percent Annual Percentage Yield). We offer certificates, with as low as $500 minimum and even match rates whenever we can. Our consumer and equity mortgage rates are among the lowest in our area.

How can we do this and still own our own building, pay a fair wage to one full-time and three part-time employees? Because we do not pay corporate income tax. We do pay all other taxes (employees, state, user, etc) including a franchise tax that all credit unions in the State of

Wisconsin pay. We just do not pay corporate income tax. We do not make a large profit, but we do get by. However, if we were to pay that corporate tax, gone would be the low fees – higher rates on savings and certificates and lower rates on loans. Since we are small, we probably would not have the tax deductions the large banks have, so our tax would be much more of a burden. Also, since we are member-owned, it would be like taxing our members ... again. Gone would be the choice members now have of where they want to do business – we would be just another bank.

Nancy Zirbel, President, Service Credit Union, Green Bay, WI

Our credit union is about $11,000,000 in assets and a closed credit union. We are small but feel we offer value to our members. We do not offer all the products and services which larger credit unions might offer.

One thing we do each year is a bonus dividend and interest refund. We look at our income and decide what percentage we are able to give back to our members in the form of a bonus dividend (an additional dividend based on the YTD dividend paid on our regular share accounts) and an interest refund (a percentage of the YTD interest paid on loans is returned to the members). If we had to pay income taxes, the amount left to return to our members would be less resulting in a smaller bonus dividend and interest refund. We do not guarantee that we will pay the bonus dividend or interest refund each year but have done so in the past 15 out of 16 years. So this is not just something we did once on a whim but it has been an ongoing process for some time.

We are also a very fee friendly credit union. We charge $.50 for a money order and there is no fee for purchasing travelers cheques. Other fees are also far less than those charged by other larger credit unions or banks. If taxed each year, I am sure that this position would change as well.

Gary L. Elliott, President/CEO, Superior Choice Credit Union, Superior, WI

Our Credit Union has used the tax exemption in the following ways:

- First, we continually monitor the market for interest rates on loans, interest rates on deposits and fees. We follow a pricing strategy that leads our markets on pricing.
- Second, we pay bonus dividends in any year that it is prudent to do so. In 2006 we paid $223,000 in bonus dividends to members.
- Finally we continually refine our product offerings and systems to ensure that our members receive the most up-to-date products at below market prices.

Suzanne Kralick, President, Teachers Credit Union, Beloit, WI

“How does your state-chartered credit union use its tax-exempt status to serve its members?”

We are a closed chartered credit union. We serve all who are employed by any educational facility within our three county trade area. The members do NOT have to be educators, but they must be employed by an educational facility.

We use our tax-exempt status to provide FREE school supplies to ANY educator (whether a member or not) within our field of membership. We get LOTS of requests.

We provide FREE credit counseling to our members, and work with them to help them repair their credit and pay their monthly bills.

We assist our members to establish a family budget AT NO COST.

We provide many services at NO CHARGE:

- FREE home banking
- FREE overdraft protection
- FREE courtesy telephone call in the case of an NSF. We ALWAYS call our members to notify them of a share-draft attempting to clear their account. We give them until noon the next day to make a deposit to their account to pay the item.
- FREE travelers checks

This is a brief listing of how we use our tax-exempt status to serve our members.

John Laufenberg, President/CEO, Tomah Area Credit Union, Tomah, WI

The majority of our members are hard working low to moderate income people who live and reside in rural areas made up of smaller communities. We pride ourselves on providing our members with loans and other financial services that are priced at better rates and terms than they could obtain from any other types of lenders. Our members are not required to, nor do they have the ability to maintain large compensating balances to obtain loans and services at reduced rates. The tax exemption allows us to be more than competitive and that competition in itself forces other institutions to fairly price their loans and services for everyone else as well.

If the tax exemption is removed we will continue to strive to serve out members with better rates and terms. However, the rates on loans and the fees on services we offer will need to rise to pay the income tax. Any tax, therefore, is really a tax on low to moderate income people who can least afford it.

We think our members deserve access to financial services without being charged high fees.

Gregory A. Lentz, President, *WEST*consin Credit Union, Menomonie, WI

In addition to lower loan rates and fees, along with higher savings rates, the following is a listing of added benefits we provide our members and the communities we serve:

- West Cap Rent to Own Program – we finance West Cap's purchase and repair of run-down homes. West Cap repairs the home, makes them energy efficient and then rents them to low-income families with an option to buy.
- Through the West Cap JumpStart Car Loan Program, we finance low-income, single parents' purchase of a car at below market interest rates.
- Trained and certified free Financial Counselor on staff for members with financial problems.

- Western Wisconsin Workforce Resource Center (Job Center) monthly seminars
- Center for Independent Living Financial Education Resource – provide instruction financial software for homebound clients.
- Business Partner Program – free financial wellness business/community support program.
- Free seminars on financial education
- Student Education
    - Googolplex presentations and classroom materials
    - Middle School Credit Union
    - Making the Right Money Moves – education program
    - Grade school, high school and college level presentations and/or workshop and training focusing on financial literacy.
- Member Volunteer Program
- Annual meeting where members elect Board of Directors
- $15,000 awarded annually to students selected by volunteer scholarship committee comprised of members of WCU.
- Credit Union ATM network
- Shared resources with credit unions
- Cooperative partnerships in education for communities

In addition, we contribute well over $100,000 to many worth while community projects every year. We also encourage our staff to contribute time to community projects and organizations. A significant amount of that time is during working hours when the credit union is paying an employee.

Appendix C—Table of Terms

Abbreviation	Term
AIRES	Automated Integrated Regulatory Examination Software
ATM	Automated Teller Machine
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CUMAA	Credit Union Membership Access Act
EDP	Electronic Data Processing
FCU	Federal Credit Union
FCU Act	Federal Credit Union Act
FDIC	Federal Deposit Insurance Corporation
FICU	Federally-Insured Credit Union
FISCU	Federally-Insured State-Chartered Credit Union
FOM	Field of Membership
GAO	Government Accountability Office
IRS	Internal Revenue Service
MFI	Median Family Income
MSAP	Member Services Assessment Pilot
MSA	Metropolitan Statistical Area
NASCUS	National Association of State Credit Union Supervisors
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
SCU	State-Chartered Credit Union
UBIT	Unrelated Business Income Tax

Appendix D—Summary of NASCUS Questionnaire

General Information
What is the credit union's field of membership type and asset size?
Account Information
What is the par value of a share?
How many months does a member have to deposit the par share into their account after opening the account?
What is the minimum balance required to maintain a share draft account?
What is the smallest secured consumer loan balance granted during the past 12 months?
What is the smallest unsecured consumer loan balance granted during the past 12 months?
What is the minimum balance to open a share certificate?
What is the shortest share certificate term available?
Services Offered Checking Accounts Debit Cards Financial Literacy & Education Workshops/Seminars Shared Services ATM Individual Retirement Accounts (IRAs) Health Savings Accounts (HSA) Individual Development Accounts (IDA) Money Orders Travelers Checks IR net or other low cost remittance MicroMember Business Loans (<$50,000) Share Secured Credit Cards Volunteer Income Tax Assistance New Vehicle Loans Used Vehicle Loans Credit Builder Loans Student Loans Government-sponsored loans (Housing/SBA) Member Business Loans Brochures in other Languages (non-English) Bilingual Employees Financial Counseling (Debt and/or Investment) First Time Home Buyers Program Student Run Branches Free Bill Pay Other Services
Community Involvement
Does the credit union offer assistance to low income/or Community Development Credit Unions (CDCUs)?
Has the credit union donated to one or more charity organizations related to the field of membership or community?
Is the credit union involved with collecting funds on behalf of charities?
Does the credit union offer scholarships?
Does the credit union offer small, unsecured loans to help with requirements for employment, i.e., uniform purchase?
Does the credit union serve Small/Select Employee Groups (SEGs)? If the answer is yes, please indicate the number of SEGs served?
Compensation Information
Is a consolidated IRS Form 990 filed in the state? If yes, please answer the following: - What was the 2005 calendar year total compensation for the CEO? - What was the 2005 calendar year total compensation for the CFO? - What was the 2005 calendar year total compensation for the COO?
UBIT Information
Did the credit union pay UBIT taxes in 2005? If yes, please answer the following: - How much UBIT did the credit union pay? - For what services was UBIT paid? Real Estate Insurance Products Other
CUSO Information
Has the credit union invested in any CUSOs? If yes, please answer the following:
- CUSO Name - What is the asset size of the CUSO? - What is the total book value of the credit union's investment in the CUSO? - What is the annual income derived from this CUSO? - What is the percentage of the credit union's total net income derived from the CUSO in the past five years? - What is the amount of total CUSO revenue? - What is the amount of UBIT paid relating to the CUSO? - How many members have used the CUSO's services in the last five years? - How many non-members have used the CUSO's services in the last five years? - What services does the CUSO offer? - What is the most common CUSO service used in the last five years?

NASCUS

1655 North Fort Myer Drive
Suite 300
Arlington, VA 22209
Phone (703) 528-8351
Fax (703) 528-3248

www.nascus.org