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Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandra, VA 22314-3428

**Re: Woodstock Institute Comments on Proposed Rule Part 701.1**

Dear Ms. Rupp:

I am writing from Woodstock Institute in Chicago, a 33-year old research and advocacy nonprofit and a national leader in credit union research. The purpose of this letter is to express our opposition to the proposed changes to the National Credit Union Administration chartering and field of membership policy addressing the expansion of credit unions into underserved areas. There is substantial evidence that many large credit unions have been ineffective at serving lower-income people, and we believe that any regulation that limits their ability to do so in the future should be opposed.

**Introduction**

The Federal Credit Union Act emphasizes the role of credit unions in providing affordable services and credit to consumers with modest incomes. The legislation's purpose, according to its preamble, is "to make more available to people of small means credit for provident purposes through a national system of cooperative credit."

Credit unions offer affordable services that are essential to asset development in underserved communities, including savings and checking accounts, loans, check cashing, wire transfers, and financial counseling. The Institute has published several reports on community development credit unions (CDCUs) and low-income credit unions, whose mission is to provide loans and services to disadvantaged consumers. CDCUs are a very diverse category of credit unions that support community development. Members of the National Federation of CDCUs serve urban and rural communities in all parts of the U.S. Further, CDCUs often work in predominantly minority communities and may be affiliated with community-based organizations or churches.

Ms. Mary Rupp  
National Credit Union Administration  
March 28, 2006  
Page 2

### **The Impact of Limiting Expansions**

Woodstock Institute believes that all credit unions, regardless of charter type, should be permitted to expand into underserved areas and enroll new, lower-income members.<sup>1</sup>

While CDCUs and LICUs have a long documented history of effectively reaching out to lower-income members, it is also essential to determine the role that mainstream credit unions play in underserved communities. CDCUs and LICUs have a very limited scale, representing less than 15 percent of all credit unions. With over 10,000 institutions representing 80 million people, mainstream credit unions have a significant role to play in providing services in underserved areas. Further, the Federal Credit Union Act emphasizes the role of all types of credit unions in providing affordable services and credit to consumers of small means.

However, larger, mainstream credit unions are, in many cases, reluctant and ineffective and expanding their membership to include lower-income people. In 2002, the Institute published *Rhetoric and Reality: An Analysis of Mainstream Credit Unions' Record of Serving Low-Income People*. The report refuted the credit union movement's claim that it meets the savings and credit needs of "persons of small means." It found that credit unions in the Chicago region serve much lower percentages of lower-income households than middle- and upper-income households. The report virtually changed the rhetoric in the industry and was widely disseminated and discussed. Further, many credit union industry leaders confirmed the empirical findings.<sup>2</sup>

This is not to say that because many mainstream credit unions have been unable or unwilling to enroll new lower-income membership, they should no longer be able to expand into underserved areas where affordable financial services are most necessary. Rather, these credit unions must be able to continue offering affordable products and services in underserved areas, and should be encouraged to increase their efforts. Since the end goal is to increase access to financial services, regulatory action should focus on accountability of credit unions which choose to expand, not limit the number of credit unions able to do so.

The NCUA's provision requiring credit unions that have adopted underserved areas to have a physical presence within that underserved area within two years is precisely the kind of accountability that is necessary to ensure credit unions are meeting the financial services needs of their adopted underserved areas. In addition, the proposed changes to the definition of service facility are beneficial to ensuring that credit unions that seek to expand into underserved areas are committed to making a meaningful investment in both the community and in their new members. The construction of a branch, adoption of a shared branch, or similar effort is representative of this kind of meaningful investment.

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<sup>1</sup>For more information on the products and services offered by low-income credit unions see Williams, Marva. "Financial Services for People of Modest Means: Lessons from Low-Income Credit Unions." Chicago: Woodstock Institute, 2004. For a detailed comparison of the terms and conditions of credit issued by banks and credit unions, see Westrich, Tim and Bush, Malcolm. "Blindfolded into Debt: A Comparison of Credit Card Costs and Conditions at Banks and Credit Unions." Chicago: Woodstock Institute, 2005.

<sup>2</sup>Jacob, Katy, Immergluck, Daniel and Bush, Malcolm. "Rhetoric and Reality: An Analysis of Mainstream Credit Unions' Record of Serving Low-Income People." Chicago: Woodstock Institute, 2002.

Ms. Mary Rupp  
National Credit Union Administration  
March 28, 2006  
Page 3

By definition, underserved areas lack the same facilities and opportunities to access services as areas that are adequately served. In 2005, Woodstock Institute released *Reinvestment Alert 27: Increase in Bank Branches Shortchanges Lower-Income and Minority Communities*, an analysis of the geographic distribution of brick-and-mortar banking facilities in the Chicago region. The alert found that, despite the recent boom in new branch construction, many predominately minority or lower-income communities remained substantially underserved in terms of access to a bank branch. Woodstock Institute believes that credit unions, regardless of charter type should be able to move in and fill this void. Therefore, if a credit union is currently serving an underserved area, then they should be permitted to continue to do so even in the event of a change in charter.

### **Conclusion**

Credit unions should have fewer restrictions to providing financial products and services to underserved areas, rather than more restrictions. However, in cases where credit unions have elected to expand into underserved areas, there should be regulations in place to ensure that they are making a meaningful investment, such as a branch or shared branching facility. Finally, these credit unions should be able to continue operating and enrolling new, lower-income members in the event of a charter change.

Please feel free to contact me or a member of my staff for more information at (312) 427-8070.

With best wishes,

Marva Williams  
Senior Vice President

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