



Financial Services & Products ADVISORY ■

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NCUA Proposes Comprehensive Revisions to Field of Membership Rules

On November 19, 2015, the National Credit Union Administration (NCUA) board unanimously approved a proposed rule that would revise the federal credit union (FCU) field-of-membership (FOM) rules. The proposed updates to the FOM rules follows updates to the associational common bond rules finalized by the NCUA earlier this year. The NCUA board chairman has stated that the proposed revisions are expected to “expand consumer choice, increase access to affordable financial services and provide regulatory relief to a wide range of federal credit unions” while keeping the “federal charter competitive with state charters that allow more permissive field-of-membership rules.” Comments on the proposed rule must be received within 60 days after publication in the *Federal Register*, which as of December 2 has not yet occurred.

The proposal is part of an overall effort by the NCUA to update its rules, both to strengthen federal credit unions and as a result of a voluntary review of NCUA regulations in line with the decennial review by the banking agencies under the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The NCUA dubbed 2015 the “Year of Regulatory Relief” and, as noted in July 2015 testimony before the House Financial Services Committee, has been working to ease burdens and expand powers in at least six areas this year, including expanding regulatory relief consideration to even more small credit unions, facilitating access to supplemental capital for risk-based capital purposes, streamlining field of membership requirements, eliminating unnecessary fixed-assets limits, allowing qualified credit unions to securitize assets and removing prescriptive provisions on member business lending.

Revisions

The individuals and entities eligible for membership in a credit union constitute its FOM. The Federal Credit Union Act provides for three fields of membership for FCUs: (1) a single occupational or associational common bond; (2) a multiple common bond, with each group having a distinct occupational or associational common bond; and (3) a community common bond within a well-defined local area. The NCUA’s FOM requirements are described in the NCUA’s Chartering and Field of Membership Manual. The proposed rule would revise these FOM requirements, including community common bonds, the rural district definition, the underserved area determination, multiple common bonds and additional requirements.

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Community common bonds

Membership in a community credit union is available to individuals or organizations within the credit union's "well-defined local community, neighborhood or rural district," as defined by the NCUA. The NCUA has provided two geographic units that meet the statutory criteria for a well-defined area: (1) a single political jurisdiction; and (2) a single Core Based Statistical Area (CBSA) or a Metropolitan Division (MD) of a CBSA, as designated by the U.S. Census Bureau, or a well-defined portion of either a CBSA or MD, subject to a 2.5 million CBSA population limit. For a credit union serving a portion of a CBSA, the portion currently must include the core area of the CBSA.

The proposed rule would:

- Modify the "statistical area" definition such that a portion of a CBSA could now qualify as a well-defined local community if that portion (rather than the entire CBSA of which it is a subset) does not exceed the 2.5 million limit.
- Repeal the core area requirement as an indicator of service to low-income or underserved markets; the NCUA will instead continue to review business and marketing plans to assess service objectives.
- Expand the existing single CBSA definition of a well-defined local community to include Combined Statistical Areas as designated by the Office of Management and Budget (OMB), subject to the 2.5 million limit.
- Permit the addition of an area adjacent to a well-defined local community upon a showing of interaction or shared common interests. For FCUs seeking to add an adjacent area, the proposed rule would permit the applicant to follow a streamlined set of business plan requirements.
- Recognize each individual congressional district as a single political jurisdiction.

Rural district definition

An area may currently qualify as a "rural district" if (1) the total population does not exceed the greater of either 250,000 or 3 percent of the population of the state in which the majority of the rural district's residents would be located; or (2) at least 50 percent of the population resides in census blocks or other geographic units the Census Bureau designates as "rural" or the population density does not exceed 100 per square mile. The proposed rule would revise the definition to increase the population limit from 250,000 to 1 million and omit the 3 percent limit, and would revise the definition so that a proposed area would qualify as a rural district if it is among the rural counties identified by the Consumer Financial Protection Bureau (CFPB) or the population density does not exceed 100 per square mile. The proposed rule would also prohibit a single rural district from exceeding the outer perimeter of the states immediately bordering the FCU's headquarters state.

Underserved areas

Multiple common bond credit unions may serve members residing in what the NCUA determines to be an underserved area. The NCUA calculates the area's concentration of facilities ratio, relying on FDIC and NCUA data. If the initial calculation fails to identify the proposed area as underserved, the proposed rule would exclude the presence of non-depository institutions from the FDIC data and non-community credit unions from the NCUA data and recalculate the ratio. The proposed rule also proposes two alternatives to this ratio: whether the area is among the underserved counties designated by the CFPB or a metric of the FCU's choosing, if based on data of the NCUA and federal banking agencies.

Multiple common bonds

In certain situations, when the formation of a single common bond credit union is not practicable or consistent with NCUA safety and soundness standards, the group may be included in the field of membership of a credit union that is within reasonable proximity to the group's location, even if it has dissimilar common bonds. The NCUA considers the reasonable proximity criterion with regard to a service facility of the credit union. The proposed rule would revise the "service facility" definition to include access to the credit union's online services by certain occupational and associational groups.

The proposed rule would permit multiple occupational common bond credit unions to include employees who work regularly for a contractor of the credit union's select employee group (SEG) sponsors and employees of an office or industrial park's tenants as an SEG. Additionally, the proposed rule would reorganize and streamline the application process for multiple common bond field of membership expansions according to a group's size (i.e., fewer than 3,000 members; 3,000 to 5,000 members; and more than 5,000 members).

Additional revisions

The proposed rule would also:

- Include within a credit union's common bond the honorably discharged veterans of any branch of the U.S. Armed Forces listed in the credit union's charter.
- Clarify the NCUA's trade, industry or profession definition for a single occupational common bond to include employees of types of entities that have a strong dependency relationship on, and whose employees work directly with employees of, other entities within the same industry.
- Update the NCUA's Chartering and Field of Membership Manual generally to reflect NCUA practices.

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