

REPORT
To the CUNA Board

CUNA RENAISSANCE COMMISSION

June 2001

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FINAL REPORT

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PREFACE

The Renaissance Commission was appointed by CUNA Chairman Dave Maus in June of 2000 with the following mission:

The CUNA Renaissance Commission will focus on ways to improve the value of federal and state credit union charters. It will address both the statutory and regulatory environments that affect the ability of credit unions to serve members. It will seek broad input from a variety of sources. It will provide an open forum to all elements of the credit union movement, and those having an impact on the movement.

The Commission conducted an extensive dialogue with the credit union movement and met several times both in subcommittees and as a whole. This document is the Commission's report to the CUNA Board. It contains the following information:

- The Commission's findings on why change is necessary
- The Commission's four recommended vision statements
- A description of how the Commission went about its task, and
- A summary of the input the Commission collected and reviewed.

An exhaustive list of documents covering the input provided to the Commission is available for CUNA members for download at www.cuna.org/rencomdocs.

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Rick Rice, IN, Vice Chairman
Tim Alford, OR
John Annaloro, WA
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*The Commission also wants to recognize the contributions of Mary Dunn, Richard Gose, Pat Keefe and Kathy Thompson.

CHAPTER 1

THE NEED FOR CHANGE

Whom credit unions may serve, the services they are allowed to offer, and how they may offer them are governed by a complicated mass of laws and regulations. The foundations of this legal structure are enabling state and federal laws that date from the 1920s, 1930s and 1940s. Although there have been a number of additions, and even further limitations to credit union laws and regulations, the edifice still stands on a base that is 70 years old.

Since the first half of the last century, much has changed in the U.S. economy. For example:

- In the 1930s fully one in five U.S. workers was employed on farms. Today that ratio has fallen to one in forty.
- In the 1930s the service sector accounted for only a third of the workforce. Today it represents more than 80 percent of all workers.
- Of the companies on the original Standard & Poors 500 in 1957, only 74 remained on the list by 1997.
- By the year 2000 per capita income in the U.S. has risen to \$25,400 from \$6,200 (in 2000 dollars) in 1930. This means the average American today enjoys a standard of living that is four times greater than in 1930.

A revolution in markets for financial services has accompanied changes in the basic economy. The consumer credit industry, in its infancy in the 1930s, is now a \$1.5 trillion market. New ways to access accounts at financial institutions such as credit cards, debit cards, audio response, and the Internet, have revolutionized the way consumers deal with financial institutions. Households have distributed their wealth over a much broader array of financial assets than simply deposits in federally insured accounts. In 1945, fully 29 percent of household financial assets were in depository institutions. Today, that figure has fallen to only 12 percent. The pace of change in the past two decades has accelerated with deregulation of many financial service markets, the entry of new, non-regulated players, and the launch of the information economy.

Accelerated change in the overall business environment, including rapid technological change, increased competition and emerging member expectations, requires credit unions to dramatically transform themselves or face the danger of becoming irrelevant to their members. The magnitude and variety of the changes necessary for continued viability require credit unions to constantly rethink and recreate how they serve their members. This is no easy task. Consider again that more than 80 percent of the S&P 500 firms back in 1957 are no longer on that list. They either went out of business, were taken over, or shrank from the list. The message is clear: either rapidly adapt or become irrelevant.

Unfortunately, credit unions do not find themselves in the best of circumstances to be able to adapt to a changing world. As insured depository institutions, credit unions belong to one of the most regulated of all U.S. industries. Not only do credit unions face

the constraints on innovation that fall on all regulated financial industries, they also must operate under a statutory and regulatory structure that has seen little change over the last two-thirds of a century.

Despite these limitations, credit unions have become significant players in the financial services market. There are more than 80 million credit union members in the United States. Almost four in ten households has at least one adult who uses a credit union. But, the legal and regulatory patches applied over the decades have not been enough to keep up with the evolving economy, financial markets and consumer needs. There is a danger that credit unions will not be able to continue their vital contribution to the U.S. economy without significant revisions in law and regulations.

Credit unions do not shrink from the special responsibility they have as stewards of their members' hard-earned financial assets while operating in a more restricted environment than most other U.S. businesses. When a business such as an Internet service provider fails, its customers are inconvenienced until they can arrange for alternate service, and its employees lose their jobs. When a credit union fails, the deposit insurer has to make good on virtually all of the shares and deposits of the credit union. Recognizing this essential difference, credit unions do not seek the elimination of supervision and regulation. Rather, they seek a modern legal system that will enable them to adapt to not only the dramatic changes in financial services markets of the past few decades, but also to the even greater changes that are sure to come in the future.

Faced with outdated limits on their charters, credit unions are forced to consider alternatives such as converting from a federal to state charter, or the reverse, or even to consider conversion to some other form of financial institution charter that provides more operating flexibility. The rate of charter conversions accelerated between 1998 and 2000 and is likely to continue at this pace. The credit union movement also continues to experience consolidation. Credit union size and diversification are no longer the leading factors. Instead the driving forces are the outdated barriers in place, which prohibit a credit union's flexibility to best serve its members. In fact, these barriers are forcing directors and management from small and large credit unions alike to seek significant reform so as to not need to evaluate the intrinsic gains and synergies yielded by potential charter changes.

The rapidly changing environment is likely to render any credit union that holds on to the status quo a non-player, and quickly. Such a credit union may physically exist in 10 years, but it risks sliding into increasing irrelevancy. Members are shifting away from a depository mentality to an investment mentality. They are becoming increasingly open to new products and services. Thus the retail financial institution is being defined by the evolving member profile. Credit unions must be able to offer various products to create customized services for their members.

The issue is remaining relevant to the evolving needs of members. Long-term strategy aimed at maintaining the credit union's relevancy is the responsibility of every board, management team and trade association.

Rather than pursuing instant gratification in the form of charter conversions, we should confront the challenge the movement faces by taking a hard look at what needs to change and setting the vision for that change so that credit unions can continue to bring the benefits of cooperative financial services to their members. Such change should be

business-focused and visionary, should seek long-term benefits, and unlock hidden member value and growth opportunities.

It is crucial that credit unions have the freedom to adjust, adapt and innovate in a world where the pace of change is likely to accelerate. According to *Creative Destruction* by Richard Foster and Sarah Kaplan, 20 years from now three-quarters of the S&P 500 will be firms “we don’t know today.” Most of those that won’t remain on the list will fall off not because of an outdated regulatory and legal system. Instead, their departure will result from management’s inability and unwillingness to change. Credit unions need the regulatory and legal freedom and flexibility to adapt so that they at least have the chance to try to change and adapt.

The Renaissance Commission does not have a crystal ball that provides a clear picture of what financial services markets will require of service providers 10 years in the future. But the Commission is certain that those institutions which remain relevant to their users that far into the future will have undergone fundamental change. Credit unions need the flexibility and options to change in order to meet the needs of their members.

American consumers deserve the right to be credit union members and credit union members deserve a credit union that can deliver the services they require. Credit unions need flexibility to adapt to members’ changing needs. Credit unions do not want to be banks. They want to remain cooperative, not-for-profit financial institutions, controlled by volunteer boards. They just want to continue to be a viable financial alternative, providing value to their members and keeping prices lower for all consumers.

CHAPTER 2

VISION STATEMENT RECOMMENDATIONS

Based on the input it received from credit unions, the Commission determined that it needed to address four major areas: the mission of credit unions, credit union powers and authorities, field of membership, and regulation and insurance. After extensive deliberation on these four areas, the Commission has developed four vision statements that it recommends become part of CUNA's long-range policy. This chapter presents those vision statements.

Credit Union Mission

The Commission believes that having a clear and appropriate definition of what credit unions are all about is extremely important. To the extent lawmakers and regulators understand and accept a definition, that definition will determine what credit unions can expect to be held to by their chartering and regulatory authorities.

The current language of the Federal Credit Union Act was drafted in the early 1930s at a time when the economy was in the midst of the Great Depression, and credit unions were just beginning to grow in the United States. Although the definition of the federal credit union system in the Act is appropriate to those times, it no longer has appropriate meaning at the beginning of the 21st century. The current explanation of the nature of the federal credit union system is revealed by the purpose of the Act:

“An Act to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States.”

The Commission believes it is time to declare victory in achieving this mission, and to craft a mission that will carry credit unions into the 21st century. There is today no lack of a market for U.S. government securities. Credit unions have been extremely successful in making credit for provident purposes available to people of all means. In the early 1930's the vast bulk of the population were people of “small means.” In real dollars, average income per person was one fourth what it is today. Through the growth and development of the U.S. economy, coupled with the provision of financial services by credit unions and others, the vast majority of the population is now much better off, although there are still many households of modest means who need financial services. The credit structure of the United States, on the verge of collapse in the 1930's, is now on very sound footing.

The Commission believes that credit unions should continue to strive to serve those of modest means. Indeed, serving those of modest means, as well as all

other members, has always been central to the credit union mission. However, the Commission believes that how a credit union chooses to serve the various segments of its membership should be determined by each credit union's board of directors. Further, the Commission makes the following observations :

- As more of the population advances from a situation of modest means to an improved standard of living, they should not be precluded from using credit unions.
- Credit unions have an obligation to improve the quality of life of **all** Americans.
- Credit unions' unique ways of treating all members equally provide particular advantage to those of modest means compared to for-profit financial institutions. Credit unions are founded on democratic principles so that the ability to vote in board elections is granted on the basis of one member, one vote, regardless of the number of dollars in an account. Credit unions view their members of modest means not as profit centers but as members with unique service needs. Credit unions are typically much more willing to serve those with small balances in their accounts than are other financial institutions.

In light of these new realities, the Commission believes there is still a vital role for credit unions to play in the nation's finances, and this role should be defined in the context of the 21st century. Therefore, the Commission recommends adoption of the following:

Vision Statement on the Mission of Credit Unions

The purpose of credit unions is to promote the economic well being of all people through a Credit Union System which is cooperative, member-owned, not-for-profit, and therefore tax-exempt; to provide a secure financial alternative for all consumers, and to provide financial and related products and services to members.

- *Financial institutions that conform to the above principles should not be subject to income tax, and must have their own unique regulatory and share insurance system.*
- *Cooperative financial institutions generate wealth and benefits for their members in a number of ways, and those members incur tax obligations as the benefit is distributed in the form of dividends.*
- *Credit unions include service to people of modest means in their business activities because of the inherent dedication of not-for-profit, cooperative financial institutions to such service, the traditions and values of credit unions, and the commitment of boards of directors to credit union values.*

Credit Union Powers and Authorities

The Commission believes there needs to be considerable expansion in the powers and authorities available to credit unions to enable them to meet the constantly changing needs of members. Technological and other innovations have led to disintermediation. This has resulted in a blurring in the eyes of members of the line between various types of financial services and assets. Given the rapid evolution of financial markets, technology and member expectations, an increased ability to respond to member needs is necessary if credit unions are to remain relevant to their members.

The Commission notes that over the past three decades, other regulated depository financial institutions secured broad expansions in powers and authorities. Until the very end of that period, this was achieved chiefly through the regulatory process. Both the Office of the Comptroller of the Currency and the Federal Reserve Board liberalized the structure of the banking system and granted new power to banks through issuance of new regulations and reinterpretation of old ones. For example, the Office of the Comptroller of the Currency (OCC), through interpretive letters it issued in the 1990's, broadened national banks' authority to sell, and in some cases to underwrite, certain types of insurance, beyond the "towns of 5,000 or less" population restriction in the National Bank Act. And a variety of securities brokerage services have been permissible directly and through service corporations and operating subsidiaries of national banks for a number of years, as a result of court rulings and OCC letter rulings. This process culminated with the passage of the Gramm-Leach-Bliley Financial Modernization Act of 1999. In fact, many observers commented that GLB did little other than codify the changes that had already been implemented through regulatory actions.

Credit unions certainly do not want to become banks. Rather, credit unions need the flexibility to be able to offer their members – both individuals and businesses -- what they need. As a practical matter, this means credit unions must be free to offer multiple financial products in the future, as those products evolve. For American consumers to be able to benefit from the choice of obtaining services from not-for-profit financial cooperatives such as credit unions, credit unions must be granted the flexibility to be able to offer those services their members want, need and demand. The movement's long-term viability depends on it.

The Commission acknowledges that credit unions have an obligation to operate in a safe and sound manner. Indeed, the not-for-profit, volunteer driven character of credit unions goes a long way to explaining why the financial record of the credit union movement has been so sound. The absence of stockholders expecting the maximization of profit leads to a culture that eschews excessive risk taking for short-term gains. Access to alternate forms of capital constructed in a way that is completely consistent with credit unions' not-for-profit, cooperative structure will contribute further to the safe operation of credit unions.

Credit unions have gained the loyalty, trust and support of their members because they provide members with excellent products and high levels of service at very favorable prices. They perform in this fashion because they are member rather than profit driven. For credit unions to be able to continue to offer excellent products with high levels of service, they will need sufficient flexibility in powers and authorities as the economy and financial markets continue to evolve. Moreover, just as credit unions require greater

flexibility in order to continue adding value to member service, so do corporate credit unions need similar broadened authority to meet credit unions' service needs.

Not all credit unions will need to take full advantage of the wider powers and authorities that the Commission believes is necessary. The Commission envisions a legal framework that would make it permissible for credit unions to make use of a wider array of powers and authorities. Ultimately every credit union must have the freedom to decide what to offer its members.

Because the Commission believes that consumers have the right to come together through credit unions to offer a relevant set of financial services to all consumers, the Commission recommends adoption of the following:

Vision Statement on Powers and Authorities

Credit unions, including corporate credit unions, must be able to engage in business activities necessary to meet the needs of and to provide opportunities to their members. The decision of what specific products and services should be offered must rest with the member/owners of the credit union. Credit unions must be able to accept shares and deposits on the terms defined by the credit unions, to make loans of any type appropriate to their membership, and to place funds in a wide range of investment alternatives to be competitive in the marketplace. Credit unions must have the ability to build alternative capital, subordinated to their share insurance fund, so that they have the financial base to offer these services and adjust to fluctuating economic conditions.

Field of Membership

The Commission strongly believes in the value that credit unions, as cooperative, not-for-profit financial institutions provide their member/owners. In fact, the Commission believes that the benefits of credit union membership are so profound that all Americans should have access to credit union membership. Indeed, consumers should be able to belong to multiple credit unions if they so choose. It is all about choice.

People have the right to work cooperatively to improve their financial well being. They should not have to pay a for-profit company to provide them something if they can come together with others in a cooperative to provide it to themselves. Consumers should have the freedom to choose a credit union.

The Commission does not believe that the idea of field of membership should be abandoned. The notion that each credit union serves members from a defined group is central to the idea of credit unions. However, the Commission believes that each group of members through their board of directors should be able to decide just what comprises the field of membership of their credit union. Fields of membership should not be forced into artificial collections of disparate groups through artificial limitations. Groups of people should be able to define fields of membership in terms of whatever combinations of employment, association or geography makes the most sense for the members and the operation of the credit union on behalf of the members.

For credit unions to be able to operate efficiently in a changing economic environment, fields of membership should be flexible to respond to changing circumstances. By diversifying across different groups with different economic bases, credit unions will be able to operate in a safe and sound manner and maintain a high level of service to all members, even when some groups might encounter changing economic conditions. Broader fields of membership also allow credit unions to take advantage of economies of scale.

The Commission heard from credit unions of all sizes, and also reviewed the work of CUNA's Small Credit Union Task Force in 1999, and the positions recommended by the Field of Membership Task Force in 1994. The Small Credit Union Task Force found that although concern about overlapping fields of membership exists among some smaller credit unions, it is not among the most significant of the challenges identified by small credit unions. Two of the recommendations of the 1994 Field of Membership Task Force, later adopted by the CUNA Board are:

- Every consumer should have access to credit union services through one or more credit unions.
- Competition among credit unions is beneficial to members, and cooperation among credit unions is essential to extending credit union services to more credit union members and potential members.

Based on that input, the Commission does not believe that credit unions should expect to have their fields of membership excluded from the field of membership of other credit unions. Overlapping fields of membership should be permissible.

Because the Commission believes that the ability of all consumers to benefit from credit union membership is so important, the Commission recommends adoption of the following:

Vision Statement on Field of Membership

All consumers have the right to improve their financial well being through the services of not-for-profit financial cooperatives. Credit unions through their boards of directors must have the right to determine their own fields of membership to enhance safety, soundness and service.

Regulation and Insurance

The Commission realizes that all federally insured depository institutions are subject to more regulation than are most U.S. businesses. Further, because of credit unions' unique cooperative share insurance funds, credit unions have a special interest in ensuring the safe and sound operation of all credit unions. However, the Commission is concerned about the potential for over-regulation or unwarranted regulation of credit unions.

The Commission believes there have been occurrences of excessive intervention in the affairs of credit unions by credit unions' federal regulator and share insurer. In the past few years, credit unions have come under unusual pressures that range far beyond the appropriate regulation and supervision of safety and soundness. For example, the community action plan requirements for federal community credit unions are not only unjustified, but are against the intent of Congress. Although NCUA has made considerable improvements in its field of membership interpretations, the voluntary merger area is still an important concern. Many small-business lenders feel that NCUA's rules on such loans are far too restrictive. Other examples where regulatory influence is excessive are the fixed assets rule, and the rule on purchase of loans from another credit union.

The recent dramatic increase in the Overhead Transfer Rate raises a real concern that NCUA is defining too many of its activities as pertaining to "insurance" and consequently overcharging the Fund for insurance-related, supervisory activities. In part to address this issue, the Commission believes the Agency should do more to separate its actions and activities into those that are insurance related (NCUSIF) and those that deal with the regulation and supervision of federal credit unions (NCUA). In that regard, not all issues that relate to safety and soundness are insurance related. Both the NCUA and state supervisory authorities deal with safety and soundness issues in their regulation and supervision of credit unions chartered under their authority.

The Commission believes that state and federal supervisory authorities relate to credit unions in a variety of ways: as consultants, as supervisors and as insurers. In practice, these roles sometimes overlap, and when that happens it can be either confusing to credit unions, or credit unions may be subjected to unnecessary regulation and supervision. The Commission believes that supervisory authorities should clearly delineate and separate these roles to avoid confusion. Suggestions from an examiner should be clearly distinguished from required actions. In the role of insurer, the NCUA should limit its examination to material safety and soundness issues only.

The Commission is of the strong opinion that supervisory authorities must limit their activities to those related to safety and soundness, and compliance with applicable laws and regulations. In particular, it is not the responsibility of regulatory authorities to define, direct or examine the social mission of credit unions. That is the responsibility of each credit union's board of directors.

On the issue of safety and soundness, the Commission feels that rather than addressing a general notion of "safety and soundness," regulatory authorities would best achieve their goals by identifying, defining and supervising practices that they believe to be materially "unsafe and unsound." Instead of trying to direct the safe and sound practices of credit unions, if regulators focused more on identifying unsafe and unsound practices, and steering credit unions away from such practices, their mission would be achieved. In such a regime, credit unions would have more leeway to introduce innovations and maximize member service.

On the subject of share insurance, the Commission believes strongly in the importance of having a robust, viable and effective federal share insurance system. Nevertheless, the Commission feels that a private share insurance option should be available.

Because the Commission believes that effective and enabling regulation and insurance is vital to credit unions' ability to serve members, the Commission recommends the following:

Vision Statement on Regulation and Insurance

The government should regulate only those activities that are materially unsafe and unsound. In addition, regulators must ensure compliance with applicable laws. A regulatory environment must exist that advances the interests of credit unions by empowering them to provide the range of products and services they determine are important to their memberships. There should be a viable dual chartering system. The NCUA and state supervisory authorities should act cooperatively. Actions taken by the NCUA Board on NCUSIF matters should be separate from those taken on NCUA regulatory and supervisory matters. In addition, a private insurance alternative should be available to all credit unions.

CHAPTER 3

COMMISSION HISTORY AND DESCRIPTION OF WORK

The Renaissance Commission was appointed by CUNA Chairman Dave Maus in June of 2000. Mr. Maus appointed the Commission to address a growing number of concerns that had come to CUNA's attention regarding impediments to credit unions' ability to serve members. The Commission was appointed with the following mission:

The CUNA Renaissance Commission will focus on ways to improve the value of federal and state credit union charters. It will address both the statutory and regulatory environments that affect the ability of credit unions to serve members. It will seek broad input from a variety of sources. It will provide an open forum to all elements of the credit union movement, and those having an impact on the movement.

Several criteria were used to invite credit union leaders to serve on the Commission. Commissioners from credit unions were selected so that all regions of the country, and both larger and smaller credit unions were represented. Commissioners came both from the ranks of those with experience in CUNA's governmental affairs policy making bodies, and fresh talent that came highly recommended by leagues and other movement leaders. In addition to the 19 credit union officials, the Commission had four league presidents, and four ex officio members: the president and chair of CUNA, as well as the chairs of the American Association of Credit Union Leagues and the Association of Corporate Credit Unions. The Commission was staffed by members of the senior management teams of CUNA and CUNA Mutual.

At its initial meeting in August of 2000, the Commission adopted two principles to approach its mission. The first is that the Commission should look to the long-term future of the credit union movement, what the needs of members will be, and the future ability of credit unions to meet those needs. The Commission should focus on developing a long-range vision of what changes in laws and regulations might be necessary to the future ability of credit unions to serve their members. The second principle is that before forming any recommendations, it is incumbent on the Commission to seek input from throughout the credit union movement, and beyond. This was considered important because the subject matter of the Commission is so significant, and its final recommendations could very well significantly affect the entire credit union movement.

The first order of business for the Commission was therefore to organize an input-gathering process that gave everyone in the movement an opportunity to participate, and would accurately assess the needs and wishes of the credit union movement as expressed by its professional and volunteer officials. The Commission decided to gather this input in four ways:

- Through a series of focus groups that would guide groups of credit union officials through a planned set of issues discussions.
- Through a series of hearings to which a number of credit union and other groups would be invited to submit testimony.

- Through inviting leagues to conduct Renaissance meetings in their states and to forward the results of those meetings to the Commission.
- Through an open dialogue with the credit union movement, inviting any interested credit union to provide input to the Commission by means of email, an open recording voice mail system, or by mail.

The Commission also decided early on to make all documents and input presented to the Commission available on its web page so that the entire movement could keep abreast of the input it was receiving, with the opportunity to comment if desired.

The Commission found the quality, depth and range of the input it received to be of enormous value and is very grateful to all those who testified at a hearing, participated in a focus group, attended a state meeting, or communicated directly with the Commission. This input clearly defined the scope of the issues credit unions face, and the areas most in need of being addressed. A summary of the input received by the Commission is presented in the next Chapter of this report.

Once the data gathering process was well under way, the Commission determined that it would need to tackle three areas of concern: field of membership, credit union powers and authorities, and regulation and insurance. In addition, the Commission determined that it was essential that the mission of credit unions be defined by credit unions instead of by others. As a result, the Commission was divided into three subcommittees to deal in depth with the three areas of concern. In addition, a subgroup was established to develop a statement of credit union mission. The work of these subcommittees formed the basis of the Commission's recommendations.

CHAPTER 4

INFORMATION GATHERED

A major portion of the Commission's work involved gathering input from throughout the credit union movement and beyond on current and future developments in financial services markets, and the needs of credit unions to be able to respond to the future. The Commission gathered this input in a number of ways, including focus groups, public hearings, league meetings, and by inviting input from individual credit unions. This chapter summarizes the very useful information provided to the Commission by a variety of parties. More detailed documentation on much of this input is available for CUNA members at www.cuna.org/rencomdocs.

Focus Groups

From November 8 to November 28, 2000, the CUNA Renaissance Commission sponsored 13 focus group sessions with executives from credit unions representing various segments of interest: asset size (large and small), charter type (federal and state), insurance status (federal and private), and position (CEO/manager and volunteer board member). The purpose of this qualitative research was to identify necessary and critical changes to the credit union charter, and the laws and regulations that govern credit unions, in order to ensure the value of both federal and state credit union charters. In order to achieve a wide geographic representation, focus groups were conducted both in-person, and via teleconference. A total of 99 participants from 36 different states participated in the focus groups.

As a warm-up, each focus group was asked for their top-of-mind impressions (i.e., a word or phrase) of the terms "federal charter" and "state charter." The results of this exercise were revealing. In general, federal charters were viewed as much more limiting than state charters. Among the phrases most commonly used to describe federal charters were: "restrictive," "inflexible," "highly regulated," "constricting," "limiting," "outdated," and "out of touch." Some participants suggested more positive impressions, such as: "sophisticated regulating agency," "real strong," and "safety and soundness."

In general, state charters were described in a more positive light. State charters were described as being "liberal," allowing for "more flexibility," under "local control," having an "open" field-of-membership, and a "better business opportunity." Some described state charters as the "charter of choice," as "highly regarded," and as "an alternative." They see the state charter as "better," and "more desirable." The term state charter is associated with choices, options, and freedom. However, there are some who express negativity using terms such as "second rate," "concern [given the S&L crisis]," "subordinate to NCUA," and "more confusing."

Focus group participants were also asked for their views on converting from federal to state charters. Some participants had converted, and a number were considering the move. The primary reason for converting was to increase and enhance fields of membership. In one case, full penetration levels had been reached and there was nowhere to grow. Another credit union wanted to serve its industry across state lines. Sometimes it's a matter of survival because the credit union's original sponsor group is becoming less supportive or loyal. Others were exasperated by restrictions caused by

SEG locations and community boundaries that were problematic or made no logical sense. According to recent converters, an added bonus for switching to a state charter is the resulting “less restrictive” environment. Another advantage is the enabling attitude of the state regulator, and their attention to business rather than politics. Disadvantages appear to be mostly monetary in nature (i.e., having to pay state sales taxes, and greater examination fees). No one appeared to regret having made the change.

The primary objective of the focus group research was to identify changes in laws and regulations—related to the credit union charter, credit union powers, product/service offerings, and ways of doing business—that would have a significant positive effect on credit unions’ ability to serve members.

The Commission found that there are many desired changes—37 separate changes were identified over the course of the 13 focus group sessions. The desired changes for the most part fall under three categories:

- Field of Membership. There were a wide variety of suggestions on opening up fields of membership, ranging from minor modifications of the current rules to the complete elimination of any field of membership requirement in credit unions.
- Powers and Authorities. Again, a number of suggestions were made as to how credit union powers and authorities might be increased to improve member service. Among the most frequently included as most significant were: allowing secondary capital, increasing product and service powers, reducing business lending restrictions, and allowing more income sources.
- Regulation and Insurance. Not surprisingly, there were a number of views on ways to improve regulation and insurance for credit unions. Some of the higher rated items were: provide general regulatory relief, separate the actions of the NCUA from NCUSIF, create a private insurance alternative, eliminate the Community Action Plan requirement, limit regulatory scope, restructure NCUA Board qualifications, and reduce mortgage lending restrictions.

In the course of discussing desired changes to law and regulation, an issue that frequently arose was concern about the potential political reaction that might arise to credit unions’ seeking improvements in their legislative and regulatory environment. Most focus group participants do not feel there should be any need to make political compromises for the changes they seek. There appears to exist a sense of entitlement to changes that would place credit unions on a level playing field with other financial institutions. They believe the clear public policy imperative is that credit unions provide excellent service to all segments of their membership on a not-for-profit, cooperative basis, and that laws and regulations should be modified to facilitate the provision of such service in such a way. Many focus group participants believe that once political decision-makers are informed of this logic, there should be little resistance to approving the changes credit unions seek. They also believe there is considerable strength in credit unions’ political position in Washington. A few participants believed that any attempts to modernize credit union law and regulation will doubtless receive a strong negative reaction in the banking industry, which will try to influence policymakers against making any changes. They expressed concern that credit unions not accept any significant compromises because of this, and that caution be taken to not threaten the current perception and treatment of credit unions in Congress. Participants were adamant that in no way should credit unions’ tax exemption be put at risk.

Public Hearings

The Commission held three public hearings. At each hearing, witnesses presented testimony to the Commission and responded to questions from Commissioners. Following are brief outlines of the testimony provided at each hearing.

HEARING 1. Chicago, Illinois. October 2, 2000. This hearing was held in conjunction with CUNA's Annual Meeting and Symposium.

PANEL I. Credit unions that have converted charters

- Dave Vigen, ESL FCU, Rochester, NY
 - The credit union had converted from a thrift to a credit union.
 - Found the credit union charter in its current form attractive compared to bank or thrift charters.
 - The tax exemption is central to credit unions' ability to meet member needs.
 - Does not see the need for major overhaul of credit union charter.
 - The most important single fact about credit unions is that they are cooperatives.

- Grace Mayo, Telesis CU, Chatsworth, CA
 - The credit union had converted from federal to state charter.
 - The state regulatory system in California has distinct advantages over the federal system.
 - Local knowledge of a state regulator has value.
 - Private insurance is increasingly attractive as new federal rules are applied to federally insured, state credit unions.
 - Member business lending restrictions and prompt corrective action rules hinder a credit union's ability to expand services.

PANEL II. Small and large credit unions

- Don Larsen, Community Credit Union, Tacoma, WA
 - Chair of CUNA's Small Credit Union Committee.
 - Federal regulations are overreaching into state issues.
 - Small credit unions need regulatory simplification.
 - Supervisory authorities should allow investment in the movement.
 - Mergers should only be a last resort.
 - Small credit unions need field of membership flexibility.
 - Volunteer boards might need legislative protections.

- Terry West, Jax Navy Credit Union, Jacksonville, FL
 - The credit union act should stress service to all people, not just those of small means.

- Field of membership and common bond rules are outdated and restricting.
- Rules and regulations hinder innovation in these areas: business lending and services, mortgage lending, non-deposit investments, and sources of non-interest income.

PANEL III. Private Share Insurance

- Dennis Adams, American Share Insurance, Dublin, OH
 - Benefits of Private Share Insurance
 - Separates insurance from regulation
 - Promotes efficiency and reduces bureaucracy
 - Encourages Innovation
 - Suggested Plan to Further Insurance Choice
 - Develop plan for broad-based delivery
 - Educational campaign to raise awareness
 - National plan to enhance legislative environment
- Gordon Dames, Mountain America Credit Union, Salt Lake City, UT
 - What is credit union insurance?
 - Brief history of NCUSIF
 - Current state of NCUSIF
 - The opportunity that cooperative insurance creates for state CUs
 - More timely and effective oversight of insured institutions
 - More timely and comprehensive CU performance data
 - Elements of a new insurance model
 - Urgency of acting now

PANEL IV. National Association of Federal Credit Unions

- James Mills, Three Rivers FCU, For Wayne, IN
- Mike Vadala, The Summit FCU, Rochester, NY
- Fred Becker, NAFCU
- Bill Donovan, NAFCU
 - NAFCU's view of the current situation
 - NAFCU's input gathering to date
 - NAFCU's lobbying efforts
 - NAFCU's communication with the credit union movement
 - NAFCU's legislative agenda

PANEL V. National Association of State Credit Union Supervisors

- Lori Rush, Universal One CU, Dayton, OH
- Doug Duerr, NASCUS
- Mary Martha Fortney, NASCUS
 - Look to other regulatory systems as examples

- Seek new powers and authorities
- Separate NCUA and NCUSIF functions, expand NCUA Board
- Alternate share insurance
- Allow broader access to for consumers to credit unions with strong dual chartering

HEARING 2. Washington, DC. December 13, 2000.

PANEL I. Model Credit Union Act Working Group

- Casey Wheeler, Oregon CU League
- Stacey Augustine, Washington CU League
- Tom Gaines, Tennessee CU League
 - Working on model state CU act
 - Expand field of membership
 - Expand powers and authorities
 - Sources of secondary capital

PANEL II. Credit Union Think Tanks and Consultants

- Bob Hoel, Filene Research Institute
 - Changes need to be made in CU legal and regulatory structure
 - Recommendations for change to facilitate or improve:
 - Capital accumulation
 - Service to modest-income households
 - Broader product lines
 - Field of membership
 - Credit union mergers
 - Share insurance
 - Dual chartering
 - Business services
 - International activities
- Chip Filson, Callahan and Associates
 - Changes should stress providing options
 - Need for check and balance of NCUA
 - Recognize and protect the “hidden or unseen value” of CUs as cooperatives

PANEL III. Small Business Interests

- Karen Kerrigan, Small Business Survival Committee
- Raymond Keating, Small Business Survival Committee
 - Availability of credit union services important to small employers
 - Small business makes vital contributions to U.S. economy
 - Capital access a key obstacle for small businesses
 - Credit unions can be a source of capital and services to small businesses

PANEL IV. Special Credit Union Groups

- David Brehmer, Association of Corporate Credit Unions
 - Overview of corporate credit union network
 - Corporates strength as payments settlement and liquidity providers
 - Balance between state and federal charters
 - Current regulatory efforts relating to corporates
 - ACCU's advocacy efforts
 - Importance of including corporates in efforts to seek additional authorities for credit unions.
- Clifford Rosenthal, National Federation of Community Development CUs
 - Background on NFCDCU
 - Lower barriers to external investments in CU movement
 - Seek size appropriate regulation
 - Field of membership—open FOMs imply obligation to serve entire field
 - Fixed asset flexibility
 - Small business lending flexibility
 - Small CUs need technology

PANEL V. Organizations Providing Special Services to Credit Unions

- Guy Messick, National Association of Credit Union Service Organizations
 - Support for NCUA's proposed Incidental Powers regulation
 - Suggestions on privacy laws and regulation
 - Increase credit union trust powers
 - Expand credit unions' CUSO investment and loan powers
 - Suggestions on insurance powers for credit unions
 - Remove the business lending cap, permit CUSO role
 - Lower ownership requirement for shared branch reasonable proximity rule
 - Permit consumer loan originations in CUSOs
 - Modify NCUA Letter Number 150 on supervising investment program
 - Revise Fair Credit Reporting Act on information sharing
- Sarah Canepa Bang, Credit Union Shared Service Centers
 - Scope and profile of U.S. shared branching
 - Current international initiatives
 - Increase CU investment authority in CUSOs
 - Remove or lower ownership requirement for shared branch reasonable proximity rule

HEARING 3. Washington, D.C. February 25, 2001. This hearing was held in conjunction with CUNA's Governmental Affairs Conference.

PANEL I. Views from Outside the U.S. Credit Union System

- Arthur Arnold, World Council of Credit Unions
 - Expand field of membership

- Permit more international operations by U.S. credit unions
- Revise capital requirements
- Rolland Johannsen, Furash and Company
 - Review of majors structures in financial services industries
 - Changes in the consumer market
 - Growing awareness and sophistication, willingness to shop
 - Aging population, but new attitudes
 - Greater ethnic, economic, attitudinal and behavioral diversity
 - Growth of self-employed sector
 - Legislation and regulation
 - Compliance will become more complex, burdensome and expensive
 - Legislation and regulation follow practice
 - For expanded powers, regulation more effective than legislation
 - Develop trust of regulators

PANEL II. More Views from Credit Unions

- Robert Bream, United Airlines Employees Credit Union, Chicago, IL
 - Represents a traditional credit union point of view
 - Credit union uniqueness an advantage to be preserved
 - Preserve a separate federal regulatory and insurance system and dual chartering
 - Absolutely preserve tax exemption
 - Preserve field of membership
 - Pursue new service powers
 - Reduce micromanaging regulation and supervision
 - Permit mergers of healthy credit unions
 - Permit foreign branching
 - Increase accountability of NCUA's budget process
- Shane Berger, Beehive FCU, Rexburg, ID
 - Proceed with caution
 - No change is worth losing the tax exemption
 - Preserve the credit union difference, including common bond
 - Congress' perception of what makes CUs unique is important
 - Members perception of what make CUs unique is important
 - The movement needs small credit unions
 - Support for more flexible regulation

PANEL III. The View from Washington

- Steve Bartlett, Financial Services Roundtable
 - Represents 100 of the largest integrated financial services companies
 - Revising financial services industry laws took 20 years
 - CUNA and the Roundtable have worked together
 - In seeking change, there will be tradeoffs and costs
 - Potential costs may require CUs to temper demands for change

League Input

A total of 21 leagues held meetings to discuss and report on the issues under consideration by the Renaissance Commission. They are: Alabama, California, Colorado, Connecticut, Georgia, Indiana, Iowa, Kentucky, Missouri, Nebraska, New York, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, and Washington. The Missouri and California leagues actually conducted a parallel Renaissance Commission that met several times. All the summaries of the state league meetings were provided to Renaissance Commission members.

The results of the league meetings in the main mirrored the input received in the focus groups and national hearings. There were calls for significant change tempered in some instances with a cautionary note about not threatening the positive perception of credit unions in Congress.

Other Input

A number of credit unions submitted suggestions to the Commission directly in response to calls for input published on CUNA's website and in CUNA's other publications.

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