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Credit Union Growth in the Tenth Federal Reserve District:
How Legal and Regulatory Changes Have Affected Credit Union Expansion

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INTRODUCTION

As the credit union industry has grown and evolved in recent years, it has received increased attention from the banking industry, which has questioned whether credit unions benefit from unfair competitive advantages.[1] For instance, beginning in the early 1980s, the National Credit Union Administration (NCUA), the government agency responsible for supervising federally chartered and federally insured credit unions, liberalized credit union membership requirements. At the time, the credit union industry was suffering through a stressful period. Many occupational credit unions were being closed or merged with other credit unions in order to ensure their continued viability.[2] This rule change has allowed federally chartered credit unions to significantly increase their customer base and come into more direct competition with banks.[3] In addition, a perennial issue cited by banks as cause for concern is related to credit unions' exemption from most federal and state income taxes. Consequently, the banking trade associations have made these issues one of their top priorities by "working for equal tax and regulatory treatment between banks and diversified, full-service credit unions."[4]

In the Tenth Federal Reserve District, banks have reported increasing concern regarding deposit competition from credit unions. In the 2004 Survey of Community Banks, the Federal Reserve Bank of Kansas City asked banks to rate competition from a variety of sources. Bankers said they anticipate intense competition from several sources in the coming years. Foremost is competition from other community banks. However, almost half of all community banks that responded to the survey said they expect very intense or intense deposit competition from credit unions in the next five years.[5] Past surveys indicated that expected competition from credit unions was lower.

What factors lead bankers to believe competition from credit unions is increasing? This article seeks to address that question by describing the credit union industry and the historical basis for legal and regulatory differences between banking and credit union supervision and regulation, as well as recent legal and regulatory changes that may have increased competition between credit unions and banks. The article will show how these changes are affecting credit unions located in the Tenth District states.[6]

I. Credit Union History

Credit unions originated in Europe during the 1800s as cooperative entities that provided loans to their members. These cooperatives pooled resources for loans that were secured mainly by the relationship and trust of credit union members and provided credit to those with less established credit histories or who were unable to obtain financing from mainstream financial institutions. The first U.S. credit union was organized in Manchester, N.H., in 1909 as the St. Mary's Cooperative Credit Association.[7] The credit union movement gained popularity as the economy grew and disposable income increased among individual consumers. Over the next 20 years, the number of states that adopted credit union laws grew. In response to the proliferation of state credit union laws, Congress passed the Federal Credit Union Act (FCUA) in 1934—creating a federal credit union charter and the dual credit union chartering system.

The FCUA was a means of creating "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 (*emphasis added*)* credit for provident purposes."[8] This notion of providing credit to those of small means as a primary purpose of credit unions has been a lightning rod to banks as credit unions expand lending and deposit services to a wider audience.

Credit unions have five characteristics which, when taken as a whole, distinguish them from other financial service providers, such as banks and savings and loans.[9] First, credit unions are member-owned cooperative institutions—members (customers) are entitled to one vote in electing credit union board members. Second, credit union membership is restricted to those individuals, or businesses, that meet defined membership requirements. Third, credit unions operate as not-for-profit entities. Fourth, credit unions are not allowed to raise capital in the capital markets, rather they generate it by retaining earnings. Fifth, members of credit union boards of directors may not receive payment for their services.

These differences give credit unions advantages over other financial service providers. As noted earlier, an important advantage held by credit unions is their exemption from federal and state taxation because of their cooperative nature. As member-owned, not-for-profit cooperatives, credit unions have another advantage—they are under less profit pressure when compared with other financial institutions, therefore their interest rate charges and non-interest based fees tend to be lower. In addition, many credit unions are sponsored by a company, which may provide subsidized space as well as volunteer labor from among its employees. Finally, regulatory requirements for credit unions are arguably less onerous than those imposed on banks. For example, credit unions are not subject to the

Community Reinvestment Act.[10] Because of these and other advantages, credit unions may be able to offer better interest rates on loans and deposits than banks.

Offsetting these advantages are restrictions that credit unions face. For example, credit unions may provide services only to individuals that meet defined membership requirements, as allowed by their charter—so-called field of membership requirements. In addition, credit unions are prohibited from issuing stock in order to increase capital. Capital growth is achieved through retaining earnings from year to year. Credit unions also face restrictions on the amount of loans they may grant to businesses—referred to as member business lending restrictions.[11] Finally, the quality of corporate governance among volunteer boards of directors may be influenced by credit unions' inability to compensate board members.[12]

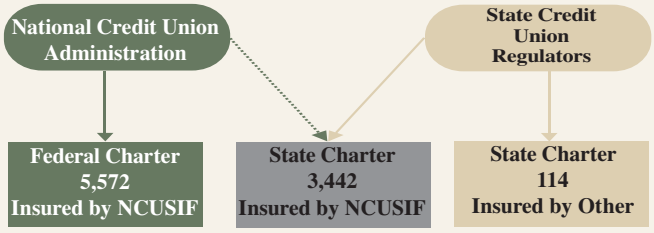
II. Credit Union Charter

In the past, chartering rules served as a constraint on credit union growth. As with banks, the dual chartering system for credit unions allows them to choose between a federal or state charter. Federal and state chartering laws allow credit unions to choose from among three membership types, which determine the field of membership the credit union will serve. The federal credit union chartering law and most state credit union chartering laws are similar because they were adopted using an early model established by Massachusetts.[13] Although differences do exist, it is important to note that where state credit union laws differ from federal credit union laws, many states provide a parity clause that allows their state-chartered credit unions to follow the federal standard unless specifically constrained by state law. Box 1 provides a graphical depiction of the regulatory framework for state- and federally chartered credit unions.

Historically, federal credit unions were required to choose from three types of membership fields. These fields of membership (FOM) were based on the common bond of association (for example, fraternal or religious organizations), occupation (for example, a common employer), or community. Originally, a limitation on membership eligibility was supported as a means of ensuring the credit worthiness of individual borrowers. Borrowers would be encouraged to repay their debts based on their "bond" with other credit union members.

Among the three FOM types, credit unions predominantly have been organized under an occupational common bond (Table 1). Although occupational credit unions may have an advantage over other FOM types, problems can arise if the sponsoring company runs into financial difficulty. In response to increasing credit union failures in the 1980s, the National Credit Union Administration altered its interpretation of the Federal Credit Union Act's common bond requirements in order to allow occupational and associational groups to combine under one federal credit union charter—referred to as a multiple common bond charter.[14] This new interpretation allowed credit unions to increase the number of potential customers within their FOM. Many states followed suit by amending their respective field of membership rules to allow for similar mergers.

Box 1
Credit Union Regulatory Framework



Federally chartered credit unions are subject to federal credit union laws and are routinely examined by the National Credit Union Administration. Nationwide, 61 percent of all credit unions are federally chartered. State-chartered credit unions are subject to the credit union laws of their state as well as federal regulatory requirements if they are insured by the National Credit Union Share Insurance Fund(NCUSIF). (Almost all credit unions are insured by the NCUSIF. At year-end 2004, only 1.25 percent of all credit unions were insured by private insurance companies.) State-chartered credit unions are examined by their state examiners, but they also are required to submit quarterly financial reports to the NCUA. The NCUA has the authority to examine any federally insured credit union, whether federally or state-chartered.

While this expansion of membership fields may have resulted in the improved financial condition of credit unions, it also may have caused increased competition between banks and credit unions.[15]

Table 1
Nationwide Federal Credit Union Assets by Membership Type (December 31, 2004)

Type of Field of Membership	Number	Percent of Total	Total Assets (in 000s)	Percent of Total Assets
Community	**1,051**	**18.9%**	**$ 91,932,173**	**25.6%**
Single Common Bond	**1,987**	**35.7%**	**$ 62,106,343**	**17.3%**
Associational	542	9.7%	$ 4,297,209	1.2%
Occupational	1,445	25.9%	$ 57,809,133	16.1%
Multiple Common Bond	**2,534**	**45.5%**	**$ 204,662,309**	**57.1%**
Associational	79	1.4%	$ 1,368,338	0.4%
Occupational	2,455	44.1%	$ 203,293,971	56.7%
Federally Chartered Credit Unions	**5,572**	61.0%	**$ 358,700,825**	54.4%
State Chartered Credit Unions	**3,556**	39.0%	**$ 301,265,992**	45.6%
All Credit Unions	**9,128**		**$ 659,966,817**	

Source: NCUA 5300 Call Report Data from FOIA Data Files, December 31, 2004.

In response to the approval of multiple common bond charters, and specifically NCUA's approval of a charter expansion by AT&T Family Credit Union, several banks and the American Bankers Association sued the NCUA.[16] The suit culminated in a U.S. Supreme Court decision in the bankers' favor in March 1998. The U.S. Congress responded by passing the Credit Union Membership Access Act (CUMAA) in 1998. The CUMAA amended the Federal Credit Union Act to specifically allow federally chartered credit unions to choose from among three types of membership fields. The fields are: 1) a single common bond, such as an occupation or association; 2) a multiple common bond (multiple occupational or associational groups); and 3) a community charter.[17] In addition, the CUMAA added restrictions to credit union business lending and required the NCUA to promulgate regulations defining "well-defined local community, neighborhood, or rural district" for purposes of community credit union membership criteria.[18]

When implementing the CUMAA, the NCUA defined the term "well-defined local community" to include a geographic area that may be as small as a city or county or as large as a Metropolitan Statistical Area.[19] Once again, bankers believed the NCUA overstepped its authority by interpreting a "well-defined local community" too broadly when it approved several large Utah credit unions for federal community credit union charters.[20] What was noteworthy about these community charters is that they included a six-county area and a potential membership base of more than 1.4 million people or 63 percent of the state's population.[21] The American Bankers Association, the Utah Bankers Association, and several Utah banks joined in a lawsuit against the NCUA as a result.[22] On December 8, 2004, the U.S. District Court for the Central Utah District invalidated the NCUA's approval of four community credit union charters and ordered the NCUA to review the charters in accordance with the court order.[23] It is unclear whether the order will have a lasting impact on the approval of new community charters of this size. However, the NCUA has not appealed the court's decision.

In order to consider how these factors have affected credit unions located in the Tenth District states and whether these factors may account for the banks' perception of increased competition, it may be useful to ask several questions. Has a shift occurred among the type of charter or field of membership preferred by credit unions? Has the number of credit union customers or the level of credit union assets increased markedly? Has business lending by credit unions been affected by business lending restrictions? The following section considers these questions after first providing background information on the environment in which credit unions and banks operate.

III. Credit Union Characteristics

Over the last several years, the financial services industry has undergone a period of consolidation as banking institutions merged, following the repeal of federal regulations that restricted bank branching.[24] During this period, the number of banks declined by almost half. The decline in the number of credit unions has mirrored this trend. Since 1980, the number of credit unions located in the Tenth District states declined by more than 50 percent (Table 2).

As noted earlier, a majority of credit unions prefer a federal charter (61 percent). However, this is not the case when one considers state-specific data. For example, credit unions in Kansas and Missouri seem to prefer state charters, whereas credit unions in Nebraska and Oklahoma strongly favor the federal charter (Table 2). The table shows that, during this period of changing federal credit union laws, the choice between charter types has remained fairly consistent for every state except Nebraska. An examination of state chartering laws provides little insight into the reason behind these choices, other than historical preference. However, in the case of Nebraska, credit unions may now favor a federal charter because the state imposes a depositor and occupation tax on state-chartered credit unions.

Following the enactment of the Credit Union Membership Access Act in 1998, conversions from single common bond charters to multiple and community common bond charters increased significantly. In 1994, most federally chartered credit unions in the Tenth District states operated under a single common bond charter (89 percent) and very few were chartered with a multiple common bond (3 percent) or as community credit unions (8 percent). By 2004, the number of federal credit unions with a multiple common bond increased markedly to over 50 percent, and more than 30 percent had obtained community charters. (Detailed field of membership data are available in Appendix A.)

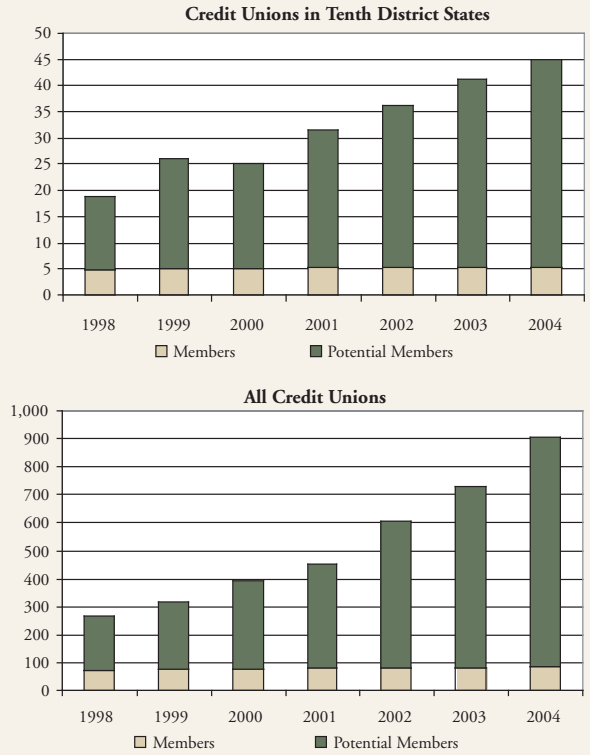
As credit unions merge or convert to a community or multiple common bond charter, their field of membership generally increases, as does their potential membership base. According to 1998 data, credit unions located in the Tenth District states reported approximately 4.9 million members and 18.9 million potential members. Potential members include all individuals that qualify for membership based on the credit union's field of membership restrictions. Six years later, membership of credit unions located in the Tenth District states increased by 9.4 percent to 5.4 million members (Chart 1). Potential membership increased by 138 percent to 45 million potential members, more than twice the number of the states' total populations. Thus, credit union expansion is leading to overlapping credit union fields of membership as well as possible competition among credit unions. Nationwide, credit union membership is growing even more rapidly, equaling 14 percent over the last six years.

Table 2
Number of Credit Unions by Tenth District State and Charter Type

Location	1980	1990	Percent Change	2000	Percent Change	2004	Percent Change	Percent 1980-2004
Colorado	331	206		175		145	-17%	-56%
Federal	53%	58%	-38%	55%	-15%	52%		
State	47%	42%		45%		48%		
Kansas	239	186		134	-28%	121	-10%	-49%
Federal	23%	22%	-22%	20%		21%		
State	77%	78%		80%		79%		
Missouri	390	250		188	-25%	171	-9%	-56%
Federal	9%	9%	-36%	9%		9%		
State	91%	91%		91%		91%		
Nebraska	185	111		86	-23%	79	-8%	-57%
Federal	48%	61%	-40%	65%		67%		
State	52%	39%		35%		33%		
New Mexico	109	70		56	-20%	54	-4%	-50%
Federal	55%	54%	-36%	52%		54%		
State	45%	46%		48%		46%		
Oklahoma	175	118		94	-20%	86	-9%	-51%
Federal	70%	69%	-33%	71%		70%		
State	30%	31%		29%		30%		
Wyoming[25]	63	39	-38%	37	-5%	33	-11%	-48%
Federal	100%	100%		100%		100%		
Tenth District Totals	**1,492**	**980**	**-34%**	**770**	**-21%**	**689**	**-11**	**-54%**
Nationwide	21,563	14,388	-33%	10,583	-26%	9,128	-14%	-58%
Federal	59%	59%		60%		61%		
State	41%	41%		40%		39%		

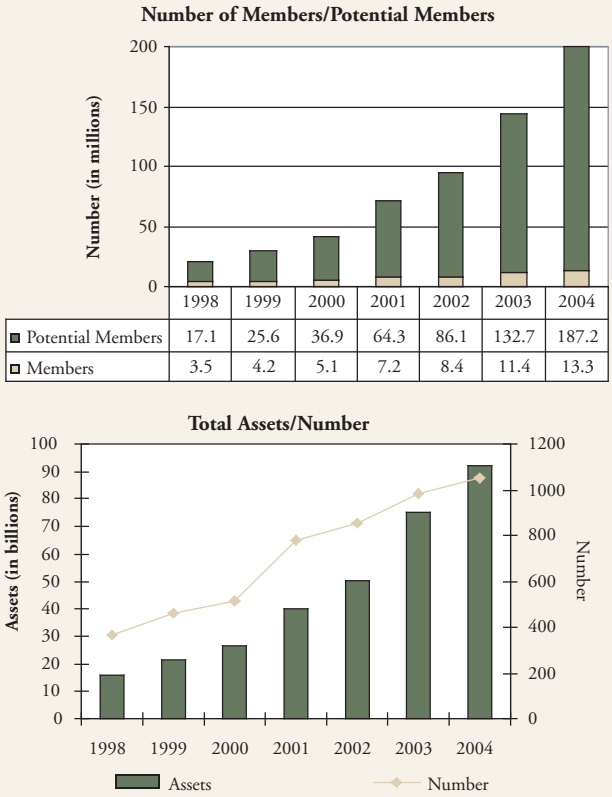
Source: Federal Reserve Database and Credit Union National Association Annual Reports

Chart 1
Number of Credit Union Members and Potential Members (in millions)



Source: NCUA 5300 Call Report Data

Chart 2
Community Charters for Federal Credit Unions, 1998-2004



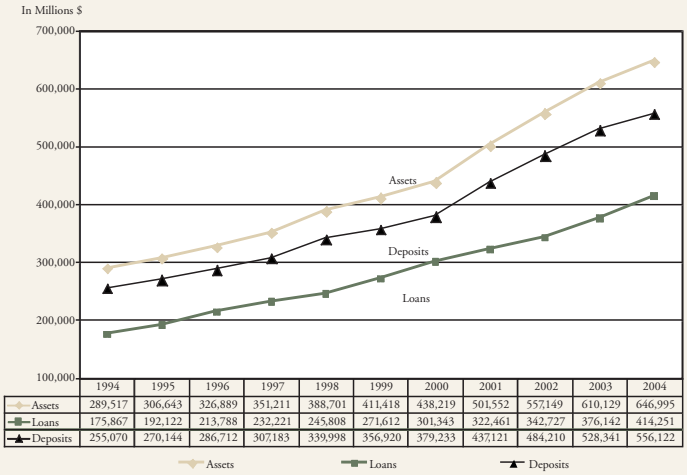
	1998	1999	2000	2001	2002	2003	2004
Potential Members	17.1	25.6	36.9	64.3	86.1	132.7	187.2
Members	3.5	4.2	5.1	7.2	8.4	11.4	13.3

Source: NCUA 5300 Call Report Data

The shift from a single common bond charter to a community charter has led to an even more dramatic increase in potential members. Nationwide, potential membership has grown rapidly among credit unions with a community charter. The number of federally chartered community credit unions almost tripled from 369 to 1,051 between 1998 and 2004, while the number of potential members increased by 873 percent. Six years ago, federal credit unions with a community charter had total assets of just $16 billion compared to $92 billion in 2004 (Chart 2). This substantial increase in assets is not necessarily due to asset growth, but to the rapid increase in the number of credit unions that switched to a community charter. The possibility exists for community credit unions to become strong competitors to banks, but also to credit unions with more restrictive membership requirements.

In light of this shift among FOM types and the attending increase in the credit union customer base, it is useful to consider whether credit union asset, deposit, and loan growth has increased markedly. Chart 3 depicts total assets, deposits, and loans for all credit unions nationwide between 1994 and 2004.[26] Growth appears to be on a steady upward climb with accelerated growth beginning in 2000. During this period, credit union asset and deposit growth increased by an annual compound rate of 8.4 and 8.1 percent, respectively. Compared to banks, credit unions have experienced higher average increases in deposit and total asset growth. During the same 10-year period ending in 2004, commercial banks in the United States averaged an annual asset and deposit growth of 7.7 and 6.9 percent, respectively.

Chart 3
Asset, Loan, and Deposit Growth, 1994 to 2004, Federal and State Credit Unions



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Assets	289,517	306,643	326,889	351,211	388,701	411,418	438,219	501,552	557,149	610,129	646,995
Loans	175,867	192,122	213,788	232,221	245,808	271,612	301,343	322,461	342,727	376,142	414,251
Deposits	255,070	270,144	286,712	307,183	339,998	356,920	379,233	437,121	484,210	528,341	556,122

Source: NCUA 5300 Call Report Data Consolidated Balance Sheet (Excludes non-federally insured, state-chartered credit unions)

The acceleration of deposit and asset growth in 2000 may be related to the downturn in the equity markets, which caused investors to move assets into savings and money market accounts.[27] Following this steep increase, the rate of growth of assets and deposits began to decline, dropping below the 10-year average in 2004. Perhaps the deposit growth among credit unions was because of depositors seeking higher rates of return during the recession, and these non-core deposits now will follow a declining path.

IV. Business Lending by Credit Unions

Another area where banks note concern regarding increased competition from credit unions is business lending.[28] In the past, credit unions provided mostly consumer and residential real estate loans. Although most credit unions do not engage in business lending, an increasing number of credit unions are beginning to offer small business loans. For most community banks, business lending is an important part of their lending portfolios. Small banks (those with assets less than $1 billion) account for 37 percent of all small business lending even though they control just 13 percent of banking system assets.[29] In addition, small business lending accounts for 19 percent of small bank assets.

As noted earlier, the CUMAA restricts business lending by federal credit unions to 12.25 percent of total assets or 1.75 times the credit union's net worth. However, loans totaling less than $50,000 are exempt from inclusion as are loans guaranteed by federal- or state-government programs. (This would include small business loans that are guaranteed by the U.S. Small Business Administration.) In addition, credit unions that were formed primarily for the purpose of making business loans also are exempt from the lending restrictions. (State-chartered credit unions face similar constraints related to business lending.)

For most credit unions, business lending is not a significant portion of their lending portfolio. In fact, 81 percent of federal- and state-chartered credit unions reported zero business lending at year-end 2004. In addition, more than half of those reporting business lending had less than 1 percent of total loans and leases tied to business loans. As shown in Table 3, credit union business loans account for less than 4 percent of the overall loan portfolio; however, business loans still increased by 200 percent over the past four years. Interestingly, business lending is more prevalent among federally chartered community credit unions. Thirty-five percent of federally chartered community credit unions reported business lending compared to just 5 percent of federally chartered single and 18 percent of multiple common bond credit unions.

As shown in Table 4, loan portfolios of credit unions located in the Tenth District states are concentrated in automobile and real estate loans. (Aggregate loan portfolio data for all credit unions are provided in Appendix C.) Regardless of the low percentage of loan portfolios tied to business loans, banks may be concerned because credit unions are entering a segment of the lending market in which they were not previously involved.[30] In addition, business lending by credit unions is increasing, and the small business

loans provided by credit unions likely would have been obtained from a bank in the absence of credit union competition.

V. Credit Union Performance

Because credit unions' higher deposit and asset growth may be associated with their ability to offer competitive interest rates, one would expect credit unions to have similar or higher earnings when compared with banks. Do the purported advantages afforded credit unions lead to better performance when compared with commercial banks? A number of research studies evaluate the effect of credit unions' tax exemption on performance, loan and deposit rates, and other factors. The following charts provide performance data for credit unions nationwide as well as those located in the Tenth District states. (Appendix B includes aggregate credit union data for each Tenth District state.)

Despite being exempt from most federal and state taxes, credit unions' earnings appear to lag those of banks, as measured by return on average assets (ROAA). This is not surprising, because as not-for-profit cooperative entities, earnings performance may not be a credit union's first priority. Chart 4 shows that credit union earnings have been declining since 2002, while nationwide bank earnings have remained strong.

Although credit union earnings as measured by ROAA have been volatile recently, asset quality remains strong. Compared to nationwide bank loan delinquencies, credit unions have a lower percentage of non-cur-

Table 3
Credit Union Member Business Loans (in millions)

	Total Loans and Leases	Agricultural Loans	Total Business Loans	Business Loans as a Percent of Total Loans
Credit Unions in Tenth District States				
2000	19,384	47	130	0.7%
2004	25,311	68	584	2.3%
All Credit Unions				
2000	305,261	599	4,817	1.6%
2004	422,506	863	14,468	3.4%

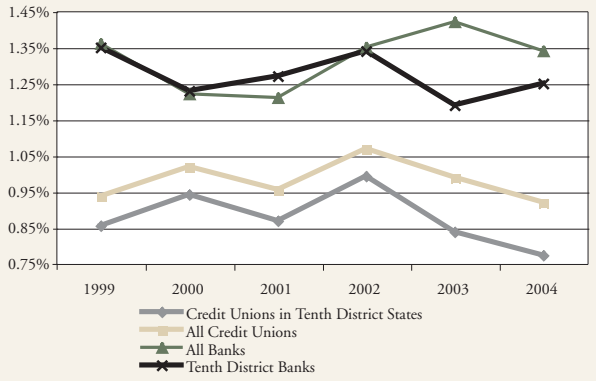
Source: NCUA 5300 Call Report Data

Table 4
Loan Composition for Credit Unions Located in Tenth District States (in millions)

	1998	1999	2000	2001	2002	2003	2004	Percent of Total Loans Outstanding YE 2004
Unsecured Credit Card Loans	1,087	1,118	1,121	1,035	1,021	1,092	1,110	4.4%
Other Unsecured Loans/Lines of Credit	1,048	1,032	924	924	886	947	945	3.7%
New Vehicle Loans	3,152	3,440	3,740	3,656	3,743	4,226	4,760	18.8%
Used Vehicle Loans	4,098	4,561	4,772	5,280	5,796	6,910	7,242	28.6%
First Mortgage Real Estate Loans	3,345	3,973	4,159	4,697	5,232	6,135	6,455	25.5%
Other Real Estate Loans	1,951	2,259	2,610	2,715	2,858	3,013	3,462	13.7%
Leases Receivable	--	60	49	77	78	77	48	0.2%
All Other Loans/Lines of Credit	993	946	997	1,040	1,218	1,251	1,273	5.0%
Total Loans Outstanding	15,674	17,389	18,372	19,424	20,832	23,651	25,295	

Source: NCUA 5300 Call Report Data

Chart 4
Return on Average Assets (net income divided by average assets)

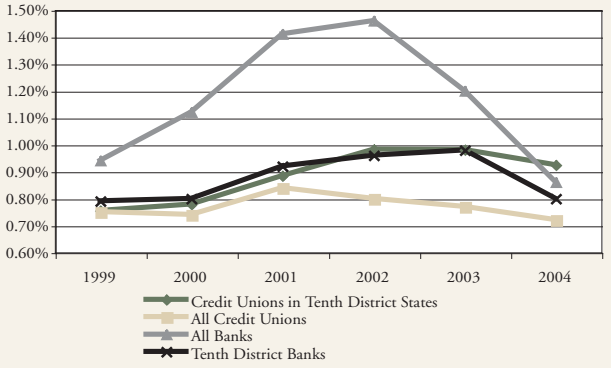


Source: NCUA 5300 Call Report Data and Reports of Condition and Income

rent loans to total loans, even when taking into account difference in the definition of "delinquent"[31] (Chart 5). In 2004, the loan delinquency ratio for credit unions in the Tenth District showed less improvement when compared with Tenth District banks and credit unions nationwide. Interestingly, the ratio of non-current loans to total loans for banks headquartered in the Tenth District parallelled closely with credit unions located in Tenth District States until 2004.

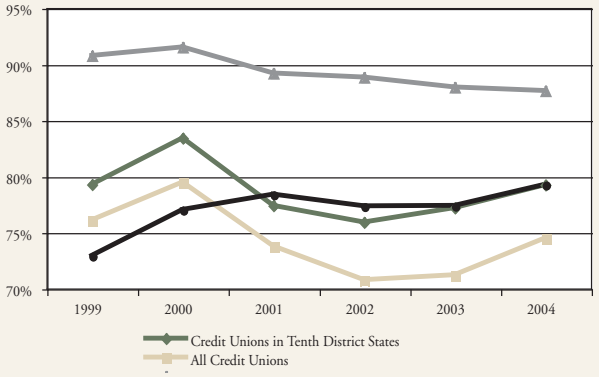
Total loans for all credit unions increased by 10.1 percent during fiscal year 2004 compared to a 5.3 percent increase in total deposits. Total loans for credit unions located in the Tenth District states increased by 6.5 percent, and total deposits grew by just 4.3 percent. Still, credit unions in the Tenth District states continually achieve a higher loan-to-deposit ratio when compared with nationwide credit union averages. In addition, credit unions and banks in the Tenth District have had similar loan-to-deposit ratios over each of the last four years (Chart 6).

Chart 5
Non-Current Loans to Total Loans



Source: NCUA 5300 Call Report Data and Reports of Condition and Income

Chart 6
Total Loans to Deposits



Source: NCUA 5300 Call Report Data and Reports of Condition and Income

One explanation for the parallel relationship between Tenth District bank performance and credit unions located in the District states may be related to the similarity of their demographic characteristics. Ninety-three percent of the credit unions in the District states had total assets less than $150 million at year-end 2004 compared to 78 percent of District banks. Most of the 689 credit unions in the District states are extremely small—the median asset size equaled just $12.5 million compared to a median asset size of Tenth District banks of $64.9 million (Table 5).

Table 5
Bank and Credit Union Characteristics

	Tenth District Banks	Credit Unions in Tenth District States
Asset size (12/31/04)	Percent	Percent
Less than $150 million	78.2	92.7
$150-$300 million	11.9	3.8
$300 million-$1 billion	7.4	2.7
More than $1 billion	2.5	0.7
Median asset size (in millions)	$64.9	$12.5

Summary

Although most credit unions are small, they still may provide significant competitive pressure for Tenth District banks, which also tend to be small. In addition, recent legislative and regulatory changes have caused a shift in the types of membership fields favored by credit unions. This shift has increased the number of potential credit union members, especially among community credit unions. Prior to these changes, a credit union's customer base was constrained by a more restrictive field of membership definitions.

As credit unions have expanded their customer base over the last several years, they also have been able to grow their deposits and assets more rapidly than banks. Moreover, a growing number of credit unions are beginning to pursue business lending as a new source of income. While total business lending by credit unions is still very small when compared with banks, business lending as a percentage of total loans tripled during the last four years and was concentrated among a small number of credit unions. Competition will continue to increase as more credit unions enter the business lending market.

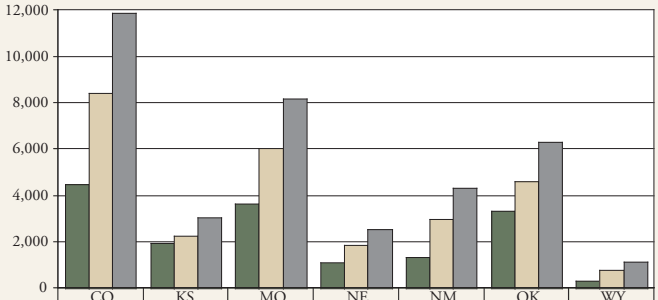
The credit union industry has undergone major changes in recent years. These changes may be contributing to increased competition between banks and credit unions. These factors and impressive industry growth trends undoubtedly influence bankers' expressions of concern in venues such as the Community Bank Survey and through trade associations.

Box 2
Credit Union Asset Growth in the Tenth District

Between 1990 and 2004, total credit union assets in the Tenth District states grew by 132 percent, from $16 billion to $37 billion. Since 2000, credit union assets have increased by 39 percent.

The chart below shows the variance of credit union asset growth among Tenth District states. In addition, some states account for a greater proportion of credit union assets in the District states (Colorado, Oklahoma, and Missouri account for 70 percent). Although credit unions in New Mexico and Wyoming account for only 15 percent of all District credit union assets, their asset growth has been extraordinary. Since 1990, total asset growth of New Mexico and Wyoming credit unions increased by 221 and 284 percent, respectively.

Credit Union Total Assets by Tenth District State (in millions)



	CO	KS	MO	NE	NM	OK	WY
1990	4,482	1,949	3,634	1,108	1,347	3,304	296
2000	8,393	2,245	6,045	1,855	2,947	4,604	769
2004	11,856	3,027	8,165	2,540	4,322	6,299	1,137

Source: NCUA 5300 Call Report Data

Appendix A: Credit Union Field of Membership Composition

Table 1
Number of Federal Credit Unions by Type of Membership and Tenth District State, 1994

Type of Membership	CO	KS	MO	NE	NM	OK	WY	Total	Percent of Federal Credit Unions
Community	**13**	**4**	**0**	**6**	**0**	**7**	**2**	**32**	**8.2%**
Single Common Bond	**103**	**32**	**18**	**55**	**35**	**67**	**36**	**346**	**89.2%**
Associational (For example, faith-based)	13	7	3	8	2	6	2	41	10.6%
Occupational – Primarily Educational, Military, Govt	54	8	5	16	18	21	20	142	36.6%
Occupational – Primarily Manufacturing	14	10	2	14	5	20	4	69	17.8%
Occupational – Primarily Services, Finance, Trade	21	7	8	17	5	17	6	81	20.9%
Occupational – Primarily Natural Resources	1	0	0	0	5	3	4	13	3.4%
Multiple Common Bond	**0**	**1**	**1**	**3**	**1**	**3**	**1**	**10**	**2.6%**
Total Federal Credit Unions	**116**	**37**	**19**	**64**	**36**	**77**	**39**	**388**	
State Credit Unions	**78**	**123**	**201**	**38**	**26**	**33**	**0**	**499**	
All Credit Unions in the Tenth District States	**194**	**160**	**220**	**102**	**62**	**110**	**39**	**887**	

Table 2
Number of Federal Credit Unions by Type of Membership and Tenth District State, 2004

Type of Membership	CO	KS	MO	NE	NM	OK	WY	Total	Percent of Federal Credit Unions
Community	**21**	**4**	**3**	**21**	**6**	**16**	**18**	**89**	**30.5%**
Single Common Bond	**8**	**10**	**5**	**13**	**7**	**11**	**0**	**54**	**18.5%**
Associational (For example, faith-based)	3	2	2	3	1	2	0	13	4.5%
Occupational – Primarily Educational, Military, Govt	4	3	0	3	5	3	0	18	6.2%
Occupational – Primarily Manufacturing	1	4	0	3	1	3	0	12	4.1%
Occupational – Primarily Service	0	1	3	4	0	3	0	11	3.8%
Multiple Common Bond	**47**	**12**	**7**	**19**	**16**	**33**	**15**	**149**	**51.0%**
Associational – Faith-based	3	1	0	0	0	2	0	6	2.1%
Occupational – Primarily Educational, Military, Govt	24	4	3	8	9	11	10	69	23.6%
Occupational – Primarily Manufacturing	7	2	1	1	2	6	1	20	6.8%
Occupational – Primarily Service	7	3	3	6	3	8	4	34	11.6%
Occupational – Primarily Other	6	2	0	4	2	6	0	20	6.8%
Total Federal Credit Unions	**76**	**26**	**15**	**53**	**29**	**60**	**33**	**292**	
State Credit Unions	**69**	**95**	**156**	**26**	**25**	**26**	**0**	**397**	
All Credit Unions in the Tenth District States	**145**	**121**	**171**	**79**	**54**	**86**	**33**	**689**	

Source: NCUA 5300 Call Report Data

Table 3
Federal Credit Union Assets by Type of Membership and Tenth District State, 1994 (in millions)

Type of Membership	CO	KS	MO	NE	NM	OK	WY	Total	Percent of Federal Credit Union Assets
Community	**144**	**188**	**0**	**16**	**0**	**117**	**2**	**467**	**5.1 %**
Single Common Bond	**3,232**	**259**	**168**	**866**	**1,504**	**1,992**	**431**	**8,452**	**92.8%**
Associational (For example, faith-based/fraternal)	65	23	1	16	10	15	5	135	1.5%
Occupational – Primarily Natural Resources	3	0	0	0	22	49	40	114	1.3%
Occupational – Primarily Educational, Military, Govt	1,974	109	63	289	966	1,222	301	4,924	54.1%
Occupational – Primarily Manufacturing	361	95	11	149	357	406	19	1,398	15.3%
Occupational – Primarily Service, Finance, Trade	829	32	93	412	149	300	66	1,881	20.6%
Multiple Common Bond	**0**	**21**	**63**	**22**	**15**	**63**	**6**	**190**	**2.1%**
Federal Credit Unions	**3,376**	**468**	**231**	**904**	**1,519**	**2,172**	**439**	**9,109**	
State Credit Unions	**1,893**	**1,512**	**3,570**	**425**	**390**	**1,381**	**0**	**9,171**	
All Credit Unions in the Tenth District States	**5,269**	**1,980**	**3,801**	**1,329**	**1,909**	**3,553**	**439**	**18,280**	

Table 4
Federal Credit Union Assets by Type of Membership and Tenth District State, 2004 (in millions)

Type of Membership	CO	KS	MO	NE	NM	OK	WY	Total	Percent of Federal Credit Union Assets
Community	**2,705**	**61**	**50**	**1,076**	**462**	**659**	**440**	**5,453**	**34.5%**
Single Common Bond	**36**	**133**	**256**	**513**	**68**	**58**	**2**	**1,066**	**6.7%**
Associational (For example, faith-based/fraternal)	13	4	2	14	6	1	2	42	0.3%
Occupational – Primarily Educational, Military, Govt	23	106	0	106	58	19	0	312	2.0%
Occupational – Primarily Manufacturing	0	22	0	56	4	11	0	93	0.6%
Occupational – Primarily Service	0	1	254	337	0	27	0	619	3.9%
Multiple Common Bond	**2,300**	**171**	**319**	**321**	**2,688**	**2,807**	**695**	**9,301**	**58.8%**
Associational – Faith-based	59	20	0	0	0	7	0	86	0.5%
Occupational – Primarily Educational, Military, Govt	1,611	119	85	110	1,675	1,612	561	5,773	36.5%
Occupational – Primarily Manufacturing	327	12	214	7	931	232	12	1,735	11.0%
Occupational – Primarily Service	87	10	20	183	55	509	122	986	6.2%
Occupational – Primarily Other	216	10	0	21	27	447	0	721	4.6%
Federal Credit Unions	**5,041**	**365**	**625**	**1,910**	**3,218**	**3,524**	**1,137**	**15,820**	
State Credit Unions	**6,815**	**2,662**	**7,540**	**630**	**1,104**	**2,775**	**0**	**21,526**	
All Credit Unions in the Tenth District States	**11,856**	**3,027**	**8,165**	**2,540**	**4,322**	**6,299**	**1,137**	**37,346**	

Source: NCUA 5300 Call Report Data

Appendix B: Credit Union Performance Data by Tenth District State

Return on Average Assets	2000	2001	2002	2003	**2004**
Colorado	1.20%	1.03%	0.97%	0.71%	**0.62%**
Kansas	0.81%	0.72%	0.84%	0.89%	**0.61%**
Missouri	0.86%	0.70%	0.90%	0.80%	**0.81%**
Nebraska	0.71%	0.82%	1.04%	0.86%	**0.72%**
New Mexico	0.90%	0.86%	1.16%	1.01%	**1.10%**
Oklahoma	0.80%	0.90%	1.06%	0.96%	**0.86%**
Wyoming	0.81%	0.85%	1.19%	0.98%	**0.99%**
All Credit Unions	1.02%	0.96%	1.07%	0.99%	**0.92%**

Net Worth to Total Assets	2000	2001	2002	2003	2004
Colorado	11.09%	10.56%	10.54%	10.62%	**10.55%**
Kansas	12.56%	12.17%	11.93%	12.08%	**12.08%**
Missouri	11.22%	10.72%	10.84%	10.91%	**11.16%**
Nebraska	11.64%	11.36%	11.53%	11.57%	**11.69%**
New Mexico	10.35%	9.92%	10.11%	10.30%	**10.60%**
Oklahoma	11.14%	10.69%	10.69%	10.94%	**11.35%**
Wyoming	10.92%	10.42%	10.58%	10.31%	**10.75%**
All Credit Unions	11.43%	10.84%	10.72%	10.72%	**10.97%**

Total Loans to Deposits (Shares)	2000	2001	2002	2003	2004
Colorado	84.63%	79.54%	78.51%	84.28%	**87.41%**
Kansas	84.66%	79.70%	75.68%	78.48%	**81.00%**
Missouri	80.87%	74.98%	74.68%	75.94%	**76.91%**
Nebraska	87.95%	77.79%	78.05%	76.74%	**79.18%**
New Mexico	89.32%	81.67%	78.18%	75.49%	**76.05%**
Oklahoma	78.58%	72.46%	69.87%	66.82%	**68.24%**
Wyoming	81.91%	76.79%	77.58%	73.59%	**77.71%**
All Credit Unions	79.46%	73.76%	70.77%	71.19%	**74.49%**

Source: NCUA 5300 Call Report Data and NCUA 2004 Year-end Statistics for Federally Insured Credit Unions, Publication 8060

Total Non-Interest Expenses to Average Assets	2000	2001	2002	2003	2004
Colorado	3.48%	3.54%	3.45%	3.45%	**3.40%**
Kansas	3.84%	3.87%	3.60%	3.57%	**3.65%**
Missouri	3.71%	3.70%	3.71%	3.78%	**3.72%**
Nebraska	3.72%	3.70%	3.72%	3.63%	**3.54%**
New Mexico	3.76%	3.78%	3.66%	3.58%	**3.55%**
Oklahoma	3.60%	3.56%	3.43%	3.45%	**3.40%**
Wyoming	3.79%	3.75%	3.68%	3.90%	**3.78%**
All Credit Unions	3.39%	3.36%	3.27%	3.23%	**3.21%**

Non-Current Loans to Total Loans	2000	2001	2002	2003	2004
Colorado	0.60%	0.80%	1.06%	1.16%	**0.98%**
Kansas	1.06%	1.09%	1.61%	1.11%	**1.07%**
Missouri	0.88%	0.94%	0.93%	0.89%	**0.92%**
Nebraska	0.92%	0.91%	0.90%	1.03%	**0.95%**
New Mexico	0.81%	0.92%	0.70%	0.67%	**0.63%**
Oklahoma	0.74%	0.75%	0.81%	0.86%	**0.91%**
Wyoming	1.10%	0.92%	0.88%	0.86%	**1.03%**
All Credit Unions	0.74%	0.85%	0.80%	0.77%	**0.72%**

Appendix C: Credit Union Loan Portfolio Composition

Table 1
Loan Composition for All Credit Unions (in millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Percent of Total Loans Outstanding YE 2004
Unsecured Credit Card Loans	12,984	15,021	17,376	19,053	19,357	20,135	21,636	21,693	21,562	21,737	22,505	5.4%
All Other Unsecured Loans/Lines of Credit	22,863	23,521	24,296	23,463	22,667	22,280	22,488	21,799	21,134	20,824	20,889	5.0%
New Vehicle Loans	41,277	46,495	48,841	49,376	47,848	52,443	60,648	60,279	60,482	63,756	71,253	17.2%
Used Vehicle Loans	26,600	30,561	37,004	43,487	48,463	54,537	60,072	66,368	72,168	81,242	84,662	20.4%
First Mortgage Real Estate Loans	37,333	39,299	45,625	51,857	61,384	70,883	76,399	89,174	100,777	117,558	129,806	31.3%
Other Real Estate Loans	20,442	22,471	25,075	28,631	29,384	33,110	40,238	42,602	46,420	50,055	61,959	15.0%
Other Member Loans	14,007	14,397	15,004	15,519	15,742	15,822	16,985	17,213	18,673	19,466	21,652	5.2%
Leases Receivable*	--	--	--	--	--	1,183	1,338	1,483	1,511	1,504	1,565	0.4%
All Other Loans/Lines of Credit**	362	358	568	835	962	1,218	1,541	1,850	--	--	--	0.0%
Total Loans Outstanding	175,868	192,123	213,789	232,221	245,807	271,611	301,345	322,461	342,727	376,142	414,291	

* Lease Financing Receivables were included with "Other Assets" prior to 1999.
** All Other Loans eliminated after 2001.

Table 2
Loan Composition for Credit Unions Located in Tenth District States (in millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Percent of Total Loans Outstanding YE 2004
Unsecured Credit Card Loans	677	790	936	1,046	1,087	1,118	1,121	1,035	1,021	1,092	1,110	4.4%
All Other Unsecured Loans/Lines of Credit	1,043	1,081	1,162	1,104	1,048	1,032	924	924	886	947	945	3.7%
New Vehicle Loans	2,509	2,917	3,125	3,275	3,152	3,440	3,740	3,656	3,743	4,226	4,760	18.8%
Used Vehicle Loans	2,291	2,641	3,105	3,645	4,098	4,561	4,772	5,280	5,796	6,910	7,242	28.6%
First Mortgage Real Estate Loans	2,119	2,232	2,500	2,794	3,345	3,973	4,159	4,697	5,232	6,135	6,455	25.5%
Other Real Estate Loans	969	1,237	1,518	1,940	1,951	2,259	2,610	2,715	2,858	3,013	3,462	13.7%
Leases Receivable*	--	--	--	--	--	60	49	77	78	77	48	0.2%
All Other Loans/Lines of Credit	941	972	993	988	993	946	997	1,040	1,218	1,251	1,273	5.0%
Total Loans Outstanding	10,549	11,870	13,339	14,792	15,674	17,389	18,372	19,424	20,832	23,651	25,295	

* Lease Financing Receivables were included with "Other Assets" prior to 1999.

Source: NCUA 5300 Call Report Data

Endnotes

[1] American Bankers Association. "The Morphing of Credit Unions." *http://www.aba.com/aba/documents/Operation CreditUnion/Morphing.pdf.*

[2] Until 1982, credit unions were chartered based on either an associational, occupational, or community common bond. Occupational credit unions were generally sponsored by or closely tied to a single employer.

[3] Benefits associated with credit union membership expansion may include: increasing risk diversification; spreading institutional costs across a larger customer base; and providing better services to consumers through reduced interest rate charges and other fees. However, credit union expansion also may lead to a dilution of the common bond relationship between credit unions and their traditionally small customer base and a diminished focus on serving those of limited means—the original mission of credit unions.

[4] American Bankers Association, *http://www.aba.com/ Industry+ Issues/OperationCreditUnions.htm.*

[5] Survey results are available at: *http://www.kansascityfed.org/Publicat/FIP/prs04-1.pdf.*

[6] The Tenth Federal Reserve District consists of the states of Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the western one-third of Missouri, and the northern one-half of New Mexico. For the purposes of this article, the credit union data refer to credit unions located in the Tenth District states in their entirety.

[7] National Credit Union Administration. "History of Credit Unions."

[8] 12 U.S.C. §1751.

[9] The U.S. Department of the Treasury. January 2001. "Comparing Credit Unions with other Depository Institutions."

[10] The Community Reinvestment Act requires banking and thrift institutions to help meet the credit needs of their communities.

[11] Credit Unions must restrict total member business lending to the lesser of 1.75 times net worth or 12.25 percent of total assets. Loans to one borrower totaling less than $50,000 are exempt, as well as loans that are guaranteed by a federal or state agency, such as Small Business Administration loans or loans secured by a lien on a 1-to-4 family dwelling. See NCUA Rules and Regulations, Part 723.

[12] Pending legislation would alter several of these restrictions.

[13] The Credit Union National Association, a national trade association for both state and federal credit unions, maintains a "Model Credit Union Act," which was updated in 2003.

[14] W. Scott Frame, Gordon V. Karels, and Christine McClatchey. 2002. "The Effect of the Common Bond and Membership Expansion on Credit Union Risk," *The Financial Review*, Vol. 37.

[15] As shown in Table 1, current field of membership of federal credit unions is predominantly concentrated in occupational credit unions with a single (25.9 percent) or multiple common bond (44.1 percent). Although federal credit unions with a single common bond make up 35.7 percent of all federal credit unions, they account for only 17.3 percent of this segment's assets. The opposite is true of multiple common bond charters, which account for 57 percent of federal credit union assets, but only 45.5 percent of federal charters.

[16] Congressional Research Service report. December 1996. "Multiple Group Credit Unions: Litigation and Potential Legislative Responses."

[17] 12 C.F.R § 1759.109b1-3.

[18] A special class of credit unions exists that is focused on providing credit to low-income communities. These credit unions are designated as low-income credit unions and are exempt from some of the restrictions placed on other federal credit unions. Low-income designated credit unions may have any charter type. As of December 31, 2004, 1,020 low-income credit unions existed nationwide, 95 of which are located in Tenth District states.

[19] Credit Union Membership Access Act, Public Law 105-219.

[20] American Bankers Association Press Release. "ABA, Utah Bankers Announce Lawsuit Against National Credit Union Administration." July 14, 2003.

[21] National Credit Union Administration. 2003. "Federal Credit Union Community Charter Report."

[22] "Suit Filed Over Credit Unions' Expansion," *Deseret News*, July 16, 2003.

[23] Case No. 2:03CV621DAK, U.S. District Court for the District of Utah, Central Division, December 8, 2004.

[24] The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 revised bank branching laws. *See:* Kenneth Spong. 2000. *Banking Regulation: Its Purposes, Implementation, and Effects.* Federal Reserve Bank of Kansas City, pp. 32 and 158.

[25] Wyoming credit unions are federally chartered because the state does not offer a charter.

[26] A description of asset growth for credit unions located in the Tenth District states is provided in Box 2.

[27] Moody's Investor Service. February 2005. "Deposit Intermediation: As Rates Rise, How Likely Is It?"

[28] See endnote 1.

[29] Gunther, Jeffery W. and Moore, Robert R. January/February 2004. "Small Banks' Competitors Loom Large," *Southwest Economy*, Federal Reserve Bank of Dallas, Issue 1.

[30] Seventy-nine percent of community bank survey respondents said they expect moderate to intense loan competition from credit unions in the next five years. See endnote 5.

[31] Non-current credit union loans are those loans, which are past due 60 days or more. Non-current bank loans are those loans, which are past due 90 days or more, or nonaccrual.