CONGRESSIONAL BUDGET OFFICE
PAY-AS YOU-GO ESTIMATE

August 13, 1998

H.R. 1151
Credit Union Membership Access Act

As cleared by the Congress on August 4, 1998
(and enacted as Public Law 105-219 on August 7, 1998)

SUMMARY

H.R. 1151 establishes new guidelines governing eligibility for membership in credit unions; establishes a framework of safety and soundness regulations for credit unions consistent with that for banks and savings and loans; and allows the National Credit Union Administration (NCUA) to increase assessments that credit unions pay into the National Credit Union Share Insurance Fund (NCUSIF) and to increase the normal operating balance of the fund. CBO estimates that implementing the act will increase net assessments paid to the NCUSIF by $517 million over the 1999-2003 period, thereby reducing net outlays by that amount. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 1151 will lead to a shift of deposits from financial institutions that pay federal income taxes to credit unions, which are not subject to federal income tax, resulting in revenue losses to the federal government totaling $143 million through 2003.

Under the Balanced Budget and Emergency Deficit Control Act, provisions providing the funding necessary to meet the government's deposit insurance commitment are excluded from pay-as-you-go procedures. CBO believes that this exclusion applies to the provisions in H.R. 1151 that result in the estimated savings of $517 million over the 1999-2003 period. However, because H.R. 1151 will lead to a reduction in federal revenues of $143 million over the 1999-2003 period, pay-as-you-go procedures apply to the act.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO’s estimate of the impact of H.R. 1151 on direct spending and revenues is shown in the following table. Only the estimated changes in revenues for the current year, the budget year, and the succeeding four years are counted for pay-as-you-go purposes.

Estimate of Direct Spending and Revenue Effects of H.R. 1151, the Credit Union Membership Access Act (Public Law 105-219)

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN RECEIPTS—Subject to Pay-as-you-go Procedures											
Shift in Deposits to Credit Unions											
Estimated Revenues[b]	0	-6	-16	-27	-40	-54	-70	-87	-106	-127	-151
CHANGES IN DIRECT SPENDING—Exempt from Pay-as-you-go Procedures											
Changes in NCUA Spending											
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays[a]	0	-94	-116	-111	-100	-96	-97	-105	-111	-108	-105

a. The 1998 level is the amount appropriated for that year.
b. Revenue estimate is provided by the Joint Committee on Taxation; a negative sign indicates a decrease in revenues.

BASIS OF ESTIMATE

Various provisions of the legislation affect direct spending or receipts. The provisions that affect direct spending are exempt from pay-as-you-go procedures as defined by the Balanced Budget and Deficit Control Act. The effects on revenues are subject to pay-as-you-go provisions.

Provisions Subject To Pay-As-You-Go Procedures

The Joint Committee on Taxation estimates that H.R. 1151 will result in a loss of governmental receipts because deposits will shift from financial institutions that are subject to corporate taxation—primarily banks and thrifts—to credit unions, which are exempt from federal taxation. Assuming that, over time, deposits in credit unions will grow about 2 percent per year faster than they would have in the absence of H.R. 1151, the JCT estimates that the federal government will lose revenues totaling $143 million over the 1999-2003 period.

Provisions Exempt From Pay-As-You-Go Procedures

H.R. 1151 overturns a February 1998 Supreme Court decision in *National Credit Union Administration v. First National Bank & Trust Co., et al.*, which—in the absence of legislation such as this—would have tightened the limitations on membership in credit unions. This legislation allows multiple, unrelated groups to join the same credit union, as long as the number of members in the group is 3,000 or less.

CBO estimates that, under H.R. 1151, the amount of assessments that credit unions pay to the NCUSIF will increase by about $351 million over the 1999-2003 period and that rebates to members from the fund will decline by $170 million over the same period. Together, these changes will reduce federal outlays by $521 million from 1999 through 2003. NCUSIF's payments for the NCUA's operating costs will increase by $4 million over the five years, for a net budgetary savings of $517 million through 2003. Finally, we estimate that the operating fund of the NCUA will incur additional administrative costs of $9 million over the 1999-2003 period to carry out the act's provisions related to safety and soundness, which will be offset by additional income from fees and payments from the NCUSIF.

Assessment Income. H.R. 1151 makes three changes that CBO expects will increase assessments paid into the NCUSIF over the next 10 years: (1) it allows current credit union members whose membership status was unclear as a result of the Supreme Court ruling to retain their membership and allows credit unions to accept members from unrelated groups; (2) it changes the formula for calculating the reserve balance in the NCUSIF; and (3) it changes the frequency with which credit unions pay assessments for deposit insurance. This estimate measures these changes relative to the circumstances that would have prevailed under the Supreme Court decision in the case of *National Credit Union Administration v. First National Bank & Trust Co., et al.*

The act will allow for an expansion in credit union memberships by allowing growth in groups with common bonds, including occupational credit unions, where the greatest potential for new deposits exists. Recently, about two-thirds of all net new job creation has been associated with small businesses employing fewer than 500 persons. Although H.R. 1151 encourages the chartering of new credit unions with a common single bond of occupation or association, these groups are often too small to have their own sponsor for a separate credit union. CBO believes that, as a result of this act, such small groups of individuals sharing a common employer or occupation are more likely to join together to form new credit unions, or to join existing ones, thereby forming credit unions with members having multiple common bonds. Thus, we expect the number and size of credit unions with multiple common bonds to grow faster than they otherwise would have. As a result, we expect that enactment of H.R. 1151 will trigger growth of deposits in credit unions of about

5 percent annually by 2000, compared to projected annual growth of about 3 percent without this legislation. With more rapid growth in deposits, CBO expects that insurance assessments collected by the NCUA also will increase because credit unions pay to the NCUSIF an amount equal to 1 percent of the growth in their deposits each year.

The act imposes some restrictions that could limit the growth of deposits, by narrowing the definition of “family members” eligible for membership; limiting conversions to community credit unions; requiring the NCUA to impose tougher capital standards and to close insolvent credit unions promptly; and prohibiting credit unions that are undercapitalized from making new commercial loans. It also will encourage a shift of some deposits from credit unions to thrifts or banks by simplifying the process involved in converting a credit union to another type of insured institution and by allowing some profits from conversions to accrue to individuals. Nevertheless, CBO expects that the effects of other provisions of H.R. 1151, which lead to more rapid deposit growth, will more than offset these restrictions.

The act changes the NCUSIF’s normal operating level of reserves by allowing the fund balance to range between $1.30 per $100 of insured deposits to as much as $1.50 per $100 of insured deposits. Without this change, the NCUA would have continued to rebate all balances in excess of 1.3 percent. Under the act, however, CBO expects that the NCUA will continue to provide rebates to members but will limit the amount to one-half the total potentially available for refunding, thereby accumulating higher balances in the insurance fund. CBO estimates that the NCUA will authorize rebates totaling about $480 million over the 1999-2003 period, or about $170 million less than it would have in the absence of H.R. 1151.

Safety and Soundness. H.R. 1151 also strengthens the regulatory framework of credit unions, and specifies statutory capital and net worth standards equal to those of other insured financial institutions. The act authorizes the NCUA to take prompt corrective action against credit unions engaged in unsafe practices. Because the act allows credit unions to diversify their membership among various occupational groups, we expect that the stress on particular credit unions will be reduced in periods of corporate downsizing or closure. As a consequence, the probability of failure of credit unions and of losses to the insurance fund will be lower. At this time, CBO has no basis for estimating the potential savings—if any—to the NCUSIF.

Other provisions. The act limits the authority of most credit unions to make business loans exceeding $50,000 to the lesser of 1.75 times the net worth of the institution or 1.75 times the minimum net worth for a well-capitalized credit union with the same amount of assets. (A well-capitalized credit union is defined as one having a ratio of capital to assets of

7 percent.) In addition, the act requires the NCUA to issue regulations defining permissible membership and boundaries for community credit unions.

CBO estimates that the additional cost to the NCUA to undertake the various initiatives required by H.R. 1151 will total less than $1 million in 1999, and will increase to $4 million by 2003, about 3 percent of its operating budget. The operating funds of the NCUA are derived from two sources: examination fees charged to credit unions and transfers of funds from the NCUSIF equal to one-half of the annual expenses associated with operating the NCUA. We expect the NCUA will increase fees and reduce rebates to credit unions in amounts sufficient to recover the increase in administrative costs, resulting in no significant budgetary impact over the next five years.

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