6 Untapped Benefits Of Low-Income Designation
And How to Qualify Your Credit Union
Although low-income credit unions can only get that designation when the majority of their membership are indeed low-income, that does not mean the entire community is low income. In fact, Washington, DC, with its $600-an-hour lawyers qualifies as a low-income area, as do most major metropolitan cities.

Some credit union leaders are concerned about the negative connotations that come with the phrase “low-income,” but LICUs are not required to advertise themselves as such. Plus, the NCUA also points out that if your credit union does have a membership of more than 50% low-income members, the credit union will likely need the support to adequately meet member needs.

The financial performance of LICUs has generally improved in recent years, but many factors go into that. A major one was the NCUA’s 2012 decision to notify approximately 1,000 credit unions of their eligibility and that they were essentially pre-qualified for the designation. While LICUs are often thought of as smaller – and most are – many large credit unions took strategic advantage of the NCUA’s streamlining of LICU designation at that time. According to the NCUA’s website, 2,583 credit unions are currently designated as low-income, with 106,234 (worth $30B) business loans outstanding compared to 95,479 (worth $30B) for non-LICUs; $5.9B in nonmember deposits and $265 million in secondary capital compared to $6B in nonmember deposits at non-LICUs.

### LICU v FICU

<table>
<thead>
<tr>
<th>FICU YEAREND DATA</th>
<th>2003</th>
<th>2008</th>
<th>2013</th>
<th>2018</th>
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<tr>
<td>Net Worth</td>
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<td>ROA</td>
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<td>Delinquency ratio</td>
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<td>1.38</td>
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<td>0.71</td>
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<table>
<thead>
<tr>
<th>LICU YEAREND DATA</th>
<th>2003</th>
<th>2008</th>
<th>2013</th>
<th>2018</th>
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<tbody>
<tr>
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<td>ROA</td>
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*2012 NCUA prequalified Cus as LICU
6 Benefits to Low-Income Designation

Want to help raise up communities by giving residents a hand up and receive regulatory exemptions and benefits at the same time? Low-income designation can help better serve more consumers!

Federal credit unions can earn low-income designation when a simple majority of members qualifying as low-income. As explained in this handbook, the NCUA will make this determination for each federal credit union. If you qualify, you can choose whether to accept the designation and related benefits. If the NCUA finds you do not qualify, your credit union can provide supplemental documentation and appeal. (Federally insured, state-chartered credit unions must follow state law for designation, and the NCUA and state regulator must agree the CU qualifies.)

Credit unions can derive six distinct benefits upon receiving a low-income designation:

1. Accept insured shares from nonmembers within recently boosted regulatory limits
2. Ability to receive secondary capital that counts toward its net worth requirements
3. Exemption from the statutory member business loan cap
4. Eligibility for grants and loans from the Community Development Revolving Loan Fund.
5. Eligibility for grants and loans from the Community Development Revolving Loan Fund.
6. Increased flexibility in the NCUA’s field of membership rules

CUCollaborate offers software and consulting to help you determine your credit union’s best field of membership opportunities, plus seek and earn approval. For example, did you know low-income FCUs can form an association for low-income individuals and add that association to its FOM? Learn more at www.CUCollaborate.com.
A federal credit union qualifies for the low-income designation when a majority of its members meets the regulatory definition of low-income members. A low-income member is one whose median family income is 80% or less than the median family income for the metropolitan area in which they live or the national metropolitan area, whichever is greater, or an individual who earns 80% or less than the median earnings for individuals for the metropolitan area where they live or the national metropolitan area, whichever is greater.

Fortunately, the NCUA makes this determination for each federal credit union as part of its periodic examination process using geocoding software that makes assumptions about member income based on the member’s address. If the assumptions qualify your federal credit union, the NCUA will notify you and you can decide whether your federal credit union wants the low-income designation and the advantages that come with it. If you accept the designation and a subsequent examination determines that you have fallen below the threshold, you have five years to adjust your membership and requalify. Your federal credit union will retain its low-income designation during that time.

A federal credit union that is not notified by the NCUA that it qualifies may submit information to the agency to demonstrate that they qualify. The NCUA’s rules provide guidance on the type of information that is accepted, such as income drawn from loan application files or a member survey, and the rules allow the use of statistically valid sampling. The NCUA’s Office of Credit Union Resources and Expansion will work with credit unions to determine other options for low-income designation.

A federally insured, state-chartered credit union may qualify for a low-income designation on the same terms and with the same benefits as a federal credit union, but only to the extent permitted by state law and only if both the state regulator and the NCUA agree.
SPECIAL AUTHORITIES OF LICU DESIGNATION

Receipt of insured shares from nonmembers

In addition to receiving insured shares from members, all federal credit unions – and federally insured state credit unions if the state law allows – may receive insured shares from public units, such as state and local government entities, and from other credit unions. Low-income designated credit unions, however, can take in insured shares from any nonmember as well. The shares are insured to the same extent as if they were member shares, allowing low-income designated credit unions important flexibility to obtain funds for lending and investments from outside of their low-income membership.

Information on the regulatory limits and the required contents of an application for a higher limit are at 12 CFR 701.32. Federally insured state credit unions should also refer to 12 CFR 741.204 and must obtain the approval of both NCUA and the state regulator.

Limit on nonmember shares is the greater of $3M or 50% of total shares

*The Regional Director may grant a higher limit upon application by the credit union.

Rules

- **12 CFR 701.34(b)**
  FCU use, disclosure and redemption of secondary capital accounts

- **12 CFR 741.204(c)**
  FISCU requirements (only to the extent permitted by state law)

- **12 CFR Part 702**
  Capital adequacy and PCA net worth requirements apply to all federally insured credit unions
Exemption from member business loan cap

Most federally insured credit unions are subject to a cap on their member business loans: the lesser of 12.25% of their assets or 1.75 times the CU’s actual net worth. (Certain types of business-purpose loans, such as a government-guaranteed loans or a loan secured by a 1-4 family dwelling, are not counted toward the cap.)

Low-income designated credit unions, however, are exempt from the cap entirely and have no statutory limit on their business loans. They are, however, subject to the other requirements of the NCUA’s member business loan rule.

Rule

12 CFR Part 723

Receipt of loans and grants from the Community Development Revolving Loan Fund

The CDRLF is a congressionally authorized program, administered by the NCUA, to assist low-income designated credit unions in providing financial services to their members and stimulating economic activity in their communities. The NCUA issues grants and makes loans pursuant to the CDRLF Program based on available funds as authorized by Congress. The NCUA expects to make approximately $2 million available in grants and $3.6 million available in loans for 2019. Low-income designated federal credit unions are eligible to apply for grants and loans; low-income designated, state-chartered credit unions should check with their state regulator and comply with any requirements of state law.

Rule

12 CFR Part 705
NCUA Assistance to Apply to CDFI Fund

The Community Development Financial Institutions Fund is a Treasury Department-administered fund that provides awards to financial institutions serving low-income communities. The awards support services, such as mortgage loans for first-time homebuyers, flexible underwriting for community facilities, and commercial loans for businesses in low-income communities. In 2017, the CDFI program awarded $39.5 million to 56 credit unions.

The CDFI certification process is separate and distinct from the NCUA’s low-income designation.

While a low-income designation is not required for certification, a streamlined certification process exists for low-income credit unions, and the NCUA assists low-income credit unions in applying for certification.

For more information

CDFI Program & Certification

LI FCUs:
Special FOM Rules

The NCUA’s chartering and field of membership rules allow special authority for low-income federal credit unions regarding field of membership additions. A low-income designated, multiple-group federal credit union is permitted to form and add to its FOM an associational group that exists for the sole purpose of making credit union service available. All members of the association must meet the low-income definition.

A low-income designated community federal credit union may add to its FOM and serve persons who participate in programs to alleviate poverty or distress or who participate in associations headquartered in the community. If your federal credit union is a low-income designated community charter and your FOM (Section 5 of your charter) does not contain these authorities, send a request to NCUA’s Office of Credit Union Resources and Expansion and they will revise your FOM as a housekeeping amendment.

Contact

NCUA CURE
CUREMail@ncua.gov
CUCollaborate is a consulting, software development, and digital marketing company whose mission is to help credit unions grow. We believe credit unions are the best option for consumers' financial services needs, so we want more consumers to seek credit unions out! CUCollaborate primarily focuses on addressing credit union's biggest obstacle to growth - field of membership. However, we also help credit unions attain and maintain low-income designations, because a low income designation unlocks additional opportunities for credit unions to grow and serve more members.

CUCollaborate specializes in expanding credit union fields of membership to the greatest degree possible, eliminating the friction field of membership causes in consumer acquisition, and delivering strategies that help credit unions efficiently attract new members, loans and deposits. We, at CUCollaborate, love credit unions and have developed expertise, software and strategies to ensure that an inability to grow is never a problem for your credit union.

Please reach out to us today to learn more!