

**7535-01-U**

**NATIONAL CREDIT UNION ADMINISTRATION**

**12 CFR Part 701**

**RIN:** 3133-AF23

**Chartering and Field of Membership - Shared Facility Requirements**

**AGENCY:** National Credit Union Administration (NCUA).

**ACTION:** Final rule.

**SUMMARY:** The NCUA Board (“Board”) is adopting a final rule amending its chartering and field of membership (“FOM”) rules to modernize requirements related to service facilities for multiple common bond (“MCB”) federal credit unions (“FCUs”). The final rule provides that shared locations are service facilities for purposes of MCB FCU additions of groups, regardless of whether the FCU has an ownership interest in the shared branching network providing the locations. Shared locations, including electronic facilities offering required services such as video teller machines, are also service facilities for purposes of MCB FCU additions of underserved areas, regardless of whether the FCU has an ownership interest. The final rule does not include other changes proposed to the definition of service facility; accordingly, ATMs continue to be excluded from the definition of service facility for additions of underserved areas.

**DATES:** This rule is effective [INSERT DATE THAT IS 30 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

**FOR FURTHER INFORMATION CONTACT:** Elizabeth Wirick, Senior Staff Attorney, Office of General Counsel, at 1775 Duke Street, Alexandria, VA 22314 or telephone: (703) 518-6545.

**SUPPLEMENTARY INFORMATION:**

- I. Proposed Rule**
- II. Legal Authority**
- III. Public Comments on the Proposed Rule and Final Rule**
- IV. Regulatory Procedures**

**I. Proposed Rule**

The NCUA’s Chartering and Field of Membership Manual, incorporated as Appendix B to part 701 of its regulations (“Chartering Manual”)<sup>1</sup> implements the FOM requirements and limitations established by the Federal Credit Union Act (“the Act”)<sup>2</sup> for FCUs. At its December 17, 2020, meeting, the Board approved a notice of proposed rulemaking to revise the Chartering Manual’s definition of “service facility.”<sup>3</sup> The definition of “service facility” pertains to the

---

<sup>1</sup> 12 CFR part 701, Appendix B.

<sup>2</sup> 12 U.S.C. 1750 *et. seq.*

<sup>3</sup> 86 FR 1826 (Jan. 11, 2021), <https://www.govinfo.gov/content/pkg/FR-2021-01-11/pdf/2020-28277.pdf>.

addition of groups and underserved areas to the FOM of a MCB FCU, one of three types of FCU charters permitted under the Act. Among the Act’s requirements for adding a group to a MCB FCU is that the credit union must be “within reasonable proximity to the location of the group whenever practicable and consistent with reasonable standards for the safe and sound operation of the credit union.”<sup>4</sup> Similarly, one of the Act’s requirements for adding an underserved area to a MCB FCU is that “the credit union establishes and maintains an office or facility” in the underserved area.<sup>5</sup> The Chartering Manual implements these geographical requirements by limiting MCB FCUs to adding only groups that are within the service area of one of the FCU’s service facilities and requiring MCB FCUs adding an underserved area to establish within two years, and maintain, an office or service facility in the underserved area.<sup>6</sup> As discussed in greater detail in the proposed rule, the Chartering Manual defines “service facility” differently for group additions and underserved area additions, requiring a higher level of services for service facilities in underserved areas.<sup>7</sup> Under the existing rule, ATMs do not qualify as service facilities for purposes of underserved area additions. The existing rule also requires that FCUs adding a group or an underserved area around a shared facility either have an ownership interest in the shared branching network providing the facility or that the shared facility is local to the FCU.<sup>8</sup>

The proposed rule would eliminate the ownership requirement for shared facilities, so that facilities of any shared branch network in which an FCU participates, regardless of

---

<sup>4</sup> 12 U.S.C. (f)(1)(B).

<sup>5</sup> *Id.* 1759(c)(2)(B).

<sup>6</sup> Chartering Manual, §§ 2.IV.A.1.; 2.III.F.

<sup>7</sup> 86 FR 1826 (Jan. 11, 2021).

<sup>8</sup> Chartering Manual, App. 1, Glossary.

ownership interest, would qualify as a service facility for the addition of groups or underserved areas. The proposed rule would also conform the definitions of service facility for group additions and underserved area additions, which would have resulted in ATMs, including shared ATMs, qualifying as service facilities for underserved area additions. Finally, the Board requested comments about whether the definition of service facility should further evolve to reflect the increasing role of technology in the provision of financial services by permitting FCUs' interactive websites and mobile banking applications to be considered service facilities.

## **II. Legal Authority**

The Board is issuing this rule pursuant to its authority under the FCU Act. Under the FCU Act, the NCUA is the chartering and supervisory authority for FCUs and the Federal supervisory authority for all federally insured credit unions (“FICUs”).<sup>9</sup> The FCU Act grants the Board a broad mandate to issue regulations governing both FCUs and FICUs. Section 120 of the FCU Act is a general grant of regulatory authority and authorizes the Board to prescribe rules and regulations for the administration of the FCU Act.<sup>10</sup>

The Act requires the Board to develop regulations to establish the criteria for additions of groups and requires the Board to approve an MCB FCU's addition of underserved areas.<sup>11</sup> The Act does not use the term “service facility.” Rather, the Board adopted the term “service

---

<sup>9</sup> 12 U.S.C. 1752–1775.

<sup>10</sup> *Id.* 1766(a).

<sup>11</sup> *Id.* 1759(c); (d)(3).

facility” to define the limits of reasonable proximity.<sup>12</sup> As discussed in the proposed rule, the Act does not dictate the agency’s prior position requiring ownership in a shared branching network or its current decision to continue excluding ATMs from the definition of service facility for purposes of underserved area expansion.

Agencies must “use the same procedures when they amend or repeal a rule as they used to issue the rule in the first instance.”<sup>13</sup> Accordingly, agencies cannot reverse rules adopted by notice-and-comment rulemaking by other, less transparent methods.<sup>14</sup> The term “service facility” appears in the Chartering Manual, which the Board has promulgated and amended using notice and comment rulemaking. The Board has engaged in notice and comment rulemaking to change its position regarding ownership requirements for shared branch networks.

### **III. Public Comments on the Proposed Rule and Final Rule**

The proposed rule provided for a 30-day public comment period, which closed on February 10, 2021. The NCUA received more than 700 comments on the proposed rule, 680 of which were identical or nearly identical form letters opposing the proposed rule. The form letter focused on opposing the proposed expansion of the definition of service facility to include ATMs in underserved areas and the request for comments on further expanding the definition of service

---

<sup>12</sup> 63 FR 71998, 72002 (Dec. 30, 1998); 68 FR 18334, 18335 (April 15, 2003).

<sup>13</sup> Perez v. Mortgage Bankers Ass’n, 575 U.S. 92, 101 (2015).

<sup>14</sup> Nat’l Family Planning and Reproductive Health Ass’n, Inc. v. Sullivan, 979 F.2d 227, 236 (D.C. Cir. 1992). (“[The agency] may not constructively rewrite the regulation, which was expressly based upon a specific interpretation of the statute, through internal memoranda or guidance directives that incorporate a totally different interpretation and effect a totally different result”); Clean Ocean Action v. York, 57 F.3d 328 (3d Cir. 1995).

facility. Of the 34 unique comments on the proposed rule, 21 commenters generally favored the rule and 13 commenters opposed it. Credit unions and related groups submitted the supportive comments, while banks, banking trade associations and individuals submitted the opposing comments, including the form letter.

*A. Changes to the Definition of Service Facility for Purposes of Group Additions*

Thirteen commenters specifically addressed the proposed removal of the ownership requirement for shared facilities, with ten supporting it and three opposed. The supportive comments echoed the Board's position in the proposed rule regarding the difficulty of obtaining ownership interests in some shared branching networks, the ongoing evolution in the delivery of financial services, and the fact that ownership, or lack thereof, of the entity offering the shared locations does not affect the services that members can receive at those locations. One commenter also noted that the costs of the shared facility ownership requirement might prevent smaller FCUs from being able to expand around shared locations. The opposing commenters, all banking trade associations, noted that relaxation of the ownership requirement would enable FCUs to expand nationwide. One opposing commenter also alleged that the Board did not sufficiently explain the reason for the change because consumers use ATMs the same way they did 20 years ago.

The Board is adopting the change to the service facility ownership requirement for group additions by MCB FCUs as proposed. The Board agrees with the commenters who note that the services available to credit union members are the same regardless of whether the credit union

has an ownership interest in the facility. The Board also agrees that the ownership requirement has the potential to disadvantage smaller FCUs, for whom the investment necessary for ownership in a shared branching network may be cost-prohibitive. The Board does not dispute the opposing commenters' observation that permitting shared locations to qualify as service facilities enables MCB FCUs to add groups that may not have a location in reasonable proximity to a facility solely owned by and dedicated to a particular FCU. This potential, however, already exists under the current rule, except that only FCUs with the resources to invest in a shared branching network can utilize it. Far from being the "red herring" one commenter termed it, the barriers to using shared facilities to expand resulting from the ownership requirement are likely to fall most heavily on smaller, less resourced FCUs. Accordingly, the FCUs most likely to benefit from this change are precisely the type of community-based FCUs the opposing commenters indicate they prefer over what they term the "large, growth-oriented credit unions."

Finally, the Board disagrees with the commenter who said the proposed rule did not sufficiently explain why its position has changed, because the services consumers access through ATMs has not changed. As discussed in the proposed rule, the Board examined the statutory language and intent and determined that its prior interpretation, requiring an ownership interest, was not dictated by the Act.<sup>15</sup> As also discussed, changes to the structure of shared branching arrangements, as well as consumers' increasing comfort with using electronic facilities that may be distant from the physical location of their financial institution, prompted the Board to consider this change. Nor does the language in the legislative history encouraging NCUA to "strongly

---

<sup>15</sup> 86 FR 1826, 1827 (Jan. 11, 2021).

favor placing groups with local credit unions”<sup>16</sup> dictate an ownership requirement. An FCU can be local to the location of a group if it can serve members of the group desiring credit union services, and it can serve those members through a shared facility regardless of ownership.

The elimination of the ownership requirement in the final rule is analogous to the Board’s approach to other components of the reasonable proximity requirement. For example, the Board has always taken the view that the “reasonable proximity” requirement has a geographic component, but as there is no statutory constraint on the specific distance, the Board has declined to establish a parameter not required by the Act.<sup>17</sup> In other words, despite some misconceptions in the past, there is no specific mileage limit or test to determine reasonable proximity. Similarly, the Board is now eliminating a requirement imposed by regulation that is not mandated by statute.

#### *B. Change to the Definition of Service Facility for Purposes of Underserved Area Additions*

For underserved areas, the current definition of “service facility” is more limited and allows fewer kinds of facilities to qualify. Specifically, for underserved areas, a service facility currently includes credit union-owned electronic facilities (other than ATMs) that take deposits, accept loan applications, and disburse loans.<sup>18</sup> Credit union branches, certain shared branches, mobile branches, and offices operated on a regularly scheduled weekly basis also meet the

---

<sup>16</sup> H.R Rept. No. 105-472, 105<sup>th</sup> Cong., 2<sup>nd</sup> Sess. (1998).

<sup>17</sup> OGC Op. “Reasonable Proximity Analysis” (June 10, 2020), <https://www.ncua.gov/regulation-supervision/legal-opinions/2021/reasonable-proximity-analysis>.

<sup>18</sup> Id. § 3.III.F.

current criteria for a service facility in an underserved area expansion. Shared locations to which an FCU has access by virtue of participating in a shared branching network without an ownership interest do not meet the criteria for a service facility in an underserved area under the current rule. ATMs are also excluded, even if wholly owned by the FCU. The proposed rule would have changed the definition to allow all shared facilities, including ATMs, to qualify as service facilities, without any requirement for ownership in the shared facility.

The 680 form letter submissions as well as an additional 14 commenters opposed the addition of ATMs as service facilities for adding underserved areas. Opposing commenters stated the legislative history of this provision of the Act indicates that Congress did not intend for an ATM to qualify as a service facility for underserved areas and questioned whether an ATM could provide the level of service needed in underserved areas. Only 21 commenters favored this change; these commenters asserted that expanding the definition of service facility would allow more FCUs to serve underserved areas. The plain language of the Act does not prohibit including ATMs in the definition of service facility for underserved areas, and the Board agrees that expanding the definition of service facility to include ATMs would increase service to underserved areas. Nevertheless, after considering the comments and upon further review, the Board has determined to adopt only a portion of the proposed changes to the definition of service facility.

The final rule allows shared facilities, other than ATMs, to count as service facilities for underserved areas, provided the FCU's agreement with the shared branching network allows for the shared location to receive share deposits, accept loan applications, and disburse loan

proceeds. Shared facilities which permit an FCU to offer these services may be service facilities in underserved areas, regardless of whether the FCU has an ownership interest in the entity providing the shared facility. An ownership interest in a shared facility for purposes of adding an underserved area is not required for the same reasons that an ownership interest in a shared facility for purposes of adding a group is not required.

The final rule, however, continues to impose additional requirements for service facilities in an underserved area. As in the existing rule, ATMs are not included in the definition of service facility. The final rule also retains the requirement in the current rule that a service facility for an underserved area must be a location that provides all three of the listed services – receiving shares for deposit, accepting loan applications, and disbursing loan proceeds. This means that, as stated in a 2012 Office of General Counsel Opinion Letter, so-called “video teller machines” that provide the above three services are service facilities for purposes of underserved areas, regardless of ownership.<sup>19</sup> The Board has determined this approach will allow more FCUs to offer services to underserved areas while still ensuring that members added in underserved areas receive a high level of services. The Board anticipates that this final rule could improve access to fair, safe and affordable financial services to individuals in underserved areas especially in minority and rural communities.

### *C. Change to the Definition of Service Facility in Chartering Manual Glossary*

---

<sup>19</sup> OGC Op. No. 11-0965 (Aug. 2012), <https://www.ncua.gov/regulation-supervision/legal-opinions/2012/video-teller-machine>.

As discussed in the preamble to the proposed rule, the current definition for “service facility” in the Chartering Manual’s glossary would benefit from clarification because it does not include a complete definition specific to each type of proposed FOM addition. Although the current definition references requirements for underserved area service facilities in the final sentence, it does not include the requirements for facilities in underserved areas to be a place where shares are accepted, loan applications are accepted, and loan proceeds are disbursed. The proposed rule would have conformed the definitions of service facility and removed this source of confusion. As noted above, however, the Board determined to retain the existing requirements related to service facilities for underserved areas, so the definition of service facility continues to depend on the context.

The definition of service facility in the Chartering Manual glossary in the final rule reflects the elimination of the ownership requirements for shared facilities. It also now more fully captures the additional requirements for service facilities in underserved areas by incorporating the complete definition of service facility for the purposes of underserved area additions from Chapter 3 of the Chartering Manual.

*D. Additional Request for Comment*

The proposed rule also requested comments on the general issue of whether the Board’s definitions of terms like “service facility” should further evolve to include a credit union’s transactional website and mobile banking applications. This was another area of focus for the form letter, so the vast majority of commenters opposed consideration of such a change. No

regulatory changes were proposed in this regard, and the Board is not contemplating further action on this issue at this time. However, the Board is mindful of the increased usage of digital banking platforms by credit union members and will continue to monitor the situation.

#### **IV. Regulatory Procedures**

##### *A. Regulatory Flexibility Act*

The Regulatory Flexibility Act (RFA) generally requires that, in connection with a notice of proposed rulemaking, an agency prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of a proposed rule on small entities. A regulatory flexibility analysis is not required, however, if the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities (defined for purposes of the RFA to include FICUs with assets less than \$100 million) and publishes its certification and a short, explanatory statement in the Federal Register together with the rule.

The final rule changes the criteria for service facilities of MCB FCUs by eliminating the ownership requirement for shared facilities. As of June 30, 2021, there are 1,342 MCB FCUs, of which 933 have assets less than \$100 million. Of these 933 MCB FCUs with assets less than \$100 million, 243 are already participating in a shared branching network. This means that the remaining 690 MCB FCUs under \$100 million may have additional incentive to participate in shared branching, as they will be able to use shared locations as a basis for expanding their FOM to additional groups or underserved areas regardless of ownership.

The ability to add additional members will not have a significant impact on small FCUs. The negative effect on small FCUs whose members gain eligibility for membership in another credit union under these changes is also likely minimal. Although this rule is anticipated to economically benefit FCUs that choose to expand their FOMs, NCUA certifies that it will not have a significant economic impact on a substantial number of small credit unions.

### *B. Paperwork Reduction Act*

The Paperwork Reduction Act of 1995 (PRA) requires that the Office of Management and Budget (OMB) approve all collections of information by a Federal agency from the public before they can be implemented.<sup>20</sup> The NCUA may not conduct or sponsor, and the respondent is not required to respond to an information collection unless it displays a valid OMB control number.

In accordance with the PRA, the information collection requirements included in this final rule has been submitted to OMB for approval under control number 3133-0015.

### *C. Executive Order 13132*

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their actions on state and local interests. In adherence to fundamental federalism

---

<sup>20</sup> 44 U.S.C. 3507(d); 5 CFR part 1320.

principles, the NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order. This rulemaking will not have a substantial direct effect on the states, on the connection between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. The NCUA has determined that this final rule does not constitute a policy that has federalism implications for purposes of the executive order.

#### *D. Assessment of Federal Regulations and Policies on Families*

The NCUA has determined that this final rule will not affect family well-being within the meaning of Section 654 of the Treasury and General Government Appropriations Act, 1999.<sup>21</sup>

#### *E. Small Business Regulatory Enforcement Fairness Act*

The Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA) generally provides for congressional review of agency rules.<sup>22</sup> A reporting requirement is triggered in instances where the NCUA issues a final rule as defined by section 551 of the Administrative Procedure Act.<sup>23</sup> An agency rule, in addition to being subject to congressional oversight, may also be subject to a delayed effective date if the rule is a “major rule.” The NCUA does not believe this rule is a “major rule” within the meaning of the relevant sections of SBREFA. As

---

<sup>21</sup> Pub. L. 105–277, 112 Stat. 2681 (1998).

<sup>22</sup> Pub. L. 104–121, 110 Stat. 147 (1996).

<sup>23</sup> 5 U.S.C. 551.

required by SBREFA, the NCUA has submitted this final rule to the Office of Management and Budget (“OMB”) for it to determine if the final rule is a “major rule” for purposes of SBREFA. The NCUA also will file appropriate reports with Congress and the Government Accountability Office so this rule may be reviewed.

## **List of Subjects**

### **12 CFR Part 701**

Credit, Credit unions, Reporting and recordkeeping requirements.

By the National Credit Union Administration Board on November 18, 2021.

---

Melane Conyers-Ausbrooks  
Secretary of the Board

For the reasons stated above, the Board amends 12 CFR part 701, Appendix B as follows:

## **PART 701—ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS**

1. The authority citation for part 701 continues to read as follows:

**Authority:** 12 U.S.C. 1752(5), 1755, 1756, 1757, 1758, 1759, 1761a, 1761b, 1766, 1767, 1782, 1784, 1785, 1786, 1787, 1788, 1789. Section 701.6 is also authorized by 15 U.S.C. 3717. Section 701.31 is also authorized by 15 U.S.C. 1601 *et seq.*; 42 U.S.C. 1981 and 3601-3610. Section 701.35 is also authorized by 42 U.S.C. 4311-4312.

2. In Appendix B to Part 701, revise Chapter 2 Section IV.A.1 to read as follows:

**Appendix B to Part 701 – Chartering and Field of Membership Manual**

\* \* \* \* \*

**IV—Multiple Occupational/Associational Common Bonds**

**IV.A.1—General**

A federal credit union may be chartered to serve a combination of distinct, definable single occupational and/or associational common bonds. This type of credit union is called a multiple common bond credit union. Each group in the field of membership must have its own occupational or associational common bond. For example, a multiple common bond credit union may include two unrelated employers, or two unrelated associations, or a combination of two or more employers or associations. Additionally, these groups must be within reasonable geographic proximity of the credit union. That is, the groups must be within the service area of one of the credit union’s service facilities. These groups are referred to as select groups. A

multiple common bond credit union cannot include a TIP or expand using single common bond criteria.

Employment in a corporation or other legal entity which is related to another legal entity (such as a company under contract to, and possessing a strong dependency relationship with, the other company) makes that person part of the occupational common bond of a select employee group within a multiple common bond. In this context, a “strong dependency relationship” is a relationship in which the entities rely on each other as measured by a pattern of regularly doing business with each other, for example, as documented by the number, the term length, and the dollar volume of prior and pending contracts between them.

A multiple common bond credit union’s charter may also combine individual occupational groups that each consist of employees of a retailer or other business tenant of an industrial park, a shopping mall, office park or office building (each “a park”). To be able to have this type of clause in its charter, the multiple common bond credit union first must receive a request from an authorized representative of the group or the park to establish credit union service. The park must be within the multiple common bond credit union's service area, and each occupational group must have fewer than 3,000 employees, who are eligible for membership only for so long as each is employed by a park tenant. Under this clause, a multiple common bond credit union can enroll group employees only while the group's retail or business employer is a park tenant, but such credit unions are free to serve employees of new groups under the above conditions as each respective employer becomes a park tenant.

A federal credit union’s service area is the area that can reasonably be served by the service facilities accessible to the groups within the field of membership. The service area will most

often coincide with that geographic area primarily served by the service facility. Additionally, the groups served by the credit union must have access to the service facility. The non-availability of other credit union service is a factor to be considered in determining whether the group is within reasonable proximity of a credit union wishing to add the group to its field of membership.

A service facility for multiple common bond credit unions is defined as a place where shares are accepted for members' accounts, loan applications are accepted, or loans are disbursed. This definition includes a credit union-owned branch, a mobile branch, an office operated on a regularly scheduled weekly basis, a credit union-owned ATM, or a credit union-owned electronic facility that meets, at a minimum, these requirements. A service facility also includes a shared branch or a shared branch network location, including a shared ATM or electronic facility that meets the above requirements, if the credit union participates in a shared branching network. This definition does not include the credit union's Internet Web site.

The select group as a whole will be considered to be within a credit union's service area when:

- A majority of the persons in a select group live, work, or gather regularly within the service area;
- The group's headquarters is located within the service area; or
- The group's "paid from" or "supervised from" location is within the service area.

3. In Appendix B to Part 701, revise Chapter 3 Section III.F to read as follows:

**Appendix B to Part 701 – Chartering and Field of Membership Manual**

\* \* \* \* \*

### **III.F—Service Facility**

Once an “underserved area” has been added to a federal credit union’s field of membership, the credit union must establish within two years, and maintain, an office or service facility in the community. A service facility is defined as a place where shares are accepted for members’ accounts, loan applications are accepted and loans are disbursed. By definition, a service facility includes a credit union-owned branch, a shared branch, a mobile branch, an office operated on a regularly scheduled weekly basis, or a credit union-owned electronic facility that meets, at a minimum, the above requirements. A service facility also includes a shared branch or a shared branch network location, including an electronic facility that meets the above requirements, if a credit union participates in a shared branching network.

This definition does not include an ATM or the credit union’s Internet Web site.

4. In Appendix B to Part 701 revise the entry for “service facility” in the Glossary section to read as follows:

### **Appendix B to Part 701 – Chartering and Field of Membership Manual**

\* \* \* \* \*

### **APPENDIX 1 GLOSSARY**

\* \* \*

*Service facility*—A place where shares are accepted for members’ accounts, loan applications are accepted or loans are disbursed. This definition includes a credit union-owned branch, a mobile branch, an office operated on a regularly scheduled weekly basis, a credit union-owned ATM, or a credit union-owned electronic facility that meets, at a minimum, these requirements. A service facility also includes a shared branch or a shared branch network location, including a shared ATM or other electronic facility, if a credit union participates in a shared branching network. For purposes of serving an underserved area: (1) a service facility is a place where shares are accepted for members’ accounts, loan applications are accepted, and loans are disbursed; and (2) a service facility does not include an ATM or shared ATM. The credit union’s Internet Web site is not a service facility.

\* \* \* \* \*