CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 19, 1998

H.R. 1151
Credit Union Membership Access Act

As reported by the Senate Committee on Banking, Housing, and Urban Affairs on May 21, 1998

SUMMARY

H.R. 1151 would establish new guidelines governing eligibility for membership in credit unions; establish a framework of safety and soundness regulations for credit unions consistent with that for banks and savings and loans; and allow 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 would increase net assessments paid to the NCUSIF by $510 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 would 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.

Because H.R. 1151 would affect both revenues and direct spending, it would be subject to pay-as-you-go procedures. H.R. 1151 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) because it would, in certain circumstances, preempt state laws regulating credit unions. CBO estimates that the cost of such mandates would be minimal. Other impacts on states would also not be significant. H.R. 1151 would not impose mandates or have other budgetary impacts on local or tribal governments.

H.R. 1151 would impose new private-sector mandates, as defined by UMRA, on federally insured credit unions. CBO estimates that the cost of those mandates would not exceed the statutory threshold established in UMRA ($100 million in one year, adjusted annually for inflation). Other provisions of the bill would benefit some credit unions by reversing the effects of a recent Supreme Court Decision, thus allowing federal credit unions to organize with members from unrelated occupational groups.

DESCRIPTION OF MAJOR PROVISIONS

H.R. 1151 would overturn 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—will tighten the limitations on membership in credit unions. The case dealt with a challenge to the NCUA's interpretation of section 109 of the Federal Credit Union Act, which requires that membership in federal credit unions be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood or community. The NCUA ruled in 1982 that a single credit union could serve employees of multiple employers even though not all employers were engaged in the same industrial activity. The Supreme Court has now determined that the NCUA's interpretation was invalid.

This legislation would amend the Federal Credit Union Act to allow federal credit unions to accept members from unrelated groups—thus forming multiple common bonds—in addition to the current permissible categories of single common bond and community credit unions. The act would grandfather membership status for members of existing credit unions and allow credit unions to solicit members from unrelated groups of up to 3,000 persons.

Other provisions of the act would:

- establish new procedures for taking prompt corrective action regarding a troubled credit union and specify capital levels for credit unions, which would be equal to the standards that the banking and thrift regulators now require;

- require the NCUA to develop risk-based requirements for determining the net worth of certain credit unions that the NCUA determines to be "complex;"

- change the method for calculating the ratio of NCUSIF balances to total credit union deposits;

- specify a range (between 1.3 percent and 1.5 percent of insured deposits) for the normal balance of the insurance fund; assessments would be triggered if the fund balance falls below 1.2 percent;

- require an independent financial audit for all credit unions with total assets of $500,000 or more;

- limit the total volume of commercial loans that can be made by a credit union to the lesser of 1.75 times the actual capital level of the credit union or to 1.75 times the capital level of a well-capitalized credit union with the same amount of assets;

- require credit unions to serve members of "modest means," and require the NCUA to monitor the lending record of credit unions to ensure compliance with this provision;

- require the NCUA and the other federal banking agencies to review certain rules and regulations with the goal of streamlining and modifying them, as appropriate, to reduce paperwork and unnecessary costs for insured depository institutions;

- require the Secretary of the Treasury to prepare several reports, including a study of the differences between credit unions and other financial institutions that are federally insured, and a study outlining recommendations for legislative and administrative actions that would reduce and simplify the tax burden on small insured depository institutions; and

- simplify the rules allowing credit unions to convert to another insured institution and limit the economic benefit that senior officials of a credit union could gain when converting a credit union to a mutual institution.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1151 is shown in the following table. Over the 1999-2003 period, CBO estimates that net collections of the NCUSIF would increase by about $510 million. The JCT estimates that federal revenues would decline by $6 million in 1999 and $143 million over the 1999-2003 period. The outlay effects of this legislation fall within budget function 370 (commerce and housing credit).

BASIS OF ESTIMATE

For purposes of this estimate, we assume H.R. 1151 will be enacted by the beginning of fiscal year 1999. The provisions of the act that are expected to have a significant budgetary effect are discussed below. The reports to be completed by the Secretary of the Treasury would be funded by discretionary spending, but we estimate that the amounts required would not be significant.

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
DIRECT SPENDING						
NCUA Spending Under Current Law						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	-182	-145	-117	-116	-120	-123
Proposed Changes						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays [a]	0	-93	-113	-110	-99	-94
NCUA Spending Under H.R. 1151						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	-182	-238	-230	-226	-219	-217
CHANGES IN REVENUES						
Estimated Revenues [b]	0	-6	-16	-27	-40	-54

a. These amounts exclude changes in NCUA interest income from intragovernmental payments that have no net budgetary impact.
b. A negative sign indicates a decrease in revenues.

Direct Spending

CBO estimates that, under H.R. 1151, the amount of assessments that credit unions pay to the NCUSIF would increase by about $352 million over the 1999-2003 period and that rebates to members from the fund would decline by $185 million over the same period. Together, these changes would reduce federal outlays by $537 million from 1999 through 2003. NCUSIF's payments for the NCUA's operating costs would increase by $27 million over the five years, for a net budgetary savings of $510 million through 2003. Finally, we estimate that the operating fund of the NCUA would incur additional administrative costs of $55 million over the 1999-2003 period to carry out the act's provisions related to safety and soundness, and to ensure that credit unions meet the needs of all members of the community. These costs would be offset by additional income from fees and payments from the NCUSIF.

Assessment Income. H.R. 1151 would make three changes that CBO expects would increase assessments paid into the NCUSIF over the next 10 years. It would (1) allow current credit union members whose membership status was unclear as a result of the Supreme Court ruling to retain their membership and allow credit unions to accept members from unrelated groups; (2) change the formula for calculating the reserve balance in the

NCUSIF; and (3) change the frequency with which credit unions pay assessments for deposit insurance. This estimate measures these changes relative to current law, which reflects the Supreme Court decision in the case of *National Credit Union Administration v. First National Bank & Trust Co., et al.*

The act would 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 would encourage 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 would be 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 under current law. As a result, we expect that enactment of H.R. 1151 would trigger growth of deposits in credit unions of about 5 percent annually by 2000, compared to projected annual growth of about 3 percent under current law. With more rapid growth in deposits, CBO expects that insurance assessments collected by the NCUA also would increase because credit unions pay to the NCUSIF an amount equal to 1 percent of the growth in their deposits each year.

The act would impose 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 would 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 would lead to more rapid deposit growth, would more than offset these restrictions.

The act would change 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. Under current law, the NCUA rebates all balances in excess of 1.3 percent. Under the act, however, CBO expects that the NCUA would continue to provide rebates to members but would 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 would authorize rebates totaling about $465 million over the 1999-2003 period, or about $185 million less than under current law.

Safety and Soundness. H.R. 1151 also would strengthen the regulatory framework of credit unions, and would specify statutory capital and net worth standards equal to those of other insured financial institutions. The act would authorize the NCUA to take prompt corrective action against credit unions engaged in unsafe practices. Because the act would allow credit unions to diversify their membership among various occupational groups, we expect that the stress on particular credit unions would 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 would be lower. At this time, CBO has no basis for estimating the potential savings—if any—to the NCUSIF.

Other provisions. The act would limit 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 having a ratio of capital to assets of 7 percent.) Section 203 would allow a transition period of three years to phase in the new restrictions on business loans. In addition, the act would require the NCUA to issue regulations defining permissible membership and boundaries for community credit unions. Title II would require the NCUA to prescribe criteria for annually evaluating the record of any community credit union and to develop procedures for ensuring compliance.

CBO estimates that the additional cost to the NCUA to undertake the various initiatives required by H.R. 1151 would total approximately $4 million in 1999, and would increase to $17 million by 2003, about 14 percent of its operating budget. The basis for this estimate is the cost of similar activities for the other federal financial regulators. Most of these expenses, which total an estimated $55 million through 2003, would be for evaluating the records of all insured credit unions to ensure that they meet the needs of those in the community with modest means. They include costs for training, computer support, and overhead. 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 would 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.

Revenues

The Joint Committee on Taxation estimates that enacting H.R. 1151 would result in a loss of governmental receipts because deposits would shift from financial institutions that currently 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 would grow about 2 percent per year faster than under current law, the JCT estimates that the federal government would lose revenues totaling $143 million over the 1999-2003 period.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	0	0	0	0	0	0	0	0	0	0
Changes in receipts	0	-6	-16	-27	-40	-54	-70	-87	-106	-127	-151

The JCT estimates that, under H.R. 1151, there would be more deposits in credit unions and fewer in financial institutions that are subject to federal taxation. Forgone revenues are estimated to total $143 million over the 1999-2003 period.

Under the Balanced Budget and Emergency Deficit Control Act, provisions providing funding necessary to meet the government's deposit insurance commitment are excluded from pay-as-you-go procedures. Therefore, the projected increases in assessment income and decreases in rebates to credit unions would not count for pay-as-you-go purposes. CBO believes that the administrative costs related to safety and soundness, estimated to total about $11 million through 2003, would be excluded as well. In contrast, CBO believes that the various costs that the NCUA would incur to ensure that credit unions serve people of modest means would count for pay-as-you-go purposes. We estimate that the additional direct spending for the NCUA's supervisory costs associated with activities other than those related to safety and soundness would total about $45 million over the 1999-2003 period. These

costs would be fully offset by increases in fees charged to credit unions or reduced rebates, resulting in no significant net budgetary impact.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1151 contains intergovernmental mandates as defined in UMRA because it would, in certain circumstances, preempt state laws regulating credit unions. Specifically, the act would establish safety, soundness, and audit requirements that are stricter than some state standards. In addition, it would impose limits on the volume of business loans made by credit unions. It could also override state community reinvestment laws that apply to state-chartered credit unions that are federally insured. Under UMRA such preemptions would be mandates. However, because these preemptions would simply limit the application of state law in some circumstances, and because only a few states are likely to be affected, CBO estimates that they would impose only minimal costs on states.

H.R. 1151 also contains provisions that would increase the workload of state regulators of credit unions. These provisions would not be mandates under UMRA because they are the result of voluntary agreements between state and federal regulators, under which state regulators incorporate federal requirements into their evaluations of state-chartered credit unions. The net effect of these provisions would not be significant because costs incurred by state regulators would be offset by examination fees and assessments levied by the states. Finally, the legislation would not impose mandates or have other budgetary impacts on local or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1151 would impose new private-sector mandates, as defined by UMRA, on federally insured credit unions. CBO estimates that the direct costs of complying with private-sector mandates in H.R. 1151, in the first five years after mandates become effective, would be below the statutory threshold established in UMRA ($100 million in 1996, adjusted annually for inflation). Several provisions in the act would impose restrictions on credit unions that could affect their long-term future business potential. CBO expects that those restrictions could limit somewhat the growth of deposits. At the same time, a key provision in H.R. 1151 would benefit federal credit unions by relaxing an existing restriction and allowing occupation-based credit unions to serve multiple unrelated groups. Overall, CBO estimates that total deposits of credit unions would grow faster under H.R. 1151 than under current law.

Private-Sector Mandates Contained in the Bill

H.R. 1151 would impose several mandates on federally insured credit unions. The primary mandates in the act would:

- establish new criteria for credit unions to demonstrate service to low- and moderate-income individuals;

- limit the amount of business loans that an institution can make to members;

- establish a system of prompt corrective action that is consistent with the system currently applicable to institutions insured by the Federal Deposit Insurance Corporation;

- require credit unions having assets greater than $50 million to remit deposits to the NCUSIF semiannually instead of annually; and

- impose new regulations regarding auditing and accounting procedures for institutions with assets greater than $10 million.

Serving Persons of Modest Means. Section 204 would subject federally insured credit unions to a periodic review by the NCUA of their record in providing affordable credit union services to low- and moderate-income individuals within their membership group. The act would direct the NCUA to develop additional criteria for annual evaluations of the record of community credit unions. Such institutions are usually organized to serve a particular local community, neighborhood, or rural district and are not based on an occupational bond. The act would direct the NCUA to implement regulations that emphasize performance over paperwork.

Business Loans to Members. Section 203 would put limits on the total amount of business loans that a federally insured credit union could make. Business loans to members would be limited to an amount that is the lesser of 1.75 times a credit union's actual net worth or 1.75 times the statutory requirement for well-capitalized institutions with the same amount of assets. For a well-capitalized credit union, this provision would effectively limit business loans to its members to 12.25 percent of its assets. The act would exempt from this requirement credit unions that have a history of primarily making business loans to members and credit unions that serve predominantly low-income members. Although the limit on business loans would be effective on the date of enactment, H.R. 1151 would allow credit unions with loans over the limit on that date three years to reduce the volume of outstanding loans to a level that is in compliance.

Safety and Soundness Provisions. Section 301 would require the NCUA to establish a system of prompt corrective action (PCA) for federally insured credit unions within one and one-half years after enactment. As a part of the PCA system H.R. 1151 would establish statutory capital levels for federally insured credit unions based on an institution's ratio of net worth to assets--well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. (Credit unions that are deemed to have complex portfolios by the NCUA would have additional risk-based capital requirements.) Well-capitalized institutions would have no further restrictions on their activities under PCA. Credit unions that are not well-capitalized would have to set aside net worth (usually retained earnings) at a rate of 0.4 percent of assets annually. Undercapitalized institutions would have to (1) create a restoration plan approved by the NCUA, (2) monitor asset growth in compliance with an approved plan, and (3) restrict the growth of business loans to members.

Semi-Annual Remittance to the Share Insurance Fund. Under current law, each insured credit union maintains on deposit in the NCUSIF an amount equal to 1 percent of the credit union's insured share deposits. Credit unions periodically certify the amount of share deposits and, each April, they adjust their deposit in the fund based on this amount. For credit unions with more than $50 million in assets, this legislation would change the schedule to twice per year for adjusting deposit levels in the fund.

New Accounting Requirements. Section 201 would require credit unions with assets over $500 million to have an annual independent audit of their financial statement performed in accordance with generally accepted accounting principles (GAAP). H.R. 1151 would also require credit unions with assets over $10 million to use GAAP in all reports required to be filed with the NCUA. Credit unions with assets under $10 million would be allowed to continue to use other methods outlined in NCUA's Accounting Manual, unless GAAP is specifically prescribed for them by NCUA or their state regulator.

Estimated Costs to the Private Sector

In total, CBO estimates that the cost of mandates in H.R. 1151 would fall below UMRA's threshold for private-sector mandates. Complying with the provisions in section 204, dealing with service to persons of modest means, would be the most costly mandate in the act. The costs of those provisions would range from $25 million to $33 million in the first year that the regulations are fully implemented, fall in the next year, and rise somewhat thereafter. The cost to credit unions of limiting business loans to members are not expected to be substantial overall, but some institutions may have to bear significant losses on loans in order to comply with this restriction. The direct costs of other mandates in the legislation would be less than $3 million in any of the five years after mandates would become effective. The

safety-and-soundness provisions would increase examination costs incurred by credit unions by about $1 million annually by the year 2001. Lost investment income to credit unions that would have to make additional deposits to the share insurance fund would total between $1.5 million and $2 million during each of the first five years after implementation. The costs of complying with the accounting provisions in the act would be negligible because most institutions are already in or near compliance.

Serving Persons of Modest Means. The cost of complying with requirements that would result from provisions in section 204 are difficult to assess because the NCUA would have to develop a new set of criteria to evaluate a credit union's service to members of modest means. Such rules are likely to differ substantially from those applicable to other depository institutions. Based on information from the NCUA and other regulatory agencies, CBO estimates that the costs of complying with those provisions would range from $25 million to $33 million in the year 2000 and would fall in the next year once the system is in place. Most of the incremental costs to credit unions would be for keeping additional records on member loans and share accounts to assist in monitoring services to low-income persons, marketing to all segments within the membership field, and undergoing more extensive periodic examinations. Costs could be higher if the NCUA determines that additional types of information would be necessary to monitor compliance with these provisions.

In general, federally insured credit unions would have to record additional information on households with respect to such member services as loans and, possibly, share accounts. The incremental costs of new recordkeeping requirements could range between $17 million and $25 million beginning in the year 2000, and would fall by 20 percent to 30 percent in the next year once the system is fully in place. Costs would then rise over time as the number of loans and share accounts grows. CBO estimates that the costs of marketing to all income strata within the field of membership would increase costs by $4 million to $5 million annually, which is less than 1 percent of the amount that credit unions currently spend on educational and promotional expenses. In addition to those incremental costs, credit unions would have to cover the costs of more extensive examinations by regulators. Based on information from the NCUA and banking regulators, CBO estimates that the increased costs for periodic examinations would be about $3 million a year by the year 2000.

Business Loans to Members. The restrictions on business loans to members would not impose a significant cost on the industry as a whole. Currently about 1,550 credit unions make business loans to their members. Of that group, only about 100 institutions are currently over the limit proposed in the act. According to the latest available data, those institutions would be over the limit by almost $870 million in loans. However, many of the institutions that are over the limit would be able to qualify under the act for an exemption

based on their history of making such loans. (In over 40 percent of the institutions that are currently over the limit, business loans make up 37 percent or more of their loan portfolio.)

Credit unions that do not qualify for an exemption would have 3 years to: allow loans to turn over (the turnover rate for all credit union loans averages about 22 months); try to sell loans on the market—only quality loans would attract a high percentage on the dollar; try to engage in "participating loan" programs, which allow institutions to share up to 90 percent of their loan portfolio with other credit unions; or try to "call in" loans under loan agreements that have a provision allowing such an action. Institutions with nonperforming loans or those that have a slow turnover in their loan portfolio may have to sell loans at a significant loss or write off loans at a total loss. Even institutions that are able to sell off business loans could experience a loss in interest income if they are unable to invest money from the sale of those loans at comparable interest rates. (Business loans typically garner a higher rate than other loans in a credit union's portfolio.)

Safety and Soundness Provisions. The near-term costs of new requirements under section 301 should be small for two reasons. First, the NCUA currently monitors the net worth of credit unions and administers several informal policies that are analogous to prompt corrective action procedures applicable to FDIC-insured institutions. Second, about 94 percent of all federally insured credit unions are currently well capitalized. Institutions with the lowest composite performance ratings given by regulators have accounted for only 3 percent or less of all credit unions over the last four years.

Under PCA, institutions that are not well capitalized would have to set aside funds that they could otherwise use to earn interest income. However, according to the NCUA, the .04 percent retention requirement is not significantly different from current earnings-retention requirements. The costs of examinations for credit unions would also increase slightly (by $1 million or so by the year 2001) for all credit unions under a system of prompt corrective action.

Other Mandate Costs. Under section 302, insured credit unions with more than $50 million in assets would have to remit assessments twice a year to the NCUSIF, thus losing the use of $60 million for six months, compared to the current system. Assuming credit unions would earn an annual yield of about 5.5 percent on those funds, they would lose income of $1.5 million to $2 million per year over the 1999-2003 period.

The costs of complying with the accounting provisions in H.R. 1151 would be small. According to recent data from the NCUA, all but one of the credit unions with over $500 million in assets already have an independent outside audit performed each year. The incremental costs of an audit would be less than $30,000 for an institution of that size. The

costs of complying with GAAP would also be minor because most credit unions with assets over $10 million use accounting procedures that are largely consistent with GAAP. For institutions that currently use methods that are not consistent with GAAP (mostly cash accounting methods), the additional compliance costs of this mandate could include the costs to train employees in the application of GAAP accounting methods, and the costs of transferring records into a new system of accounting. However, the majority of institutions do not use cash accounting methods and would, therefore, only have to make minor changes to achieve compliance.

PREVIOUS CBO ESTIMATE

On June 2, 1998, CBO prepared a cost estimate for H.R. 1151, as passed by the House of Representatives on April 1, 1998. For the House version of H.R. 1151, CBO estimated that deposits in credit unions would grow by 6 percent annually by 2000, compared to projected annual growth of about 3 percent under current law. As a result, CBO estimated that net assessments paid to the NCUSIF would increase by $628 million over the 1999-2003 period, and that the shift in deposits would reduce revenues to the federal government by $217 million through 2003. In contrast, for the Senate version of H.R. 1151, CBO estimates that deposits in credit unions would grow at a rate of about 2 percent annually by 2000, that net assessments would increase by $510 million over the 1999-2003 period, and that revenue losses would total $143 million through 2003.

CBO expects a lower annual rate of growth in deposits under the Senate version of H.R. 1151 for a number of reasons. The Senate version would specify net worth and capital requirements for credit unions and require regulators to restrict the growth of unhealthy institutions. In contrast, the House version would give the NCUA discretion to develop future standards affecting the safety and soundness of credit unions. The Senate version of H.R. 1151 also would simplify and ease procedures for converting a credit union to a mutual institution. Unlike the House version, the Senate provisions would not bar owners and members from earning profits if the newly created mutual institution subsequently converted to a publicly traded financial institution. CBO believes, therefore, that the Senate version of H.R. 1151 would provide a greater incentive to convert a credit union to a mutual or stock institution by allowing participants to realize greater economic benefits. This is consistent with the experience of many small thrifts and banks that recently have converted from mutual to stock ownership, thereby creating substantial value for the new shareholders.

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