

Are Large Wisconsin Credit Unions Deserving of Their Corporate Income Tax Exemption?

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Executive Summary

With too little money available to fund Wisconsin's educational systems, can the state afford tax exemptions that may no longer be warranted from a public policy perspective?

One questionable income tax exemption is that given to credit unions. Credit unions were created and afforded income tax exemptions because they existed to provide credit to many individuals not eligible for funding from commercial banks. But, is what held true decades ago still true today?

The conditions that gave rise to a broad based income tax exemption for credit unions no longer appear to exist today. Banks are doing more to meet the needs of lower-income and wealth consumers and communities owing to the requirements of the *Community Reinvestment Act*. In addition, a number of new government policy tools, such as Small Business Administration loans and federal housing programs have expanded the supply of credit available to individuals of small and modest means.

At the same time, expansion of credit union membership (enabled in 1998 by the *Credit Union Membership Act*), services and locations makes them appear to be community banks in all but name and board structure. This and other changes in credit union regulations have enabled credit unions to move far beyond their original purpose. Today, for example, anyone can easily join a credit union, whether or not they have a work, school or professional affiliation with the credit union. These changes have fueled credit union growth in assets, locations and services. Landmark, Wisconsin's largest credit union now has over \$1 billion in assets, making it larger than all but 261 of 303 Wisconsin-chartered banks, according to the FDIC. In some communities, the local credit union has become the biggest bank in town.

The public policy implications of income tax exemptions for credit unions are significant. Estimated tax losses over the next ten years approach \$400M for Wisconsin¹ and \$31B on the federal level.² With legislation pending in Congress that will make it easier for credit unions to expand business lending, the tax losses will be even greater. Tax revenues from credit unions could be used to fund genuinely public purposes.

Bankers, especially community bankers, have expressed concern over the increasingly relaxed requirements for membership in Wisconsin credit unions in the last two decades. The concern stems from the fact that credit unions, owing to their tax-exempt status, have a pricing advantage over commercial banks.

If the credit unions' tax subsidy advances public policy goals, bankers would have no reason to complain. Are credit unions, decades later, still serving this mission of serving those of small and modest means? Or, have credit unions, in particular the large ones who are extending their geographic footprint through branching and mergers and acquisitions, moved away from the original intent of federal and state tax policy?

Our study emerged from national studies suggesting credit unions are moving away from their intended mission. For example, the US Government Accounting Office (GAO) recently reported that credit unions "lagged behind banks in serving the needs of low and moderate-income

¹ Nearly \$400M per year according to information compiled by the American Bankers Association from NCUA/NASCUS 2005 year-end call reports and reporter to the researchers by WBA.

² Tax Foundation, February 2005.

households,” based on 2001 and 2004 Federal Reserve Data.³ In addition, a study published by the credit union’s industry research arm demonstrated that large credit unions in particular are moving away from the mission of serving individuals of small and modest means.⁴ Furthermore, an analysis of home lending patterns by the National Community Reinvestment Coalition demonstrates that banks make a higher percent of their home loans with fewer loan denials to traditionally underserved populations than do credit unions.⁵

The specific purpose of our research was to investigate if Wisconsin credit unions are fulfilling their purpose of serving individuals of small and modest means. Owing to a paucity of data, we focused specifically on the question: “Are Wisconsin’s large credit unions’ location and home lending decisions consistent with the stated purpose of credit unions’ income tax subsidy—to serve individuals of small and modest means?” The research is unique in that we explore the lending patterns of specific Wisconsin credit unions and we analyze branch location outcomes as an indicator of credit unions’ target markets. Specifically, we used two types of data for Wisconsin’s twenty largest (in asset size) credit unions to answer our research question:

- A credit union’s home lending (1999-2005) to different income groups; and
- The income distribution of households in the 2.5-mile radius market served by a credit union’s 2006 branches and by new branches the credit union opened in 2003 through July, 2006.

We focused on the large credit unions, as they have very open fields of membership, which would allow them to serve—if they had the will—the populations the US Congress and Wisconsin Legislature intended them to serve by exempting them from income taxes on their earnings.

Our analysis demonstrates that a significant level of large Wisconsin credit union home lending activity flows to higher income households. For example, almost all of the credit unions in our database allocated 30% or more of the total value of their 2005 home loans to households with 120% or more of their metropolitan area’s median income. To the extent that credit unions use their tax exemption to lower home lending rates, federal and state income tax exemptions are subsidizing borrowing by high-income households.

In addition, our analysis shows that many credit unions are currently located and are opening new branches in disproportionately higher income areas of the counties in which they do business, suggesting that a profit-driven motivation trumps a mission-driven motivation in branching decisions.

Finally, our analysis identified significant variation across credit unions in service to individuals of small and modest means. For some credit unions, lending and location patterns demonstrate a stronger commitment to the mission of serving individuals of low and modest means than that found in other credit unions. Why then are all credit unions granted the same tax exemption?

The public policy implication is clear: credit unions that want to stay true to the mission of serving individuals of low and modest means should be able to keep their income tax exemption. However, when lending and deposit activity disproportionately penetrates upper income households, credit unions should become mutual savings institutions, paying their fair share of

³ US GAO “Credit Unions: Greater Transparency Needed on Who Credit Unions Serve and On Senior Executive Compensation Arrangements,” November 2006

⁴ Ray Aldag, Ph.D. and David Antonioni, Ph.D., Mission, Values and Leadership Styles in Credit Unions, Filene Research Institute, 2000

⁵ National Community Reinvestment Coalition, “Credit Unions: True to Their Mission?” 2005

state and federal income taxes. At a minimum, all credit unions should be subjected to the same community reinvestment requirements Wisconsin banks must meet.

We also recommend legislation that will make credit union data far more accessible to researchers. The level of subsidy our state and federal governments provide credit unions demands a more transparent system. The public has a right to know of the extent to which the income tax exemptions are used to help upper income households or to cover inefficiencies in credit union operations.

Researchers

Kay Plantes, Ph.D., led the research project. Dr. Plantes holds a Ph.D. in economics from MIT and is Principal of Plantes Company, a Madison, Wisconsin based corporate strategy firm that Dr. Plantes has owned for seventeen years. Dr. Plantes served on the economics faculty of University of Wisconsin, Madison, worked as a policy analyst with The US Congressional Budget Office, and served as Chief Economist and Director of Policy Development for Wisconsin's Department of Commerce.

Amanda Bayer, Ph.D., conducted the home-lending analysis. Dr. Bayer received her degree from Yale and is a former Federal Reserve Bank economist. She is currently on the faculty of Swarthmore College.

Kithy Elliott worked with Dr. Plantes on the branch location analysis. She holds a B.S. in Cartography from The University of Wisconsin and is founder of Cartographic Solutions, Inc..

Dr. Plantes authored this paper with Dr. Bayer, who contributed significantly to the section analyzing home lending. Neil Diffenbaugh provided valuable assistance in creating visual tools to communicate the data.

The Wisconsin Bankers Association commissioned this study.

Report

For over seventy years, the national and Wisconsin governments have subsidized the state's credit unions by exempting them from paying taxes because they serve people of small and modest means. What seemed worthy in the 1930s, however, may be unjustifiable today.

Are Wisconsin's credit unions fulfilling the mission established by 1934 federal legislation? (See Enabling Legislation.) If not, taxing credit union earnings would provide revenues for schools and other worthy causes. Our paper summarizes our findings and presents public policy recommendations. The Methodology Appendix presents the methodology and detailed research findings. The Credit Union Data Appendix provides specific credit union data.

Enabling Legislation

Wisconsin credit unions are exempt from paying federal or state corporate income taxes on their earnings owing to two legislative policies. The first, the 1934 *Federal Credit Union Act*, was passed "to establish 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 credit for provident purposes* through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." The tax subsidy was granted to these cooperatives because they "have the specified mission of meeting the credit and savings needs of consumers, *especially persons of modest means.*"

Rationale for the research

Recently reported data about credit unions cast considerable doubt that today's credit unions, as a group, are paying attention to their historic mission. A 2000 copyrighted study for the Filene Research Institute, a credit union industry think-tank, explored the driving motivations of credit union CEOs. (See About the Research Report.) This study demonstrates that CEOs give very little attention to serving people with small and modest means. For example, 84% of CEOs saw "providing the best possible service" as extremely important, giving this factor a top-place rating of 4.8 (out of 5) rating. By way of contrast "Offering services to low and modest income people by expanding our field of membership" rated 26th out of 28 factors, with an average score of 3.3. (See Chart 1.1)

About the Research Institute Report

The 2000 report, *Mission, Values and Leadership Styles in Credit Unions*, was co-authored by Ray Aldag, Ph.D., the Pyle Bascom Professor of Business Leadership at the University of Wisconsin-Madison Business School and his colleague, David Antonioni, Ph.D. Professor Aldag, a past president of the National Academy of Management, has authored more than 70 published journal articles and book chapters on leadership, organizational culture and work values, as well as five textbooks. Mr. Antonioni is an executive educator whose client list includes the CUNA Management School. The study used a stratified sample to insure ample representation of credit union CEOs from small and large credit unions. A total of 454 CEOs (56% from credit unions with assets in excess of \$50M) and 1,329 direct reports are represented in the sample. Direct report data was used to assess actual practices of credit unions versus the stated priorities of the CEO.

Chart 1.1
What Matters to Credit Unions?

Source: Aldag and Antonioni for Filene Research Institute, 2000

Importance of factors historically central to Credit Union Philosophy	CEO and Direct Reports ranking of practice of factors	Average CEO score (5 is extremely important)	% of CEOs stating factor is “Extremely important”	% of CEOs stating factor is “Quite important”
Lending to members who would have difficulty borrowing elsewhere at reasonable rates and terms	CEO:15 th DR:15 th out of 28	4.1	30	52
Working with low-balance members of modest means to counsel and encourage them to save regularly in order to build a financial cushion	CEO:18 th DR:24 th out of 28	4.0	25	49
Believing that the credit union has a social mission and actively carrying out that mission	CEO:21 st DR:21 st out of 28	3.9	29	38
Offering services to people with low and modest incomes by expanding our field of membership	CEO:26 th DR:27 th out of 28	3.3	17	31

In addition to the above findings, the authors report that CEOs of larger credit unions:

- Placed more importance on service and less on traditional values,⁶ low rates and fees;
- Saw their credit union as providing better service, but not as likely to offer low rates and fees;
- Had more positive attitudes toward growth and competition and less positive attitudes towards traditional credit union philosophy; and
- Were more engaged in mission change, expansion and competition than were CEOs of smaller credit unions.

Furthermore, the National Community Reinvestment Coalition (NCRC) conducted a comprehensive survey comparing credit unions and commercial banks on service to individuals of small and modest incomes. The study demonstrates that banks make a higher percent of their home loans with fewer loan denials than credit unions to traditionally underserved populations.⁷

⁶Traditional credit union values include the four factors in Chart One plus factors related to voting, volunteer board members, supporting the international credit union movement, ensuring members and employees know the history and philosophy of credit unions, and emphasizing member-owned status in communications.

⁷ National Community Reinvestment Coalition, “Credit Unions: True to Their Mission?” 2005

An earlier (2003) study conducted by the U.S. Government Accounting Office (US GAO) reached a similar conclusion.⁸

Given this background, we set out to answer whether large Wisconsin credit unions are carrying out their mission to serve people of small and modest means. We focused on large credit unions because their broad field of membership affords them the management freedom to target households with small and modest means. (Large credit unions are defined as the top 20 credit unions in Wisconsin based on asset size, as shown in Chart 2.1.) The Methodology Appendix describes in detail the data we chose to answer this question and how we used it, as well as our in-depth research findings.

Chart 2.1
Top 20 Wisconsin Credit Unions
Source: NUCA Web Site March 2006

Assets \$m	Credit Union	City	Members
\$1,010	Landmark	New Berlin	123,794
\$851	U. of Wisconsin	Madison	105,441
\$813	Community First	Appleton	75,244
\$780	Educators	Racine	79,991
\$759	Royal	Eau Claire	103,564
\$674	Summit	Madison	61,128
\$537	Fox Communities	Appleton	61,049
\$529	Covantage	Antigo	46,399
\$491	ALTRA	La Crosse	49,057
\$477	Westconsin	Menomonee	55,323
\$367	Great Wisconsin	Madison	47,740
\$291	Citizens First	Oshkosh	30,802
\$284	Pioneer	Green Bay	41,306
\$272	Blackhawk Community	Janesville	38,174
\$262	Capital	Kimberly	29,641
\$234	Guardian	W.Milwaukee	37,850
\$213	Connexus	Wausau	18,160
\$200	Kohler	Kohler	31,048
\$198	Marine	Fond du Lac	32,700
\$167	Westby Co-Op	Westby	14,866

Findings

Publicly available data on credit unions is limited. We used two data sources available to us to conduct our study. The first source is information on home lending activity by individual credit unions, made available through the Home Mortgage Disclosure Act (HMDA). This is the same data set that the U.S. GAO and NCRC studies used, but we focused on specific Wisconsin credit unions, not credit unions as a whole. HMDA data is only available for lenders in standard

⁸ US GAO “Credit Unions: Greater Transparency Needed on Who Credit Unions Serve and On Senior Executive Compensation Arrangements,” November 2006

metropolitan areas. The data set therefore excludes Covantage, Marine and Westby from our analysis of home lending activity.

The second data source we used is location information for credit union branches. Because companies locate branches to better serve their existing and potential customers, we can use the location of credit union branches as a proxy for the target markets credit unions are trying to serve. We can also use the location of new branches as an indicator of new target markets credit unions are trying to reach. Even with this data source, we needed considerable help from the Wisconsin Department of Financial Institutions to confirm branch locations and branch opening dates. Unlike community banks, credit unions are not required to disclose branch openings, limiting the public's ability to monitor credit union activities in support of serving or not serving their traditional mission.

With both sets of data, we chose to look at individual credit unions rather than the large Wisconsin credit unions as a group since the Aldag study suggests there is variation across the motivations of different credit unions. We refer to a credit union as **more mission-driven** if its behavior as revealed by our data set makes them appear most focused on serving the needs of households with small and modest incomes. At the other extreme, we refer to a credit union as **more profit-driven** if its behavior as revealed by our two data sets suggests they are targeting upper income households for both deposit and lending services.

2005 lending activity

Do Wisconsin's large credit unions serve people of modest means through their home lending activity? We analyzed the recent lending activity of seventeen large credit unions in Wisconsin, assessing the extent to which their home mortgage, home improvement and refinance loans are going to the low and moderate income borrowers.

HMDA measures income relative to the median income of the metropolitan statistical area (MSA) in which the borrower resides. Charts 3.1 through 3.6 show the percent of each credit union's home loans (in number and in total value of lending) to the highest income households (i.e., those with incomes 120% or more of the MSA median), to small and modest income households (i.e., those with incomes less than 80% of the MSA median) and to the lowest income groups (i.e., those with incomes less than 50% of the MSA median). If credit unions were true to their traditional mission, one would expect lending to the small and modest income groups (less than 80% of the MSA median) to be significantly higher than lending to the top income group (120% or more of the MSA median income), at least in number of loans.

In fact, credit unions' behavior is oftentimes inconsistent with a mission-driven focus. The charts demonstrate:

- A significant percent of loans (in numbers as well as total value of lending) is going to households with high relative incomes. Charts 3.1 and 3.2 present the portfolio shares for the highest income group—those with incomes 120% or more of MSA median. Connexus and University of Wisconsin made about 40% of their loans to the highest income borrowers in 2005 and committed 52.6% and 44.5%, respectively, of the total value of their loans to these high-income borrowers. Remember in looking at these numbers that we are defining borrower income relative to that of the MSA; Greater Madison's higher income status is corrected for and does not, therefore, influence these numbers. Guardian Credit Union, Community First and Altra Credit Union also do a significant portion of their home lending business with high-income borrowers. Kohler and Westconsin, as well as Citizens First, on

the other hand, make relatively few loans to high-income borrowers. Westconsin, however, is the only credit union in the set to make significantly fewer loans to borrowers in the highest income group than to borrowers in the lowest income group. Still, even Westconsin, with the lowest percent of lending to high-income groups, focused 20% of its total 2005 home lending value on the highest income groups.

- Charts 3.3 and 3.4 show the 2005 lending shares going to low and modest income borrowers, who are those who make below 80% of the MSA median income. Kohler and Westconsin each make about half of their home loans to borrowers in this group. At the other extreme, we find University of Wisconsin and Connexus with about one quarter of their lending going to low and modest income borrowers; in fact, as a percentage of the total value of loans made, Connexus does only one-sixth of its home lending business with low and modest income borrowers.
- Five credit unions are providing distinctly more loans (i.e., more than a five percentage point difference) to the upper income group (120%+), as shown on Chart 3.1, than to small and modest income groups (less than 80%) as shown on Chart 3.3. The list includes UW, Community First, Guardian and Connexus. Only three credit unions---Kohler, Westconsin and to a far lesser extent Citizens First---appear more mission driven in that the total *value* of home loans going to small and modest income borrowers, as seen in Chart 3.4, surpasses that going to the upper income borrowers, as shown on Chart 3.2. All other credit unions allocate a greater percentage of lent dollars to the 120%+ group of high income earners than to the low and modest income earners (less than 80%).
- Overall, the current distribution of home lending activity across borrower income groups varies significantly across institutions; some credit unions commit a good portion of their funds for home loans to borrowers of small and modest means, while other credit unions do most of their business with borrowers from higher income groups. For example, in Chart 3.5, we see that Kohler Credit Union makes 18.1% of its home loans to borrowers with incomes less than 50% of the MSA median, while University of Wisconsin Credit Union makes only 5.9% of its home loans to borrowers in this low income group. There is similar variation in lending to low-income borrowers when considering the total value, rather than number of home loans.

We also looked at lending patterns over time. To quantify differences between the time series changes across credit unions, we compared 1999/2000's activity to that of 2004/2005. We added two years data in order to remove some of the cyclical variability in lending activity.

Charts 4.1 through 4.4 show changes between these two time periods for each credit union in number and value of loans. The numbers in the chart represent the change in the percent of loans going to an income group between the two two-year periods. A 5% shift, for example, means that 5% more of the total number of loans or value of all loans went to a group in 2004-2005 than in 1999-2000. A negative number signifies that less of the total went to the income group in the latter years than in the former years. We looked at two groups: higher income (100% or more above the median) and lower income (less than 80% of the median) households

Some credit unions are tending to reduce their percentage of loan activity with low and modest income borrowers between 1999/2000 and 2004/2005. For instance, Citizens First reduced their small and modest income portfolio share by nine percentage points over the time period; in 2004/2005, Citizens First made 42.7% of loans with borrowers in this group, while in 1999/2000, 51.7% percent of their loans involved this group. Above median income borrowers were the

beneficiaries of the shift; Citizen First's share of loans that went to borrowers in the upper half of the income distribution increased by almost ten percentage points over the time period. This move from small and modest income lending to higher income customers is also reflected in the share calculations using loan value.

The data for the University of Wisconsin Credit Union also reveals a shift away from small and modest income lending. In 1999/2000 this institution had one of the better records for small and modest income lending: a full third of University of Wisconsin's loans went to borrowers with incomes below 80% of area medians. Over the next seven years, this share declined by seven percentage points to a level that, as we observed above, is the lowest in the set of seventeen credit unions.

Six other credit unions increased the share of home loan value that went to higher income households, but to a lesser extent than Citizens First and University of Wisconsin, as shown in Chart 4.3. This list includes Community First, Altra, Westconsin, Guardian, Blackhawk and Kohler. The Summit increase is not significant.

In contrast, some credit unions are increasing the relative amount of lending they do with low and modest income borrowers. Connexus, Great Wisconsin, Fox and Royal all significantly increased the share of their lending to borrowers in the below 80% of median income group. For example, Royal Credit Union raised the percentage of its loans made to low and modest income borrowers from 28.8% in 1999/2000 to 40.7% in 2004/2005; and, over the same time period, Fox Credit Union increased the percentage of its total loan value going to low and modest income borrowers by 16.3 percentage points, from 23.8% to 40.1%. Connexus Credit Union, previously highlighted as doing relatively little business with low-income borrowers in 2005, has actually improved its performance in this regard over recent years. In 1999/2000, Connexus made 14.4% of its loans and committed 8.7% of total loan value to borrowers with incomes less than 80% of MSA median; seven years later, the respective shares are substantially higher, at 26.9% and 17.0%. In most cases, these increases in lending to low and modest income borrowers are accompanied by notable decreases in lending shares to high-income borrowers.

The fact that there are increases in lending to lower income households does not necessarily change relative ratings. Connexus may be improving, but it still tilts its home lending towards households with higher income relative to many of its peers.

Location findings

We consider credit unions to be **more profit-driven** if their branches are located closer to households that are, on average, higher income than the population in general. Alternatively, we deem credit unions **more mission-driven** if their branches are located closer to households that are lower income. We defined proximity by measuring, for each credit union, a 2.5-mile radius from its branches, calling all households within that radius part of the credit union's target market.⁹

Chart 5.1 shows the percent of each credit union's 2006 target market that is comprised of small and modest income households. We define small and modest income household as those with

⁹ See the Methodology Appendix. In fact, the target market includes any block group (a US Census construction for grouping households) within the 2.5-mile radius. Some individual households in the block group may be somewhat more than 2.5 miles away from the credit union, but the population center of the block group will be within the 2.5 mile radius.

incomes in the lowest 60% of Wisconsin incomes in 2004. The higher the percentage, the more mission driven the credit union is. For example, close to 90% of Westby target market consists of households of small and modest means, suggesting Westby Co-op is the most mission-driven in terms of where it locates its branches. By way of contrast, over 60% of Great Wisconsin Credit Union's target market consists of households that are in the top 40% of Wisconsin households ranked by household income as seen in Chart 5.2, which presents the percent of the target market in the top 40% of household incomes in Wisconsin.

Chart 5.3 digs deeper into Chart 5.2's findings, in this case looking at the percent of the credit union's target market with incomes placing them in the top 10% of Wisconsin household incomes. The most profit-driven credit unions on this measure are Great Wisconsin, with 24% of its target market, and Landmark Credit Union, with 21% of its target market in the top 10% of incomes. In contrast, no members of the Westby target market are in the top income group. Two other more mission-driven credit unions, Royal and Covantage, have target markets in which less than 5% of households are in the top 10% of Wisconsin household incomes.

However, differences in the incomes of different credit unions' target markets could be a reflection of differences in the overall incomes of the different counties in which the credit unions are located. Dane County, a county known for its relatively high income compared to other Wisconsin counties, is home to UW and Great Wisconsin credit unions. Chart 6.1 provides a comparison of credit unions' target market income distribution to that of the county(ies) in which the credit union is located. It answers the question, "Is the credit union's target market higher income or lower income relative to the incomes of all households in the county(ies) in which the credit union is located?" This comparison corrects for county-by-county differences in the income distribution of households.

Column Two of Chart 6.1 identifies for each credit union the percent of the credit union's target market with incomes in the upper income range, i.e., the top 40% of the state's households ranked by income. Column Three provides the same measure for the county(ies) in which credit union branches are located. Column Four subtracts the credit union percentage from the respective county percentage. The more negative the number in this column, the more oriented the credit union is towards households of small and modest means relative to other households in the county(ies). For example, Westby Credit Union has 10.5% of its target market in the upper income ranges compared to 44.8% for Monroe, Vernon, Sauk and Richland counties' populations, where Westby's branches are located. This creates a difference of 34.3 percentage points, which is quite large. Landmark and UW Credit Unions appear mission-driven when we look at the percent of the target market in the top 40% of incomes. If we looked at the top 10% of incomes, however, both credit unions would be labeled profit-driven, as seen in the last column of Chart 6.1.

The larger and more positive the difference between the credit union and the county(ies), on the other hand, the more the credit union has located near the higher-income households of the county(ies) in which the credit union has branches. This outcome suggests credit unions are targeting upper income households—a pattern we will be better able to comment upon when we look at recent branching behavior. As shown in Chart 6.1, 62.8% of Great Wisconsin Credit Union's target market is in the top (40%) income group, compared to 42.4% of Dane and Columbia counties' population, where Great Wisconsin is located. This creates a difference of over 20 percentage points. The difference would still be a whopping 12.8 percentage points if we looked at the top 10% of incomes.

Chart 6.1
Target Market Income vs. County Income
 Based on target market
 (2.5-mile radius of credit union branches) analysis
 Source: WDFI branch location information and US Census Block Group Income

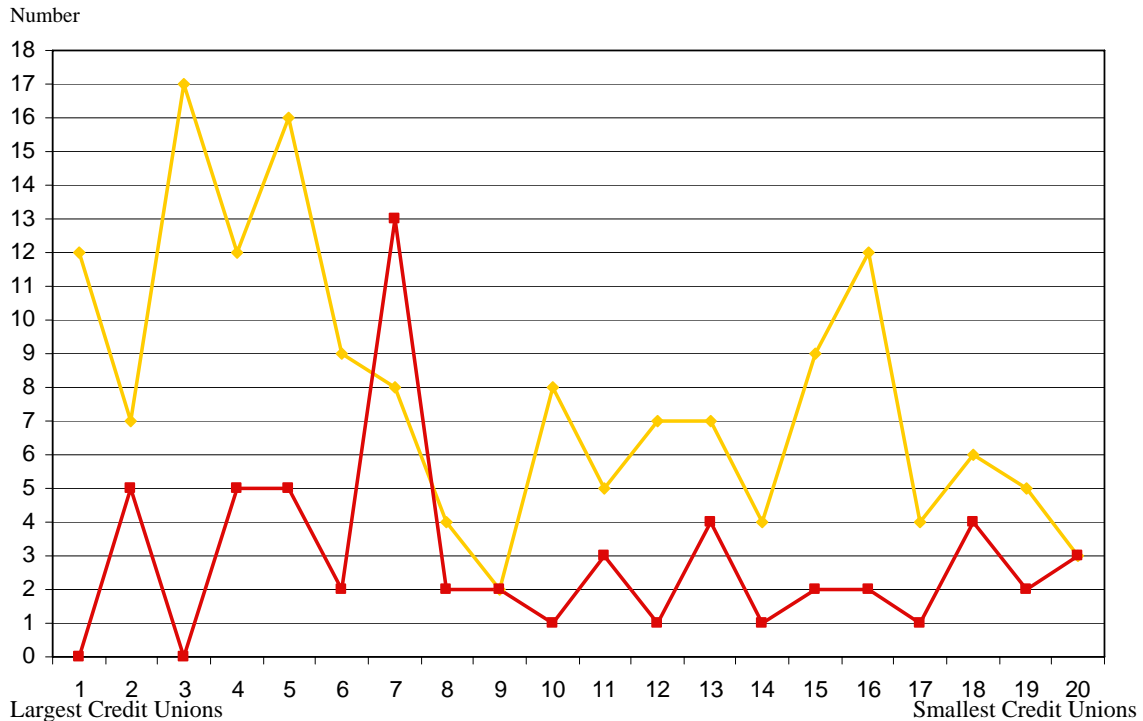
Credit Unions	% '06 credit union target market with upper incomes (top 40%)	% '06 county(ies) population with upper incomes (top 40%)	County - credit union Difference between county and credit union for upper incomes (top 40%)	County - credit union Difference between county and credit union for highest income group (top 10%)
More mission driven credit unions				
Educators	39.3	46.3	-7.0	-0.1
Royal	34.9	46.0	-11.1	-10.3
Covantage	30.4	45.3	-14.9	-14.2
Altra	38.8	49.9	-11.1	-7.4
Citizens First	41.7	48.8	-7.2	-10.7
Guardian	25.2	47.0	-21.9	-5.3
Connexus	46.4	48.9	-2.4	-6.1
Westby	10.5	44.8	-34.3	-10.3
Mixed performance				
Marine	44.3	44.3	same	-5.7
Landmark	42.1	46.7	-4.6	7.4
University of Wisconsin	41.9	46.3	-4.4	4.1
Pioneer	46.0	46.4	-0.1	-0.1
More profit-driven				
Community First	51.4	46.7	4.7	-2.3
Summit	55.2	43.3	12.0	7.1
Fox Communities	56.9	48.7	8.2	-0.9
Westconsin	55.0	44.5	10.5	1.0
Great Wisconsin	62.8	42.4	20.4	12.8
Blackhawk Community	45.8	43.9	1.9	4.5
Capital	58.1	48.6	9.6	-1.6
Kohler	55.0	37.5	17.5	-1.1

Recent branching activity

We also looked at where credit unions located new branches, in 2003 through July 2006, using the same type of target market income analysis. Branching activity was high during this period, across all credit unions, irrespective of their size. The twenty credit unions added 58 new branches through July of 2006, an increase of 37% over the 157 branches the credit unions had in total in 2002. Larger credit unions generally have more branches, but recent branching and asset size appear unrelated, as shown in Chart 7.1.

Chart 7.1
Number of 2002 Branches and New Branches 2003-6 Across Credit Unions

Branches in 2002 (Yellow) and New Branches 2003-6 (Red)



Charts 8.1 through 8.3 explore credit union branching patterns. Two credit unions (Community First and Landmark), according to the Wisconsin Department of Financial Institutions, did not open new branches during the period of analysis, 2003 through July of 2006. Of the eighteen credit unions that did open branches, there are significant differences across the credit unions once again in terms of whether households in the new branches' target markets were primarily of small and modest means, which would be the focus of credit unions' branching activities were they mission driven. For example, looking at Chart 8.2, 15.0% of Guardian's new branches' target market households had incomes in the top 40% range, while over 95% of Westconsin's target market households had incomes in that range. Other credit unions with over half of their new branch target market in upper income ranges include Pioneer, Fox Communities, Summit, Capital, Blackhawk Community, and Great Wisconsin. Branching appears for these credit unions to be more profit-focused than mission-focused.

Chart 9.1 compares target market income of credit unions' new branches to that of the county(ies) in which each credit union is located. Column two shows the actual income data for the credit union's target market, with column three showing comparative income data for the county(ies) where the credit union is located. Column four subtracts the credit union percent from that for the county(ies). The more negative the number in column four, the more mission driven is the credit union's branching activity. For example, 19.7% of the target market for Altra's new branches was in the top 40% income group; on the other hand, Lacrosse County, where all of Altra's branches are located, has 49.9% of its households in the top income group—a difference of 30.2 percentage points. Altra appears to be targeting a disproportionately lower income group within

Lacrosse County. By way of contrast, Westconsin branched exclusively into the highest income areas within its county market, even though in the five counties in which Westconsin has branches, only 44.5% of households are in the top 40% income groups. The last column shows the difference between the credit union and the county(ies) by limiting our definition of higher income to those in the top 10% of household income levels.

Chart 9.1

Target Market Income versus County Income for New Branches

Based on target market (2.5-mile radius of branches) of new branches, 2003-July, 2006

Source: WDFI branch location information and US Census Block Group Income¹⁰

Credit Union	% credit union new branch target market with upper incomes (top 40%)	% '06 county(ies) population with upper incomes (top 40%)	<i>County - credit union</i> Difference between county and credit union for upper incomes (top 40%)	<i>County - credit union</i> Difference between county and credit union for highest income group (top 10%)
More mission driven				
University of Wisconsin	28.2	46.3	-18.1	-2.5
Educators	24.5	46.3	-21.8	-9.6
Royal	39.6	46.0	-9.1	-8.8
Altra	19.7	49.9	-30.2	-10.3
Citizens First	35.1	48.8	-13.8	-14.2
Guardian	15.0	47.0	-32.0	-11.8
Connexus	39.0	48.9	-9.9	-13.5
Marine	39.9	44.3	-4.4	-3.4
Westby	14.0	44.8	-30.7	-10.3
Mixed performance				
Covantage	46.1	45.3	0.9	-13.8
More profit driven				
Summit	54.1	43.3	10.8	12.7
Fox Communities	55.2	48.7	6.5	-1.5
Westconsin	96.6	44.5	52.1	43.0
Great Wisconsin	61.8	42.4	19.5	14.5
Pioneer	60.8	46.4	14.4	3.9
Blackhawk Community	64.0	43.9	20.1	27.6
Capital	62.9	48.6	14.4	-4.25
Kohler	48.8	37.5	11.3	1.7

¹⁰ Landmark and Community First did not have any branching during the analysis period

Public Policy Implications

The efficiency of a subsidy is directly related to how much it alters behavior, taking into consideration probable outcomes without the subsidy. For example, consider the income tax deduction on IRAs. Originally available to all IRA depositors, a lot of the subsidy went to people who were already saving. For them, the subsidy only served to shift funds into an IRA account from another type of savings account. Limiting the IRA tax deduction to lower-income individuals was a wise policy change.

The data presented in this report casts serious doubt on the effectiveness of the income tax deduction that Wisconsin's credit unions receive. The data does not support the case that credit unions as a whole are proactively choosing locations and targeting their lending to benefit lower income households, as the Federal Credit Union Act mandated in providing credit unions with a tax exemption in 1934.

If there is a need to channel more credit and depositor services to households with small and modest means, what are the policy alternatives? At a minimum, Wisconsin's government should make credit unions comply with the regulations banks must meet through the 1977 Community Reinvestment Act. If a credit union does not meet these requirements, it would not be granted the tax exemption on its earnings. While this requirement is better than the status quo, credit unions would still retain an unfair tax advantage relative to community banks.

A second option is to end the credit union tax exemption, using the tax increase to subsidize low-income borrowers and depositors, not the credit unions themselves. This approach is logical because to the extent that credit unions currently pass their tax savings onto customers, they are subsidizing a significant number of higher income households, not just low-income households.

A third alternative is to force large credit unions to become mutual savings financial institutions, as their size tends to be indicative of behavior closer to that of banks. Savings and loan institutions were forced to convert and pay income taxes on their earnings when Congress determined that the public purpose for the savings and loan tax exemption was no longer needed. Forcing conversion across all credit unions might be unfortunate, as some credit unions appear to remain more mission-driven as a credit union. Forcing conversion for those credit unions that do not, to a large extent, serve households of small and modest means does make sense, however. This would create a more level playing field between community banks and credit unions—a needed change from a fairness and market efficiency perspective.

We also recommend that information on credit unions be made far easier to access. Any non-profit that receives such a large tax exemption should have to report its activities to the public at large.

Conclusion

We explored credit union service to households of low to modest means using two indicators of whether a credit union's motivations appear to be more profit-driven or more mission-driven: we examined where they have located their branches and who is receiving credit union home loans. In comparing credit unions to each other, we corrected for differences in the average incomes of the communities in which they are doing business. We used only two data sources because these were the only two publicly available data sources on specific Wisconsin credit unions' demographic focus in branching and lending available to us.

A number of overall conclusions stand out. First, these credit unions, despite being subsidized to serve persons of small and modest means, are doing a significant amount of business with upper income households. With only two exceptions, over 25% of home loans and 30% of the total value of home lending went to households whose incomes were 120% or more of the median income in their respective communities. And, 13 out of 18 credit unions that opened new branches between 2003 and July, 2006 added geographic target markets in which at least 30% of households are among the top 40% of Wisconsin income earners. This branching is far more indicative of profit-seeking motives than of mission-driven motives to serve persons of small and modest means.

We found significant variation in the behavior of different credit unions, both in terms of the target markets they locate near and in terms of recipients of their home loans. That said, the extent of lending and location decisions targeted to higher income households suggests that large Wisconsin credit unions are acting more like banks than tax-exempt institutions established to serve those with low and modest incomes. At a minimum, a credit union's tax exemption should depend upon demonstrated performance in serving lower income individuals relative to the performance of tax-paying banks.

The paper identified a number of alternative policies the state legislature and US Congress should consider as alternatives to the current income tax exemption applied carte blanche to all credit unions. These policy alternatives ranged from forcing credit unions to comply with bank's Community Reinvestment Act requirements to subsidizing low-income borrowers and depositors, rather than credit unions directly.

The reader is encouraged not to focus exclusively on the relative rankings of credit unions. Public policy considerations suggest we look first and foremost at the level of credit union activity going to different income groups. Thus, while Westconsin does the least lending to high income groups as a percent of its home loan activity, 14.5% of its home loans and 21.3% of the total dollar value of its home lending went to individuals with household incomes at 120% or more of the median income for their MSA. The only reason Westconsin has a "good" relative rating is that other credit unions serve higher income households seeking home loans to a far greater extent. About forty percent of UW's and Connexus' home loans, for example, went to the highest income households, earning them the worst ratings on this dimension.

We hope, as economists and investigators, that our study will lead to a more informed conversation about the public policy merits of blanket credit union income tax exemptions in Wisconsin and the US.

Methodology Appendix

Publicly available data on Wisconsin credit union behavior and underlying motivations is limited. Two notable exceptions are home lending data, made public as a result of the Home Mortgage Disclosure Act (HMDA), and the locations of credit union branches, including the dates branches opened. Branch location is an indicator of (not a direct measurement of) who the credit union is targeting as potential customers since financial institutions open branches to attract potential customers in nearby geographic markets.

We used four basic approaches to assess credit union performance vis a vis their mission to serve people of low and modest means:

1. The distribution of home loans (numbers and dollar value) across different income groupings in 2005; the income of credit union borrowers is measured relative to income levels for the metropolitan statistical area (MSA) where the borrower resides.
2. Changes in the distribution of home loans across different income groups from 1999 through 2005; the income of credit union borrowers is measured relative to income levels for the metropolitan statistical area (MSA) where the borrower resides.
3. The income distribution of a credit union's market territory in 2006 in absolute terms and compared to that of the state of Wisconsin as a whole and compared to the county(ies) where the credit union has branches.
4. The income distribution of new market territory the credit union gained by opening new branches (2003 through July, 2006) in absolute terms and compared to that of the state of Wisconsin as a whole, and also compared to the county(ies) where the credit union has branches.

Home loan borrowers' income distribution, 1999 through 2005.

Our analysis uses Home Mortgage Disclosure Act (HMDA) data published by the Federal Financial Institutions Examination Council. HMDA, enacted by Congress in 1975 and expanded in 1989, requires most mortgage lenders to report detailed data on their home lending activity each year. As large depository institutions located in metropolitan areas, seventeen credit unions in the present study must disclose information on home mortgage, home improvement and refinance loans.¹¹ The disclosure reports provide information on housing-related loans for properties located in metropolitan statistical areas (MSAs) in which the credit unions have offices. Appendix Chart 1 provides a listing of these MSAs.

In the present analysis we focus on total home lending; by including all loans, whether for purchase, for refinance or for improvement of single-family dwellings¹², we provide a comprehensive picture of whether credit unions are using their funds to reach low and middle-income borrowers.¹³ We restrict our analysis to originated loans in order to focus on the actual lending activity.

¹¹ Smaller depository institutions and those without offices in metropolitan areas are exempt from the HMDA reporting requirements. HMDA data are not available for three credit unions in the present study, Covantage, Marine and Westby Co-Op.

¹² Multifamily dwellings, defined as housing five or more families, are excluded from the analysis.

¹³ Analyses using mortgage lending alone do not provide results significantly different from those reported here which use the more comprehensive measure of lending activity.

For each year of the study, 1999 through 2005, we aggregate each credit union’s home loans into groups based on the income level of the borrower. Income is recorded as a relative measure, comparing each borrower’s income level to the median family income in the MSA and year of the loan origination.¹⁴ We calculate the percentage of loans, both in terms of number and of total value, made to borrowers in each of five income groups: less than 50% of the MSA median; 50 to 79% of median; 80 to 99% of median; 100% to 119% of the median and 120% or more of the median. We combined categories for some of our analysis, for example “100% or more” includes the top two income categories.

Appendix Chart 1
MSA Location of Credit Unions

Credit Union	MSA/MD
Blackhawk Community CU	Janesville
Capital CU	Appleton, Oshkosh
Citizensfirst CU	Oshkosh
Community First CU	Appleton, Oshkosh
Connexus CU ¹⁵	Wausau
CUNA CU (Great Wisconsin in 2005)	Madison
Educators CU	Kenosha, Milwaukee, Racine
Fox Communities CU	Appleton, Oshkosh, Green Bay ¹⁶
Guardian CU	Milwaukee, Racine
Kohler CU	Sheboygan
Landmark CU	Milwaukee
Pioneer CU	Green Bay
Royal CU	Eau Claire
Summit CU ¹⁷	Madison
Trane CU (Altra in 2005)	Lacrosse
U. of Wisconsin CU	Green Bay, Madison, Milwaukee
Westconsin CU	Minneapolis-St.Paul

We then investigate variation across time and across institutions in the portfolio shares of each income group. We pay particular attention to the percentage of loans made to low and modest income borrowers, defined as those with incomes less than 80% of the area median.

We used two measures to assess individual credit union performance.

1. 2005 lending activity
2. Changes in lending activity from 1999/2000 to 2004/2005

¹⁴ MSA median family income levels are based on annual updates of decennial Census data produced by the Department of Housing and Urban Development.

¹⁵ Wausau Insurance Employees CU through 2002.

¹⁶ Green Bay reported in 2004, 2005.

¹⁷ Commonwealth CU and State Capitol CU in 1999-2000.

The credit unions findings in our sample align with the averages reported in previous studies. In an analysis of 2003 HMDA data, the National Community Reinvestment Coalition (NCRC) found that credit unions in Wisconsin made 30% of their single-family loans to low and modest income borrowers. The range for the comparable statistic in the present study ranges from Westconsin's high of 52% to University of Wisconsin's low of 26%. By way of comparison, banks in Wisconsin made about 27% of their 2003 loans to low and modest income borrowers, while the national shares were 24% for credit unions and 23% for banks.¹⁸ Banks, however, are not given an income tax exemption to serve low and modest income individuals. One would expect credit union performance in serving individuals of low and modest income to be significantly better than that of banks.

Appendix Chart 2 provides a summary of credit union performance in home lending for the seventeen credit unions with HMDA data. Lower number ratings imply better performance in lending to households with low to modest incomes relative to the median income of their MSA.¹⁹ We used a rating scale that shows how far credit unions' ratings are from one another. Pink shading is used to point out significant examples of disproportionately less home lending to lower income groups and proportionately more lending to upper income groups between the two time periods, 1999/2000 and 2004/2005; yellow shading indicates just the opposite. We defined disproportionate as a more than 5% point increase or decrease in the share of lending going to small and modest income households between the two time periods.

2006 branches' target market income distribution

The starting assumption of the study is that the target market a financial institution serves is largely contained within a 2.5-mile radius of the location of that institution. One exception to our assumption is small credit unions whose field of membership is very narrow, e.g., members of one company. Such credit unions are likely to serve employees from a wider geographic. For this reason, we limited our work to the largest 20 credit unions in Wisconsin, as their field of membership is broadest. The largest credit unions also tend to have the broadest common bond definition, making it easiest for them to target lower income households.

¹⁸ The source for these figures is "Credit Unions: True to Their Mission?," by the NCRC, 2005. The present study extends the NCRC analysis in four main ways: it provides institution-specific information; it covers seven years, 1999 through 2005; it considers the distribution of the total value of loans, in addition to the number of loans; and, it calculates loan shares for all income groups, not merely the one group with incomes less than 80% of median.

¹⁹ We measured the absolute difference between the best and worst performer for the measure and then divided this gap by the number of credit unions rates to create 17 rating ranges of equal distance apart. For column two—percent of 2005 loans to <80% income group, the best and worst performer have 52.0% and 26.1% levels. We divided this difference by 17 to create increments of 1.52 %, e.g., the range 50.48% to 52.0% receives rating of 1st, 48.96% to 52.0% received the rating of 2nd. We then identified each credit union's rating by locating its measure in the rating range table.

Appendix Chart 2
Credit Union Home Lending Ratings

Performance in serving low-income groups (1=best; 17=worst)

Source: All home loans as reported on HMDA database

Cell shaded yellow if increase in share of loans to <80% income group increases by > 5 percentage points or if share to >120% decreases by > 5 percentage points from 1999/2000 to 2004/2005

Cell shaded red if increase in share of loans to <80% income group decreases by >5 percentage points or share to >120% increases by > 5 percentage points from 1999/2000 to 2004/2005

Credit union (by \$ assets)	% # 2005 loans to <80% income	% value 2005 loans to <80% income	% # 2005 loans to >120% income	% value loans 2005 to >120% income
Landmark	12	12	13	11
U. of Wisconsin	17	13	17	13
Community First	15	12	16	12
Educators	11	10	12	11
Royal	8	9	10	10
Summit	12	7	13	8
Fox Communities	9	8	9	7
Altra	14	14	14	14
Westconsin	1	1	1	1
Great Wisconsin	11	8	11	7
Citizens First	6	5	7	7
Pioneer	13	9	11	8
Blackhawk Community	8	10	9	10
Capital	13	11	9	8
Guardian	15	12	16	15
Connexus	17	17	17	17
Kohler	2	5	5	4
<i>Increment</i>	1.52%	1.62%	1.48%	1.84%
<i>Range of ratings (1st=most mission driven; 17=most profit driven)</i>	26.1% (17th) to 52.0% (1st)	16.5% (17th) to 44.2% (1st)	14.5% (1st) to 39.8% (17th)	21.3% (1st) to 52.6% (17th)

Our analysis of branch locations poses the following question: What is the income distribution of households within a 2.5-mile radius circle of a credit union's branches? We used US Census data to answer this question.

Branch information for the top twenty credit unions was harder to collect than anticipated, as credit union Internet sites did not identify branch opening dates and there were multiple mergers and renaming of credit unions over the study's research period. The Wisconsin Department of Financial Institutions was instrumental in identifying credit union branch locations in the starting year of our research, 2002, and new locations that opened after 2002. (See Appendix Chart 3.) There were so few branch closings over this period (8 across 20 credit unions) that we focused

solely on new branch locations. The twenty credit unions had 157 branches in 2002, adding 58 new branches through July, 2006, which was an increase of 37%. Larger credit unions generally had more branches, but recent branching and asset size appear unrelated.

Appendix Chart 3 Branch Patterns

Source: Wisconsin Department of Financial Institutions

Credit Union (ranked)	# branches 2002	# new branches 2003-06
1. Landmark	12	0
2. U. of Wisconsin	7	5
3. Community First	17	0
4. Educators	12	5
5. Royal	16	5
6. Summit	9	2
7. Fox Communities	8	13
8. Covantage	4	2
9. Altra	2	2
10. Westconsin	8	1
11. Great Wisconsin	5	3
12. Citizens First	7	1
13. Pioneer	7	4
14. Blackhawk Community	4	1
15. Capital	9	2
16. Guardian	12	2
17. Connexus	4	1
18. Kohler	6	4
19. Marine	5	2
20. Westby Co-Op	3	3
TOTAL	157	58

In order to measure income distribution of target markets, we used block groups. The US Census breaks the US and each state and county into physical units called Block Groups. Each block group has a population count and a median income measure for the households in the block. (2004 was the latest year of data available to us). You can think of the median income as the “representative income” of that block group. The “representative income” of each block group in a credit union’s target market would fall within one of three groups:

- “Representative income” is in Top 10% of Wisconsin household incomes
- “Representative income” is in Top 40% of Wisconsin household incomes
- “Representative income” is in Bottom 60% of Wisconsin household incomes --- which we feel is indicative of households of small and modest means.

Researchers will recognize that we are working with quintiles and deciles. Indeed, our raw data presented in the Credit Union Data Appendix was organized into 5 quintiles of income.

We first identified the block groups in the 2.50-mile ring surrounding a credit union’s 2006 branches. If the credit union places branches less than 2.5 miles away from one another, one block group could be in the market territory of more than one branch of a credit union; our methodology eliminated any double counting of block groups. After identifying the block groups

in the market territory, each group's population was then placed into one of the income groups (defined above). With this complete, we measured the population distribution of the each credit union's market territory in 2006 across the income groupings.

While it would have been ideal to examine data over a longer period than 2002-2006 branches, our analysis started with 2002 branches in order to base our study on a consistent set of block groups, lest changes in block group boundaries between US Census years create artificial changes in a credit union's target market. We therefore limited the analysis to 2000-2004 income (the latest purchasable data set available to us in the summer of 2006) to provide needed consistency. Since credit union leadership teams' branch decisions are based on analysis of published income data, and income data is published with a one to two year time lag, we can assume that 2002 (2006) branch decisions are based on 2000 (2004) income information.

We used three measures to assess which credit unions, based on their branch locations, are doing a good job of targeting households with low to modest income:

1. The percent of the credit union's target market population that falls in the lowest 60% of incomes, the highest 40% of incomes and the top 10% of incomes.
2. Comparison of the credit unions' target market income distribution to that of the state as a whole in which the credit union is located. This analysis addresses: Is the credit union's target market income distribution reflective of the state's income distribution, or does it tilt towards higher income or lower income households?
3. Income differences across metropolitan statistical area (MSAs) could account for differences across credit unions. To correct for this potential bias, we calculated the income distribution for each county, again using the state level incomes to demarcate the different income groups. The credit union's target market's income distribution was then compared to that of the county as a whole. (If a credit union had branches in more than one county, the credit union's target market income distribution was compared to that of all counties served by the credit union.) This analysis addresses: Is the credit union's target market income distribution reflective of its county's (counties') income distribution, or does the credit union target market tilt towards higher income or lower income households? Using the county calculation did not significantly alter the state level comparison findings. Appendix Chart 4 identifies counties of each credit union.

**Appendix Chart 4
Credit Union County Locations**

Credit Union	County(ies)
1. Landmark	Milwaukee, Jefferson, Waukesha, Dodge
2. U. of Wisconsin	Portage, Brown, Dane, Jefferson, Rock, Walworth
3. Community First	Outagamie, Calumet, Winnebago, Manitowoc, Waupaca
4. Educators	Milwaukee, Waukesha, Racine, Kenosha
5. Royal	Barron, Chippewa, St. Croix, Marathon, Clark, EauClaire, Trempealeau
6. Summit	Dane, Sauk, Jefferson, Dodge
7. Fox Communities	Outagamie, Calumet, Winnebago, Brown, Waupaca
8. Covantage	Forest, Langlade, Marathon, Shawano
9. Altra	Lacrosse
10. Westconsin	Waupaca, Outagamie, Winnebago, Calumet, Manitowoc
11. Great Wisconsin	Dane, Columbia
12. Citizens First	Outagamie, Calumet, Winnebago, Waushara, Green Lake, Fond du Lac
13. Pioneer	Door, Shawano, Brown
14. Blackhawk Community	Dane, Rock, Walworth
15. Capital	Outagamie, Calumet, Winnebago
16. Guardian	Washington, Walworth, Waukesha, Racine, Milwaukee
17. Connexus	Marathon
18. Kohler	Sheboygan, Ozaukee
19. Marine	Green Lake, Fond du Lac, Dodge
20. Westby Co-Op	Monroe, Vernon, Sauk, Richland

New branch target market income distribution

Using the same methodology as above, we measured target market income distributions for the new branches that each credit union put in place after 2002.²⁰ In this case, however, we allowed for double counting of block groups served by new branches, as the inclusion provides the best measure of the intended target markets of each new branch in a given year. We used three measures that parallel those above:

1. Income distribution of target market of new branches.
2. Income distribution of target market of new branches versus that of the state as a whole.
3. Income distribution of target market of new branches versus that of the county as a whole.

In examining both 2006 target markets and 2003-2006 new branch target markets, we found great variation across the credit unions for any one measure. Appendix Chart 5 rates credit unions relative to one another on the broad set of target market measures referred to above. Lower numbers reflect more mission-driven credit unions, i.e., they have strong performance relative to

²⁰ Two credit unions—Connexus and Great Wisconsin did not have new branches over this period according to the Wisconsin Department of Financial Institutions.

other credit unions in targeting households with low to modest income levels versus targeting upper income households.

The rating scale we used identifies both relative rankings of credit unions (1 is relatively more mission driven, and 20, or for new branches 18, is relatively more profit driven), as well as how far apart credit unions are in their absolute percentages.²¹ For example, in column 5 of Appendix Chart 5, there are many low ratings, telling us that many credit unions have a low percent of new branch target market in the 90% plus income groups. Their specific percentages are highly bunched next to one another. Westconsin and Blackhawk Community, with very high relative ratings (18th and 13th respectively), have a significantly large percentage of new branch target market in the 90%+ income group.

Pink shading is used to point out significant examples of profit-driven behavior, i.e., an under-representation of individuals of low and modest income and over-representation of upper income households in the credit unions' target markets relative to the county(ies)' population as a whole. Yellow shading points out just the opposite—a proportionately higher (lower) share of low and modest income (upper income) households is in the target market than in the county(ies) as a whole, what we call more mission-driven.

The chart shows that Westby Coop, Guardian, Connexus and to a lesser extent Royal and Citizens first, have more low and modest income families in their target market areas than do their counties. Credit unions with a lot of pink shading and high ratings—like Great Wisconsin, Summit, Westconsin, and, for new branches, Blackhawk Community—have a high percent of families in their target market areas relative to other credit unions and the population of their counties.

²¹ We measured the absolute difference between the best and worst performer for the measure and then divided this gap by the number of credit unions rates to create 20 rating ranges of equal distance apart. For column two—percent of 2006 target market in 60%+ income groups, the best and worst performer have 10.5% and 62.8% levels. We divided this difference by 20 to create increments of 2.6%, e.g., 10.5-13.1% receives rating of 1st. 60.2-62.8% received the rating of 20th. We then identified each credit union's rating by locating its measure in the rating range table.

Appendix Chart 5
Summary of Target Market Findings

Performance in serving low and modest income based on target market
(2.5-mile radius of credit union branches) analysis
(1=most mission driven; 20=most profit driven)

Source: WDFI branch location information and US Census Block Group Income

Cell shaded red if share of credit union's target market in upper income group is five percentage points or more higher than county's population in upper income groups.

Cell shaded yellow if share of credit union's target market in upper income group is five percentage points or more lower than county's population in upper income groups

Credit union (by \$ assets)	% '06 market in 60%+ income (1-20)	% '06 market in 90%+ income (1-20)	% new branches '03-06 market in 60%+ income (1-18)	% new branches '03-06 market in 90%+ income (1-18)
Landmark	13	18	NA	NA
U. of Wisconsin	12	14	4	4
Community First	16	12	NA	NA
Educators	12	11	3	2
Royal	10	4	5	2
Summit	18	17	9	8
Fox Communities	18	12	9	5
Covantage	8	1	7	1
Altra	11	7	2	2
Westconsin	18	14	18	18
Great Wisconsin	20	20	11	9
Citizens First	12	5	5	1
Pioneer	14	9	11	5
Blackhawk Community	14	15	11	13
Capital	19	14	11	5
Guardian	6	7	1	1
Connexus	14	7	6	1
Kohler	18	7	8	4
Marine	13	6	6	3
Westby Co-Op	1	1	1	1
<i>Increment</i>	2.62%	1.21%	4.69%	3.21%
<i>Range of ratings (1st=best for people of low and modest income)</i>	10.5% (1st) to 62.8% (20th)	0% (1st) to 24.2% (20th)	14% (1st) to 96.6% (18th)	0% (1st) to 57.8% (18th)

Credit Union Data Appendix

The following charts provide underlying data for each credit union for both home lending and branch locations. In the branch location data, the numbers refer to household income quintiles (i.e., breaking households into five groups, each with an equal number of households, ranked by household income).

- 0-20 refers to the bottom 20% of incomes.
- 20-40 refers to the next lowest quintile of income.
- 40-60 refers to the next lowest (or third from the top) quintile of income.
- 60-80 refers to the second highest quintile of income.
- We then took the top quintile and broke it into two groups:
 - 80-90 refers to the second highest, and
 - 90-100 refers to the highest 10% of income earners.

Under 60 refers to “households of small and modest means” i.e., those with incomes in the bottom 60% of households

Over 60 refers to “households with the top 40% of incomes”

Over 90 refers to “households in the top 10% of incomes”