



CREDIT UNION NewsWatch

LEGISLATION, REGULATION, AND INNOVATION FROM THE CREDIT UNION NATIONAL ASSOCIATION

JULY 28, 2008



NCUA Chief Financial Officer Mary Ann Woodson reads a July 24 overhead presentation to the NCUA Board about the condition of the National Credit Union Share Insurance Fund. The agency reported a flood of member and consumer inquiries about credit union safety, security and deposit insurance in the wake of IndyMac Bank takeover by federal regulators in July. CUNA and the state credit union league are working hard to help credit unions ensure current and potential members understand credit unions are safe, sound and federally insured. (CUNA photo)

SPECIAL EDITION: CUs Are Safe and Insured

CUNA is using—and creating—every opportunity to take the credit union system’s strong safety and soundness message to the public and to those in a position to reassure the public. For instance, CUNA President/CEO Dan Mica recently reminded Congress that America’s credit unions “remain healthy, vibrant, and well capitalized.”

Mica told each member of the House and Senate in a letter that the failure of IndyMac—not surprisingly—has led the media and the public to question the safety of their money in depository institutions.

“I am proud to report that America’s credit unions remain the safest of >> [See page 2](#)

CUNA, Leagues Help CUs Spread Good News of Safety, Soundness

Large parts of the banking sector are in turmoil, yet credit unions continue to do well. Still, CUNA and the leagues recognize your members have legitimate concerns about current economic conditions—all this talk of a housing crisis and credit crunch, troubles with Fannie Mae and Freddie Mac, and a big bank failure.



Dan Mica

It is a lot for consumers to take in. It is unnerving.

That is why CUNA and the leagues are working on your behalf to reassure credit union members about the safety of their deposits in the credit union system and about the soundness of that system despite today’s upheavals.

This special edition of *Credit Union NewsWatch* encapsulates the many CUNA resources newly designed to help you and your staff calm the waters and assure members that credit unions are a safe, sound and secure place upon which to rely even—and especially—in tough times.

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Equity ratio expected to increase to 1.28% by year end.

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Commonly asked questions asked by credit union staff.

NCUSIF Protection Strong at Mid-Year, Says NCUA

In a press release issued before the agency's monthly meeting, Chairman JoAnn Johnson said the National Credit Union Share Insurance Fund (NCUSIF) stands strong with an equity ratio estimated at 1.24% as of June 30.

Johnson reminded that member deposits in federal and almost all state-chartered credit unions are federally insured by the NCUSIF, which in turn is backed by the full faith and credit of the United States government.

"Consumers who have federally insured funds in credit unions should rest

assured that their deposits are safe up to at least \$100,000 per account, with additional coverage of up to \$250,000 for certain retirement accounts," Johnson said.

She added that the fund's equity ratio is expected to increase to 1.28% by year end.

"While there are isolated instances of credit unions encountering difficulties, on the whole the credit union industry is healthy," Johnson assured. "The NCUSIF enters the second half of 2008 secure and well-capitalized." 🏠

📁 **Details on NCUSIF**
www.ncua.gov



NCUA Board Chairman JoAnn Johnson discusses the NCUSIF during her final NCUA board meeting on July 24. (CUNA photo)

CUs Are Safe and Insured, Congress Reassured

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all depository institutions," said the CUNA leader. "Credit unions have weathered every financial storm since the Great Depression without ever costing the American taxpayer a dime in any bailout."

Mica's letter was sent with an attached CUNA fact sheet, featured in this issue of *NewsWatch*, which underscored and expanded on these four important points:

- ▶ Credit unions as a whole are healthy, with strong balance sheets.
- ▶ Credit unions have steered clear of the subprime mess. We're still lending responsibly.
- ▶ Federal insurance covers credit unions, too.
- ▶ Credit unions are a safe harbor for consumer savings.

The letter and information also were sent to the lawmakers' legislative directors in Washington, as was well as their district directors back home.

"Credit unions remain the most tightly regulated and well-capitalized of all depository institutions and provide the same level of deposit insurance as their bank and thrift counterparts," underscored Mica to the lawmakers. 🏠

📁 **CUNA Factsheet**
www.cuna.org/download/CUs_Secure_Strong.pdf

CUNA, Leagues Get Word Out About CU Soundness

Through CUNA's efforts, credit unions as a safe haven for consumer savings were featured on CNN, *USA Today*, the *Wall Street Journal* and Fox Business Network.

CUNA continues to follow up with these and other media outlets, including the *Washington Post*, *Chicago Tribune*, Associated Press, Dow Jones News Service, *Time* magazine, *US News & World Report*, *Fortune*, CNN Money and syndicated personal finance columnists.

The association's Home & Family Finance Radio show—which airs in 56 markets plus American Forces Radio Network—featured NCUA Vice Chair Rodney Hood discussing credit union federal deposit insurance coverage.

League communications professionals also contacted the media with solid success. The Missouri CU Association, for example, was interviewed on a prominent St. Louis radio station to set the record straight after an earlier program guest said he didn't know if credit union funds were insured. A California CU League spokesman was on KNX radio in Los Angeles—which reaches about 1 million listeners. He contrasted the safety of credit unions to that of banks.

Beyond press work, leagues are fielding calls, offering guidance, and developing their own state-specific resources for their member credit unions.

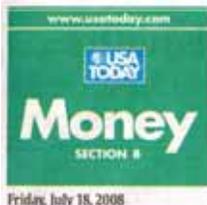
CUNA's fact sheet, "America's Credit Unions: Secure, Strong" also was made available to credit unions, sent to Congress, posted prominently on the CUNA website's home page, consumer page and press room, and shared with the members of the press.

Access more resources using the link below.

📁 **Facts for Consumers about CU Safety and Insurance**
www.creditunion.coop



CUNA Chief Economist Bill Hampel touts credit union safety and soundness during a live appearance on FOX Business TV. (CUNA photo)



Friday, July 18, 2008



A Primer on Share Insurance Coverage For Individual Credit Union Members

Members are looking for answers about their credit union's safety, soundness and insurance. This information will help credit union staff explain to members how federal share insurance protects their savings—every day.

The key point for most members:

If you have no more than \$100,000 in all your accounts at the credit union (whether savings accounts, certificates, a share draft checking account, and so forth), sleep soundly—all your funds are covered by federal share insurance.

If you have more than \$100,000 at the credit union, there is much more federal insurance coverage available, depending on how you've set up the ownership structure and possible beneficiaries of your accounts. And regardless of what other funds you have at the credit union, money you have in your Individual Retirement Accounts (IRAs)—traditional individual retirement accounts and any Roth IRAs at the credit union—is separately insured from any other accounts at the credit union up to \$250,000.

What is federal insurance: You'll see an insurance sign at the credit union with the big letters: "NCUA, National Credit Union Administration, a U.S. Government Agency." The insurance sign says: "Your savings federally insured to at least \$100,000 and backed by the full faith and credit of the United States Government." NCUA's insurance program for credit unions is just like the Federal Deposit Insurance Corporation's (FDIC) insurance program for banks.

The insurance funds are held by the U.S. Treasury, and they cannot be used for any other purpose. And in the very unlikely event that all the insurance funds are paid out, federal law requires that general revenue funds cover any

remaining insurance claims—that is why "the full faith and credit" of the U.S. government stands behind your insurance coverage. So in the very rare event your federally insured bank or credit union fails, you will get your insured savings back—you might be somewhat inconvenienced by a little paperwork, but you will get your money back.

OVERVIEW OF SHARE INSURANCE COVERAGE

Here's an overview of how federal share insurance applies to your credit union accounts, and how you can keep much more than \$100,000 at the credit union and still be fully insured. And these insurance coverages apply separately at each credit union (and each bank) where you keep funds. NCUA has more detailed information on its website at www.ncua.gov about share insurance coverage.

FUNDS YOU HAVE IN YOUR INDIVIDUAL ACCOUNTS ARE INSURED TO \$100,000.

Any funds in any accounts (other than your IRA accounts) held in your

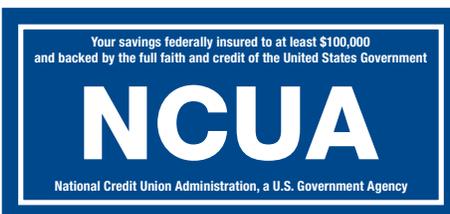
own name—and that do not list any beneficiaries in case of your death—are added together and insured up to \$100,000. These accounts include:

- ▶ Your individually-owned share accounts, share certificates and checking accounts.
- ▶ Any accounts that you use for business purposes where the business is not a legal partnership or a corporation—for example sole proprietorship or "doing business as" accounts. (A business will have its funds at the credit union separately insured up to \$100,000.)
- ▶ Any accounts where an agent, guardian or conservator for you is listed on the account as representing your personal interests.
- ▶ In community property states, accounts with only your name on them—community property laws don't affect share insurance coverage.

FUNDS YOU HAVE IN JOINT ACCOUNTS ARE SEPARATELY INSURED TO \$100,000.

▶ If you have one or more joint accounts at the credit union, you are insured up to \$100,000 for your portion of all the funds you have in jointly-owned accounts. This is calculated separately from any insurance you have on accounts you own by yourself. And you can have different co-owners on various joint accounts at the

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>> Special Report

A Primer on Share Insurance Coverage For Individual Credit Union Members

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credit unions—your ownership interest in each of those accounts (regardless of whether they are joint checking accounts, jointly owned certificates or share accounts) are added together for joint account insurance coverage up to \$100,000.

► **Example:** If you and your spouse have \$180,000 in a joint account at the credit union, the account is fully insured (\$90,000 for you and \$90,000 for your spouse). If your son is added to the account so there are three joint owners, you can have up to \$300,000 in the account and the funds will be fully insured (\$100,000 for each of you). This coverage doesn't change even if you have a \$50,000 share certificate in your own name.

FUNDS YOU HAVE IN "REVOCABLE TRUST ACCOUNTS" ARE ALSO SEPARATELY INSURED UP TO \$100,000 FOR EACH "QUALIFYING BENEFICIARY".

► A "revocable trust account" at a credit union typically is an account where you've designated a beneficiary (a "payable-on-death account" or POD), or where you have a formal "living trust" document and some or all of your funds are in accounts at the credit union with designated beneficiaries. In these types of accounts, you have full control over your funds and can switch beneficiaries any time you want.

► You have share insurance coverage up to \$100,000 for each a "qualifying beneficiary" separate from insurance you have on funds you hold in individual and joint accounts where you haven't listed beneficiaries. And if there is a jointly-owned revocable trust account, the interest of each owner held for the benefit of each qualifying beneficiary will be separately insured up to \$100,000.

► To be "qualifying beneficiaries," the person listed must have one of the following relationships with you: Spouse, child, grandchild, parent or sibling (including biological, adoptive or step relationships). (Note that if spouses set up a revocable trust naming only one another as the sole beneficiaries, the account will be insured as a joint account, not as a revocable trust account.)

► If you have a "nonqualifying beneficiary" listed as the POD (such as a nephew or an aunt), the account is still insured by adding the funds in it to any individual accounts you hold. If you have a son, daughter and nephew listed as beneficiaries, one-third of the account would be added to the funds in your individual accounts to determine insurance coverage.

► If NCUA were ever to have to pay out the funds, you as the owner of the revocable trust account would receive the funds, not the beneficiary—these rules are just to determine the amount of insurance coverage available.

Example: You and your spouse have an account on which you designate your son and daughter as the POD beneficiaries. Up to \$400,000 can be put in this account and be fully covered by federal share insurance. Why? You get \$100,000 insurance coverage because your son is listed as a beneficiary and another \$100,000 because your daughter is listed. Your spouse also gets the same coverage because the two children are listed and both are "qualifying beneficiaries".

► Additional qualifying relatives increase the maximum insurance coverage possible, but you can't increase insurance coverage merely by opening another account listing your daughter again as a POD—those POD accounts would be added together to determine

maximum revocable trust insurance coverage. And, remember, this \$400,000 coverage is in addition to any coverage you have on your individually-owned accounts, and any coverage you have on joint accounts that don't list qualifying beneficiaries.

FUNDS YOU HAVE IN "IRREVOCABLE TRUST ACCOUNTS" ARE ALSO SEPARATELY INSURED UP TO \$100,000 PER BENEFICIARY.

► An irrevocable trust account is established by a formal written trust agreement in which the person creating the trust contributes money to the account and relinquishes all power to terminate the trust.

► If you establish one or more irrevocable trust accounts at the credit union for your son, those accounts are added together and are insured up to \$100,000, separately from any other accounts you have at the credit union. There is no "qualifying beneficiary" rule, so you can list anyone you want as a beneficiary of an irrevocable trust and still have separate insurance coverage up to \$100,000 for each beneficiary.

AND FUNDS IN YOUR INDIVIDUAL RETIREMENT ACCOUNTS (IRAs) ARE INSURED SEPARATELY UP TO \$250,000.

► All your IRAs in the credit union are added together and insured up to \$250,000. IRAs include both traditional IRAs and Roth IRAs.

► Coverdell Educational Savings Accounts (which used to be referred to as "educational IRAs") are insured as irrevocable trust accounts. ■

Learn More: How Your Accounts Are Insured
www.ncua.gov/ShareInsurance



Operational Questions Affecting Share Insurance Coverage

Compliance Answers for CU Staff

Here are some common questions asked by credit union staff about documentation required and membership issues that may affect insurance coverage.

Q. *If the credit union closes, will the accountholders get dividends as well as what is in their accounts up to the applicable insurance limits?*

A. For the purpose of determining insurance coverage, dividends earned and posted to the account for the accounting period will be considered to be principal and insured up to the maximum dollar limit. Dividends earned or accrued, but not posted, may be paid at the discretion of NCUA. In making the determination of whether to pay, NCUA will take into consideration whether the failure to post was due to criminal behavior or accounting errors, and it may require the accountholder to submit documentation supporting a claim for unposted dividends not evident from the credit union's records.

Q. *What conditions must exist for a joint account to have separate joint insurance coverage?*

A. To qualify as a joint account, the records of the credit union must reflect that the account is a joint account. Each co-owner on the account must have personally signed an account signature card and have the right of withdrawal on the same

basis as the other co-owners, but there are two exceptions to this rule: (i) where state law limits a minor's right of withdrawal, the account will still be insured as a joint account; and (ii) where a member opens a share certificate, the signature of each co-owner is not required.

When calculating the amount of insurance coverage for each co-owner, each co-owner is considered to have an equal part of the funds in the account unless the credit union records state otherwise, which is allowed in the case of tenancy in common under state law. The order of names on the account or the use of the phrase "and/or" does not affect the insurance coverage provided on joint accounts. A joint owner does not have to be a member of the credit union to receive insurance coverage.

Q. *Does a revocable trust account have to be labeled in the title of the account as "Payable on Death" (POD) or "Living Trust" in order to have separate insurance coverage?*

A. NCUA does not require particular language in the title of accounts to show that an account is a revocable trust. While the agency clearly would prefer account titles to highlight this fact, the insurance rules do not require such titling. But the agency has to be able to ascertain from the credit union records that accounts are revocable trusts in order for the accounts to get separate

insurance coverage.

In the case of POD accounts, this is easy. If the POD line(s) are filled in on the account card, the funds in the account are insured separately under the revocable trust rules in proportion to those listed beneficiaries who are "qualified beneficiaries" (i.e. spouse, child, grandchild, parent or sibling). The listed beneficiaries do not have to be members of the credit union.

In the case of a living trust account, there has to be some valid documentation to qualify for separate insurance coverage. Since 2004, NCUA has not required that the credit union's account records for the living trust disclose the beneficiaries by name. Credit unions are only required to indicate in their records that the funds in the account are held in a formally established trust; NCUA will go beyond the credit union's records and look at the trust agreement to determine the names of the beneficiaries in the event that the credit union fails.

Q. *What conditions have to be met in order for an irrevocable trust to have separate insurance coverage?*

A. Either the person who created the valid trust agreement and funds the account (called the grantor or settler) or the beneficiary of the trust must be a member of the credit union. (There may be a third party who serves as the trustee, but if only the trustee is a member of the credit

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Operational Questions Affecting Share Insurance Coverage

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union, the account won't be insured.) If there is more than one grantor or more than one beneficiary, all the grantors or all the beneficiaries must be members of the credit union.

In addition, for an irrevocable trust to be separately insured, the following conditions must be met: (1) The existence of the trust relationship must be disclosed in the credit union's records along with the names of the grantor(s) and any third-party trustee—there must be an account signature card executed by the trustee indicating the fiduciary relationship; and (2) the beneficiary's interest in the trust must be ascertainable from either the records of the credit union or the trustee, and must be noncontingent (which means transferable on the death of all the grantors). If it turns out that these conditions were not all met at the time the federally insured credit union (or bank) fails, then the funds are insured along with the grantor's other individual accounts (or along with other joint accounts if there is more than one grantor).

Q. *Can IRA account coverage be increased by adding a joint account holder or a beneficiary?*

A. No. A member's traditional and Roth IRA funds at the credit union are added together and insured up to \$250,000—separate from any other funds the member has in the credit union. An IRA account cannot legally have joint owners, and the beneficiaries listed on an IRA account are irrelevant in calculating the total insurance coverage. A few credit unions may offer "Keogh accounts," which are special qualified retirement plans for people who are self-employed sole proprietors or partners. Keogh accounts are insured up to \$250,000, separate from any IRA accounts the member may have at the credit union.

There can be additional insurance coverage for profit-sharing and pension plan accounts established by the employer and deposited in the credit union. Questions about insurance coverage for these accounts should be referred to the appropriate person at the credit union to answer.

Q. *What information does a credit union have to give its members about NCUA share insurance coverage?*

A. In addition to posting the NCUA insurance logo, every federally insured credit union must have information available at each branch and at its main office to explain insurance coverage. This can be accomplished by have one or more copies of NCUA's brochure "Your Insured Funds" available. A copy of this share insurance information must be available to any member who requests for it.

For further information about share insurance coverage on individual, business and government accounts, credit unions and members can go to NCUA's website at ncua.gov and click on "Share Insurance." Credit unions can address questions about share insurance to CUNA's Compliance staff by e-mailing cucomply@cuna.com.

Compliance issues related to share insurance
www.cuna.org/compliance/member/eguide/eguide_shareins.html



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Credit Union National Association

Don't shrug it off...

How many members know their savings are insured at your credit union?

You may be surprised.

With current economic struggles and the recent IndyMac bank failure, consumers are worried. Make sure your members are aware of the safety and soundness of your credit union.



Your Insured Funds booklet

Answer members' most frequently asked questions about the National Credit Union Share Insurance Fund and provide examples of insurance coverage. #13103



Credit Unions: Safe and Sound statement stuffer

This stuffer assures your members that their money is safe at your credit union. Summary boxes illustrate coverage limits for various accounts. #22959



When Times are Tough We Can Help lobby brochure

This brochure provides tips to help members develop and maintain good financial habits. #28294



We're Here for You drive-up envelope

Assure your members they can come to your credit union for help in tough economic times. #28295

Credit Union Benefits

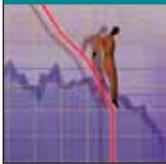
Boost awareness of the benefits of credit union membership with these statement stuffers:

- There's Nothing Like a Credit Union #20158
- Credit Unions Stand Up for the Little Guy: You #28037
- Why You Should Belong to a Credit Union #21321
- Credit Union Member Bill of Rights #21820

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>> The Marketplace

NCUA Reaffirms Corporates' Liquidity Positions

In a June letter to all federally insured credit unions, the NCUA said corporate credit unions have "proactively prepared for the downturn in the prime and sub-prime mortgage markets."

NCUA said most corporates stopped purchasing securities and began investing in very short-term liquid investments in the latter half of 2007. "The corporate credit unions have very strong liquidity positions and as such, currently demonstrate the ability to hold the investment securities to maturity while continuing to meet anticipated member liquidity, product, and service demands," said the agency letter signed by NCUA Board Chairman JoAnn Johnson.

NCUA said that as of June 10, 85% of the securities held in the corporate system received the highest long-term credit rating of AAA. Overall, 98% were rated investment grade, which is triple-B or better.

"Almost every security continues to perform with interest and principle payments being received, as applicable," said the letter. "The combination of strong liquidity positions

and the ability to hold these securities to maturity indicate that corporate credit unions are well positioned to continue to meet members' liquidity needs."

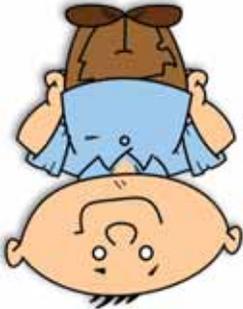
The agency's Office of Corporate Credit Unions is focusing its supervision efforts on ensuring corporate credit unions are effectively managing their balance sheets and monitoring their liquidity positions appropriately, said NCUA.

Johnson reminded credit unions that while she believed corporate credit unions are taking every reasonable precaution to weather the current market conditions, each credit union board of directors "must independently make investment decisions, evaluate risk tolerances, and perform due diligence."

Corporate credit union financial statements or monthly 5310 reports can be viewed on NCUA's website using the link below. ■

Corporate CU 5310 reports from NCUA
www.ncua.gov/data/5310/5310rpt.html

Look Out for the Little Guy
www.lookoutforthelittleguy.org



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Contact: David Klavitter, vice president, editorial communication
Phone: (202) 608-6767 • Fax: (202) 638-7716 • newswatch@cuna.coop
Address Changes:
CUNA E&S, P.O. Box 431, Madison, WI 53701-0431; or call (608) 232-8045
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FIRST CLASS TIME SENSITIVE MATERIAL

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