



House Financial Services Committee Ranking Member Spencer Bachus (R-Ala.), left, and Chairman Barney Frank (D-Mass.) chat before the start of last week's hearing with financial regulators on the subprime mortgage issue. (CUNA photo)

Subprime is Prime Issue

Lawmakers may not yet be in accord about what to do about problems in the subprime mortgage market, but there appears to be consensus among those on financial services panels that it is a priority issue.

The House Financial Services Committee conducted a hearing last Wednesday on the effects of the subprime mortgage crisis on credit markets—just a day after returning to session after an August district work

break.

Chairman Barney Frank (D-Mass.) argued that more regulation in the mortgage arena is better than less. However, he said new rules should be targeted to new products and market innovations. Frank has said he will introduce legislation to address both the subprime mortgage crisis and predatory lending issues.

On the other side of the polit- >> [See Page 2](#)

Three Loan Products Targeted by DoD Rule

When the Department of Defense (DoD) approved its final rule to place a 36% cap on certain types of credit to military servicemembers, it did not exempt any lenders—including credit unions—from the restrictions.

However, credit unions and other creditors will only be impacted by the rule if they offer one or more of three types of consumer credit products; payday loans, vehicle title loans, and tax refund anticipation loans.

Mortgage loan products—including home mortgage loans, home equity lines of credit and mortgage refinancings, credit cards and other open-ended loan products—are not covered by the rule.

"All things considered, the rule is very fair and well constructed," according to CUNA Senior Vice President of Regulatory Advocacy Mary Dunn. She noted that credit unions that offer the targeted products could restructure them to limit their exposure to the rule.

The rule requires covered creditors to provide oral and written disclosures as prescribed in the regulation. It also establishes an annualized percentage rate known as the Military Annual Percentage Rate (MAPR)—separate from the APR under the Truth in Lending Act—that must be disclosed.

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>> Legislative Affairs

Fall Legislative Forecast for CUs

Congress returned to session Sept. 4 after a month-long summer district work session and on the financial front lawmakers immediately turned their attention back to subprime mortgage market issues. (See related story this issue)

While this is just one hot topic likely to get congressional attention this season, CUNA lobbyists expect it may dominate much of what goes on under the auspices of the House and Senate panels on financial institutions.

Lawmakers are studying the effect of subprime market woes on the consumer credit market and debating what, if any, additional regulatory measures should be instituted.

Last Wednesday, Senate Banking Committee Chairman Christopher Dodd (D-Conn.) introduced legislation to curb subprime lending abuses. On the same day his counterpart in the House, Financial Services Chairman Barney Frank (D-Mass.), said he expects soon to introduce his legislation to address both the subprime mortgage crisis and predatory lending issues.

Also in federal lawmakers' sights are issues surrounding questionable or abusive credit card practices.

Both the House and Senate will continue their studies to determine if legislation is necessary to:

▶ Ban certain practices, such as “uni-

versal default;”

▶ Require stricter rules for credit cards offered to people younger than 18;

▶ Prohibit card companies from charging additional fees or higher interest rates when a cardholder cancels a card; or

▶ End the practice of imposing an over-the-limit fee for a charge that the card issuer has authorized either in advance or at the time of a purchase.

Also, Frank has made it clear that the CU Regulatory Improvements Act (CURIA, H.R. 1537) credit union bill continues to be on his radar for a hearing this year. ♣

Legislative Affairs
www.cuna.org/gov_affairs

▶ CURIA Matches 2006 Co-Sponsor Number

Co-sponsorship for the 2007 Credit Union Regulatory Improvements Act (CURIA, H.R. 1537) reached an important milestone last week: In less than six months, the bill gathered a number of names on the official co-sponsor list equal to those collected during the entire session of the 109th Congress.

Rep. Ed Royce (R-Calif.), who with co-author Rep. Paul Kanjorski (D-Pa.), introduced the bill in March, said the accomplishment is a testament to the grassroots support that has been the driving force behind the credit unions' success in recent years.

“That same grassroots support will be needed to drive CURIA through the 110th Congress,” he added. “I look forward to working with my colleagues as we build on this momentum and work toward bringing regulatory relief to the nation’s credit unions and their 89 million members.”

Subprime Issues

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ical aisle, the ranking Republican member of the committee, Rep. Spencer Bachus of Alabama, countered that the current subprime issue is not a “crisis,” but rather a liquidity problem. That problem, he said, was caused, in part, by lenders and investors ignoring recommendations of regulators. He warned that Congress should not react with panic.

A panel of four witnesses at the hearing included Robert K. Steel, Under Secretary of Domestic Finance, Department of the Treasury; John C. Dugan, Comptroller of the Currency; Erik R. Sirri, Director of the Division of Market Regulation, Securities and Exchange Commission; and Sheila Bair, chair, Federal Deposit Insurance Corp.

Senate Banking Chairman Christopher Dodd (D-Conn.), also on Wednesday, introduced legislation to curb lending abuses found in the subprime mortgage market.

The bill, in part, would clarify mortgage brokers' fiduciary duty to borrowers and would expand the protection for those who assume a high-cost loan under the 1994 Home Ownership and Equity Protection Act (HOEPA).

Also last week, President George W. Bush announced steps to help homeowners avoid foreclosures, including a new Federal Housing Administration program that will offer a refinancing option. CUNA representatives participated in a special White House conference call on the initiative. ♣

CURIA CO-SPONSORS COUNT



1 2 5

CURIA, H.R. 1537
www.cuna.org/gov_affairs

AS OF 9/7/07

CURIA: Questions & Answers Part III



Bruce Foulke,
President/CEO,
American
Heritage FCU
Philadelphia, Pa.,
\$607 million in
assets

The last major changes to the Federal CU Act occurred in 1998, with the passage of the CU Membership Access Act (H.R. 1151). During the past nine years, credit unions have identified unnecessary and outdated provisions and recommended common sense improvements. Congress, during its last three sessions, has introduced The CU Regulatory Improvements Act—known by its acronym, CURIA.

Of particular interest for credit unions is raising the cap on member business lending, implementing a risk-based capital structure and expanding services to underserved areas. This series takes a closer look at what CURIA (H.R. 1537) means to credit union executives, lawmakers and lobbyists.

Visit CUNA's website for additional details about the proposed bill.

Q1: What CURIA provisions most interest you as a credit union CEO?

Member business loan (MBL) and credit union service organization (CUSO) provisions. Members benefit from credit unions' ability to make small business loans. This activity is strangled by the banking industry while the bankers continue to reap record profits. Small business lending is in its infancy at American Heritage. We're not looking to make \$10 million loans; we just want to help the little guy. This also gives us an opportunity at attracting the deposit side of the business.

Q2: How would CURIA's investment and CUSO provisions benefit American Heritage?

The provisions in CURIA would allow credit unions to loan and invest up to an aggregate of 2% (rather than the current 1%) of paid-in and unimpaired capital and surplus to various CUSOs. It's one of the biggest areas we're looking at. We already have a mortgage CUSO serving 25 credit unions. We're looking to expand and help other credit unions.

A larger mortgage department to better serve our members and provide a better base for our membership. It would provide stability and diversify away some risk—especially during a downturn in the mortgage business. It would generate an income stream and provide economies of scale.

Q3: How would this bill help consumers get access to credit unions?

How can anyone be against anyone serving the underserved? The banks really are fools for suing credit unions for trying to serve the underserved and then opposing CURIA, which would fix it.

Americans rely on credit unions to serve underserved areas. Whether intentional or a drafting error, the 1998 law can be interpreted as allowing only multiple group federal credit unions to add underserved communities.

American Heritage has more than 700 select employee groups (SEGs). We feel that's our niche. We put a \$2.7 million branch in a low-income zone where the banks had totally pulled out. This branch's assets have grown from \$11 million to \$16 million since December. It's a high tech, high-touch branch. We've had an unbelievable response—it's our fastest growing branch. People are looking for service.

Q4: What are your thoughts on CURIA's net worth enhancements?

Our net worth ratio is around 9%.

CURIA would lower the core net capital requirement from 7% to 5.25%. We could continue to maintain a healthy cushion above minimum capital standards while providing more to our members.

I'll go further: it makes no sense for credit union net worth requirements to be hard-coded into the law. We should never have been strapped by the banking industry in writing those original provisions. For those that say it's a safety and soundness issue, I say that's why we pay insurance premiums.

Q5: How important are the provisions related to conversions of credit unions to mutual thrifts?

The issue of credit unions converting to mutual thrifts really irks me. In most of these conversions, I believe members were taken—they really didn't know what they were voting for.

CURIA would provide increased member deliberation and participation in decisions to convert a credit union to a mutual thrift institution by requiring at least 30% member participation in a conversion vote. If you can't get 30% of your people to vote, shame on you. That means your people don't care or they don't understand the implications of who will benefit—it is not the members.

Q6: Some credit unions may find that CURIA won't benefit them right now. If so, why should those credit unions still support CURIA?

The banking industry is constantly busting lawmakers' chops about credit unions. Credit union people must talk with their congressman. Ask them to co-sponsor CURIA. It really all comes down to doing the most good for the most people—and that's the members.

Learn more about CURIA, H.R. 1537
www.cuna.org/initiatives/member/curia.html



SECURITY

“I trust...

CUNA to create and develop strategic alliances with providers that deliver superior products and services for an outstanding value. One that has helped our credit union have peace-of-mind is a solution that helps our credit union get back up and running should a business interruption occur. We have a responsibility to ensure the survival of our organization. And Agility Recovery provides our credit union with that assurance at a reasonable price. Protecting assets is just good business practice...now we can focus on what is really important — serving the needs of our members.”

TERRY BELCOE

President/CEO
North Coast Credit Union
Bellingham, WA

Agility Recovery Solutions is a CUNA Strategic Services provider.



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ASSOCIATION (CUNA)
TO HELP YOUR CREDIT UNION
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SHARE YOUR STORY ON HOW WE EARNED YOUR TRUST

Visit: sharestory.cuna.org



>> Regulatory Affairs

BSA/AML Guide Enhancements are Ready

They're here: Much-awaited revisions to the Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Examination Manual which clarify supervisory expectations for credit unions and other financial institutions.

The Federal Financial Institutions Examination Council (FFIEC), when it released the new manual late in August, said that the comprehensive revisions were designed to reflect comments and concerns from the financial services industry and examination staff on what was considered to be murky and confusing requirements.

Of most immediate interest to credit unions are the manual's segments on:

- ▶ Customer due diligence, which seeks to clarify regulatory expectations between lower-risk and higher-risk customers;
- ▶ Suspicious Activity Reporting, intended to enhance discussion of law enforcement inquiries and requests regarding these reports. This updated section includes new guidance on maintaining accounts and appropriate supporting documentation; and
- ▶ OFAC, with revised and clarified guidance on screening responsibilities in connection with automated clearing house (ACH) transactions.

The new guidance also addresses money laundering and terrorist financing "red flags" containing expanded examples of red flags for trade finance, ACH transactions, shell company activity, and other potentially suspicious customer activity, and added new examples for lending activity.

It also adds recently issued interagency direction on enforcement issues addressing noncompliance with BSA/AML requirements; and an index to make the document more user-friendly. 🏠

📖 **BSA Updated Guidance**
http://www.ffeic.gov/bsa_aml_infobase/default.htm

Three Loan Products Targeted by DoD Rule

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An Oct. 1 effective date means that covered creditors must take steps between now and then to be prepared to comply on that date. Covered transactions consummated on or after Oct. 1 must comply with the rule.



Mary Dunn

📖 **CUNA Rule Analysis**
www.cuna.org/reg_advocacy/member/analysis/dod_083107.html

▶ CU Tips for Reg E Changes

Credit unions should review their initial disclosure statements for electronic funds transfers to assure that they stay on the right side of compliance under a recent change to Regulation E.

As of Aug. 6, the Federal Reserve Board no longer requires receipts be provided for electronic fund transfers (EFTs) of \$15 or less.

This so-called "small dollar exception" is directed primarily at merchants and, as such, did not address any changes to financial institutions' initial Reg E disclosures.

"However," advises CUNA's Valerie Moss, if a credit union's initial disclosure promises a receipt for every transaction, members will need to be advised of the Reg E change. Moss is director of compliance information.

"Even if a credit union is not affected by the change, it may want to highlight the new exception as an FYI item in the credit union's newsletter. Members are bound to have questions on why they're no longer getting receipts at the local coffeehouse or fast food place," says Moss.

📖 **CUNA's eGuide to Federal Laws and Regulations**
www.cuna.org/compliance

The Situation Toon



CUNA emailed to selected Capitol Hill lawmakers and staff a series of daily credit union "Situation Toons." The cartoons spotlighted efforts of banking groups to disrupt legislative efforts designed to help credit unions serve all members including the "Little Guy." The email read, "89 million Americans deserve low-cost options in financial services. Support the Credit Union Regulatory Improvement Act (CURIA)." Learn more at lookoutforthelittleguy.org.



>> Notes Bearing Interest

▶ The Front Burner

The most viewed news stories on cuna.org during August 2007 reveal the hottest issues for credit unions. Access the complete stories and register to receive daily credit union news headlines at www.cuna.org/newsnow/top10.

10 Even a 'Fool' loves his credit union
An article in *The Motley Fool*, which provides news and commentary for investors, urged readers to check out a credit union if they want lower fees, a more service-oriented approach to business—even a friendlier face—for their personal finance needs.

9 CUNA compliance tips for Reg E changes
Now that the Federal Reserve Board's Regulation E no longer requires receipts for electronic fund transfers (EFTs) of \$15 or less, credit unions should inspect their initial disclosure statements to see if they promise members a receipt after every ATM or debit card use, according to CUNA.

8 Data breach hits CUs, banks in Dubuque
A data breach at an undisclosed local merchant has compromised debit and credit cardholder accounts at several financial institutions, including at least two credit unions and three banks in Dubuque, Iowa.

7 Woman who masterminded CU scam goes to jail
Syracuse resident LeVoya J. Dixon, 27, was sentenced Monday to two years in prison for her role in masterminding a scam involving 41 people who stole \$66,000 from ATMs at Empower FCU.

6 Who uses CUs? A look at demographics
The Filene Research Institute's newest report, "Who Uses Credit Unions?", looks into the demographics of financial institution users and finds that more households are using credit unions exclusively.

5 Marketing to college freshman? You better know this
When marketing to college freshmen, credit unions might want to reference a list compiled by a Beloit College professor Tom McBride showing the "Mind Set" that the Class of 2011 shares.

4 Awaiting BSA/AML guidance enhancements announced
In what has become an annual event, the Federal Financial Institutions Examination Council released a revised version of its Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Examination Manual with updates intended to clarify supervisory expectations.

3 NY Times reviews CU payday loans programs
When Peggy Truckey of Appleton had debts totaling \$1,300 to several payday lenders in the area last year, she knew she was in trouble. Her experience getting help from a credit union appeared in the *New York Times*.

2 BoA's new \$3 ATM fee points out CU difference
Bank of America recently announced that it is hiking automated teller machine (ATM) fees to \$3 in most U.S. markets, drawing a contrast with fees charged by credit unions nationwide.

1 NCUA confirms control of large Colorado CU
The NCUA Thursday confirmed that it has placed Colorado's eighth largest credit union, Norlarco CU, of Fort Collins, into conservatorship and taken control of its operations.

▶ CUNA Board Nominations

CUNA is seeking nominations for nine positions on the CUNA Board of Directors, including one in a special election.

The special election is due to the retirement of Mary Shipe, District 5, Class A CUNA Director. Her retirement will be effective Dec. 31, 2007. The special election term will begin Jan. 1, 2008 and run through February 2009.

The eight regular election positions will take office on March 3, 2008, and expire at the adjournment of the 2011 Annual General Meeting. Positions up for election are:

- ▶ District 1, Class A;
- ▶ District 1, Class D;
- ▶ District 2, Class B;
- ▶ District 2, Class D;
- ▶ District 3, Class C;
- ▶ District 4, Class A;
- ▶ District 5, Class A (Special election);
- ▶ District 5, Class C; and
- ▶ District 6, Class B.

Deadline for nominations and seconds is Oct. 9. Nominators must submit the appropriate forms and obtain consent of the candidate as well as send nominations.

Voting will take place beginning Oct. 24 and will close on Dec. 14. Nomination packets are available online or by calling 800-356-9655, ext. 4013.

CUNA Board Nominations
www.cuna.org/cuna/07_election.html

2008 Youth Week Theme Focuses on Green

CUNA's 2008 National Credit Union Youth Week theme will concentrate on going and saving the "green."

This year's theme, "Got Green? Grow It at Your CU," was selected from ideas sent by staff of more than 50 credit unions. "Got Green" is a variation of "Save the Green," a theme suggested by Jennifer Millar from Desert Energy CU in Tucson, Ariz., in 2006.

The themes were voted on by nearly 500 credit union staff members. The top themes were then presented to 26 youth, who chose "Got Green" as their favorite.

Youth Week 2008 is scheduled to take place April 20-26. 🏠



>> Political Affairs

CUs Show Initiative in Online Debate

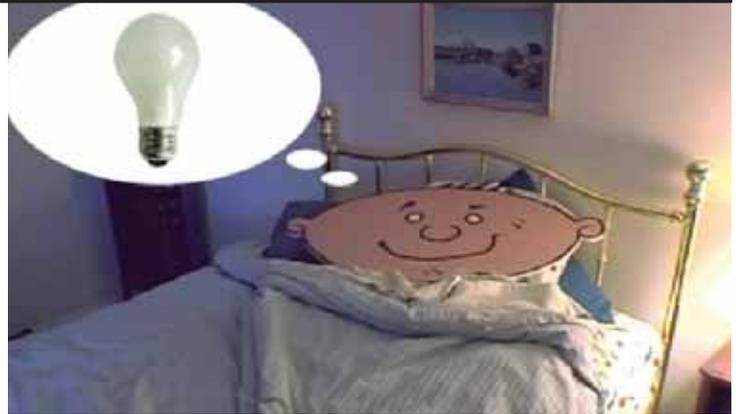
Credit unions have seized the online initiative in the public policy debate with bankers, according to a story in the Sept. 5 *American Banker* newspaper. It featured online videos produced by CUNA and another credit union group, which so far has chosen to remain anonymous.

The videos' messages are not new—nor are they intended to be—but the delivery method is fresh, according to the newspaper.

CUNA President/CEO Dan Mica discussed the trade association's deployment of "The Story of the Little Guy," as well as several street theater clips posted on YouTube. Those videos feature a "banker"—played by actor Wes Johnson—lobbying on Capitol Hill.

The videos are intended to appeal to 20-something Capitol Hill staffers, said Mica. They are designed to complement CUNA's traditional lobbying efforts, he noted. So far, CUNA's "Little Guy" video has been viewed online more than 10,000 times.

The *American Banker* also featured four online videos from bankerspank.com. The 60-second spots spoof the ubiquitous



A still image from the CUNA-produced video, "The Story of the Little Guy." The four minute movie has been viewed more than 10,000 times.

Mac/PC television advertisements.

A representative from the American Bankers Association pooh-poohed the credit unions' creative use of the Internet, saying that it wouldn't yield much benefit for banks to do it. He said the bankers' audience is "policymakers, not the public."

Use the resource link below to watch the videos. 🏠

Video collection
www.cuna.org/newsnow/keyword_headlines.php?keyword=22

Look Out for the Little Guy
www.lookoutforthelittleguy.org



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Published 23 times per year by Credit Union National Association, Inc., 601 Pennsylvania Ave. NW, South Bldg., Suite 600, Washington, DC 20004

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FIRST CLASS TIME SENSITIVE MATERIAL

SEPTEMBER 10, 2007

A news service of the Credit Union System,
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