CREDIT UNION FACTS AND ISSUES
PREPARED BY THE CREDIT UNION NATIONAL ASSOCIATION

EXECUTIVE SUMMARY

The Credit Union National Association (CUNA) is pleased to present information to President Bush's Transition Team regarding key issues for credit unions. This document provides highlights about credit unions and their legislative and regulatory priorities CUNA is advocating. CUNA is the largest credit union trade association, representing approximately 90 per cent of the nation's over 10,860 state and federal credit unions. Credit unions proudly serve approximately 80 million members.

Credit Unions As Cooperative Institutions

Credit unions are unique financial institutions in that they are member owned, not-for-profit financial cooperatives. Today, there are 10,860 state and federal credit unions in the United States. Credit unions are a rare combination of successful, yet not for-profit institutions that exist for the betterment of their members, and do so on a responsible, business-like basis.

Like any business, credit unions must generate sufficient income to cover all expenses and add to their reserves. The funding of sufficient reserves is particularly important because credit unions are federally insured financial institutions. However, once sufficient reserves have been maintained, credit unions return the proceeds of their operations to members in the form of lower loan rates and fees, and higher dividend rates on savings.

Credit Unions In The Financial Marketplace

The benefits that accrue to members from the not-for-profit, member service motive of credit unions attract members from all walks of life and socioeconomic levels, although those members that rely on credit unions for the bulk of their financial services tend to have more moderate income and wealth levels than U.S. consumers overall. Credit unions are also becoming an important source of financial services to some sectors of the nation's small business community.

Credit Unions As Safe And Sound Institutions

Credit unions have long operated on the principles of responsible private action, self-help and people helping people. The very essence of a credit union involves people pooling funds for mutual benefit. Credit unions also have a long history of applying responsible self-help among credit unions themselves. This is exemplified by the unique nature of the federal credit union share insurance system, the National Credit Union Share Insurance Fund. Since its inception in 1971, the NCUSIF has been funded entirely by credit union premiums and capitalization deposits. No U.S. Treasury funds were ever used to capitalize the fund. With its unique structure, along with the cooperative operation of credit unions themselves, the NCUSIF has successfully avoided the moral hazard problems that plagued the S&L and bank insurance funds a decade ago. The U.S. taxpayer has been so well protected by the

NCUSIF that it is being viewed as a model in the attempt to introduce appropriate risk-management incentives to the Federal Deposit Insurance Corporation.

Credit Unions Support Key Goals Shared By The Administration

Credit unions can play a vital role in the implementation of many of the goals that President Bush laid out in his successful campaign. Any reform of the Social Security System that involves self-directed investments by participants will benefit from both the safe, high yielding savings products that credit unions provide as well as the member education and financial advice that credit unions can offer. For similar reasons, credit unions can be a vital tool in the implementation of Individual Development Accounts, which offer real hope to low-income savers of a better future. Credit unions also support responsible bankruptcy reform that preserves the safe haven of bankruptcy for consumers that have been beset by unfortunate circumstances, while requiring those who can pay all or part of their debts to do so.

Credit Unions As 21st Century Institutions

Credit unions welcome the President Elect's call for reducing regulation, particularly as it relates to credit unions, consistent with safety and soundness concerns. We believe that the Regulatory Flexibility proposal of NCUA Board Member Dennis Dollar to limit the regulatory burden on healthy credit unions is an excellent example of that philosophy in action. Further, CUNA is currently engaged in a process of determining what regulatory and legislative changes might enable credit unions to serve members even better in the future. Once the CUNA Renaissance Commission, which is conducting the study, completes its work, we will prepare a responsible legislative and regulatory agenda for consideration by Congress and the appropriate regulators.

Even before the Renaissance Commission completes its work, CUNA has a number of current positions on regulatory and legislative issues that are presented in this document. They are:

Issues CUNA Supports

- Tax-exempt Status of Credit Unions (supported in President Bush's Letter to CUNA President/CEO Dan Mica)
- Repeal of CAP (Community Action Plan requirements)
- Bankruptcy Abuse Prevention
- New Incidental Powers for Federal Credit Unions

- Designation of Current NCUA Board (Republican) Member Dennis Dollar as Chairman
- NCUA Regulatory-Flexibility Proposal
- Voluntary Merger Authority
- Non-Intrusive NCUA Policy for Federal and State Chartered Credit Unions – NCUA Does Not Run Credit Unions
- Moratorium on New Privacy Requirements for Financial Institutions Until Current Requirements are Fully Effective and Understood
- Expansion of IRA/401(k) and Pension Reform
- Expansion of Individual Development Accounts
- Repeal of OSHA's Ergonomics Rule
- Review of Proposed HMDA Changes
- New Directive for Every Agency to Eliminate Regulations or Regulatory Requirements Within Nine Months That Are Not Mandated by Statute or Reasonable Safety and Soundness Principles
- Credit Union Appointments to Federal Advisory Groups
- Community Development Financial Institutions Fund

Credit unions provide a unique private sector vehicle that, consistent with compassionate conservatism, supports key goals of the Bush Administration. CUNA looks forward to a long and rewarding partnership in working with the Administration to achieve credit union goals that will enable credit unions to provide the level of services their members need and deserve.

THE CREDIT UNION NATIONAL ASSOCIATION AND AFFILIATES

The Credit Union National Association (CUNA) is the premier national trade association serving America's credit unions. The largest credit union association, the not-for-profit trade group is governed by volunteer directors who are elected by their credit union peers.

Daniel A. Mica is the President and CEO of CUNA. CUNA represents over ninety percent of the nation's more than 10,800 state and federally chartered credit unions.

In partnership with state credit union leagues, trade associations that meet the needs of credit unions on the state level, CUNA provides a range of services to credit unions.

The number one priority for CUNA is advocacy – representing the interests of state and federal credit unions before legislators and regulatory agencies that govern credit union operations. That is why working with the Bush Administration to achieve a positive legislative and regulatory environment for credit unions is of the utmost importance to CUNA.

CUNA is based in Washington, DC and Madison, Wisconsin. In addition to advocacy, CUNA works with the leagues to provide compliance, information, education and business development assistance to member credit unions.

CUNA also works with related organizations to provide additional products and services to credit unions. CUNA Strategic Services, Inc. (CSSI) partners with league service corporations to meet the needs of credit unions for products and services that will facilitate their ability to serve their members.

IMPORTANT FACTS ABOUT U.S. CREDIT UNIONS

Credit Unions Are Unique Financial Institutions

- Credit unions are not-for-profit financial cooperatives. They exist solely to meet the needs of their members, not to make a profit.

- Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, earnings are returned to members in the form of lower loan rates, higher interest on deposits, and lower fees.

- Each credit union is governed by its members. The membership elects generally unpaid, volunteer officers and directors who establish the policies under which the credit union operates. Board members must be elected and other officials must be chosen from within the credit union's membership.

- Each member has only one vote, giving every member an equal voice in the operations of the credit union regardless of the amount of savings or loans a member has with the credit union.

- To join a credit union, a person must be within its field of membership. Typical fields of membership include employee groups, associations, religious or fraternal affiliations and geographic areas.

- In addition to traditional financial services, credit unions provide financial education for members, assisting them to become more informed consumers regarding their finances.

- CUNA is partnering with the National Endowment for Financial Education, a not-for-profit foundation, to expand financial education among high school students.

IMPORTANT FACTS ABOUT U.S. CREDIT UNIONS (Cont'd)

Credit Unions Are Highly Regulated

- As financial institutions, credit unions are highly regulated businesses.
- Credit unions are chartered either under the federal government or the appropriate state government.
- Federal credit unions must have federal share insurance. Most state-chartered credit unions also have federal share insurance.
- With limited exceptions, credit unions are subject to the same types of regulations that apply to commercial banks.
- Such regulation and supervision includes, but is not limited to:
    - Safety and soundness rules, including prompt corrective action
    - Regular safety and soundness examinations
    - Financial condition reporting
    - Field of membership limitations
    - Rules governing powers, activities and operations
    - Privacy
    - Truth-in-lending
    - Home mortgage disclosure
    - Electronic fund transfers
    - Check-hold policies and practices
    - Truth-in-savings
    - Equal credit opportunity
    - Other consumer protection rules
    - Americans with Disabilities Act and other employment rules, as applicable.

IMPORTANT FACTS ABOUT U.S. CREDIT UNIONS (Cont'd)

KEY STATISTICS REGARDING U.S. CREDIT UNIONS

- Credit union memberships total 79.9 million.
- Credit union assets exceed $445 billion.
- Credit union savings stand at $384 billion.
- Credit union loans outstanding total $320 billion.
- Credit unions employ 169,000 full timers and 33,600 part-timers.
- An estimated 137,000 people serve as volunteers on credit union boards and committees.
- There are 10,860 credit unions. Some 6,465 are chartered under federal law, while 4,395 are chartered under laws of various states and Puerto Rico.
- Total credit union assets at mid-year 2000 were about 37% of total savings institution assets and about 7% of total commercial bank assets.
- The coverage ratio (fund equity divided by insured shares and deposits) of the National Credit Union Share Insurance Fund has remained between 1.2% and 1.3% since the fund was first capitalized in its present form in 1985. Appendix 1 provides more detailed comparison of credit union and bank data as it relates to deposit insurance.
- Credit unions are on average, well capitalized. The average net worth ratio of all U.S. credit unions is 11.5%. In fact, 97.9% of credit unions have net worth ratios above the 6% required to be "adequately capitalized" under Prompt Corrective Action rules, and 95.4% have net worth ratios above the 7% "well capitalized" level of Prompt Corrective Action.
- All credit unions offer basic savings and loan services. Very small credit unions tend to concentrate on these basic services. Most larger credit unions offer a full range of consumer financial services. Therefore, the vast majority of credit union members belong to a full service credit union. For example, six in ten credit unions offer share draft (checking) services, and 95 of 100 credit union members belong to one of these share-draft offering credit unions. Similar information for other consumer financial services follows:

SERVICE	Percent of Credit Unions that Offer	Percent of Members in Offering CUs
Share Drafts (Checking)	61%	95%
Certificates	67%	94%
IRAs	56%	92%
Auto Loans	96%	99%
Credit Cards	46%	90%
First Mortgages	41%	83%
ATM Access	49%	92%
CU Owned ATM(s)	26%	78%
PC-Based Account Access	27%	74%

- About 15% of credit unions make loans to businesses. Business loans account for only 1.5% of total credit union loans outstanding, and represent less than a quarter of a percent of the commercial loans outstanding at banks and thrifts. However, with increasing consolidation in the banking industry into giant institutions, credit unions are facing growing demand to offer both deposit and loan services to small businesses.

ISSUES CUNA SUPPORTS FOR CREDIT UNIONS

- **Tax Exempt Status of Credit Unions --** In August 2000, then Presidential candidate George W. Bush sent a letter to CUNA supporting the "continuing tax exempt status of credit unions." The letter appears at the end of this section.

  The President's support for the credit union tax exemption is well founded. For more than sixty years, Congress has directed, and repeatedly reaffirmed (most recently in 1998), that credit unions should be exempt from federal income taxes. (Federal credit unions are exempt from federal income tax under Section 501(c)(1) of the Internal Revenue Code and state chartered credit unions are exempt from federal income tax under Section 501(c)(14)).

  Taxing credit unions would have a significantly detrimental effect on credit unions and consumers. Because credit unions are not-for-profit organizations, taxation would require credit unions to reduce their reserves, thus impacting safety and soundness, in order to meet tax liabilities. Credit union management would be encouraged to maximize profits rather than enhance service to members, a hallmark of the credit union system. In the process, credit unions would be encouraged to take additional risks to boost their bottom lines, resulting in increased credit union mergers and possibly a higher failure rate among new credit unions. Consumers would be harmed because they could experience reduced credit union service or fewer choices in the financial marketplace.

  Credit unions are certainly not the only entities for which Congress has provided a tax exemption. One example relates to the taxation of hospitals. For-profit hospitals, like for-profit banks, are taxed. Non-profit hospitals, like credit unions, are not taxed, even though they provide similar services. The key difference is their not-for-profit structure.

  Credit unions are grateful for President-Elect Bush's support of their tax exempt status, and CUNA will work with the Administration to ensure its continuation.

- **Repeal of the Community Service Plan Requirements** -- Despite Congress' repeated rejection of community reinvestment requirements for credit unions as totally unnecessary, in October the National Credit Union Administration Board, with Board Member Dollar dissenting, voted to impose harsh community service requirements on federal community credit unions. Important Members of Congress urged the Board not to proceed, but those admonitions were ignored. Senate Banking Committee Chairman Phil Gramm (R-TX) and four House Banking Subcommittee chair, Reps. Baker, Bauchus, King and Roukema, all sent a letter to the Board decrying such action.

Nonetheless, a new service regulation, which imposes strict new requirements, is set to take effect in December of this year. CUNA will seek to work with Bush Administration officials and other key policymakers to eliminate this odious new regulation before it must be implemented.

- **Bankruptcy Abuse Prevention --** The need for legislation to prevent bankruptcy abuse has been consistently demonstrated over the last several years. In the waning days of the last session of Congress, the House and Senate passed important bankruptcy reform, but President Clinton opposed the measure and refused to sign it into law.

  A key element of bankruptcy reform for credit unions is the right of a credit union member to reaffirm his or her debts on a voluntary basis. This is important to credit unions, which are owned by their members. That is because when one member's obligations are abandoned or discharged through bankruptcy, the other members of the credit union have to shoulder the costs of the discharged debt. Bankruptcy reform benefits the consumer-members by preserving their access to lower-cost financial services.

  The number of consumers filing for bankruptcy remains at intolerably high levels, with almost 1.3 million consumer bankruptcy filings last year alone. A recent study predicts up to a 20 percent increase in filings in 2001.

  CUNA urges the Bush Administration to work with Members of Congress from both parties to enact much-needed bankruptcy abuse prevention legislation this year.

- **New Powers for Federal Credit Unions --** One of the most important proposals for federal credit unions is pending now at the National Credit Union Administration. NCUA is proposing to expand the activities in which a federal credit union may engage and derive income from under the "incidental powers" clause of the Federal Credit Union Act. NCUA should have adopted such changes long before now. The Comptroller of the Currency substantially expanded permissible incidental powers for national banks following the U.S. Supreme Court's decision in Nationsbank of North Carolina v. Variable Annuity Life Insurance Co (VALIC), 513 US 251, fifteen years ago.

  In light of the expanded powers of financial and bank holding companies under the Gramm/Leach/Bliley Act, and the bank regulators' more flexible view of incidental powers since the Supreme Court's ruling, it is imperative that NCUA move expeditiously to approve this new regulation. NCUA has broad authority to determine "incidental powers" for federal credit unions. In order that federal credit unions be allowed to grow and prosper now and into the future, broader authority, consistent with bank incidental powers, is crucial for federal credit unions. Parity for federal credit unions with state powers, as well as authority for federal credit unions to engage in most credit union service organization (CUSO) activities should also be permitted.

- **Designation of Current NCUA Board Member Dennis Dollar as Chairman --** The Federal Credit Union Act empowers the President to designate the Chairman of the National Credit Union Administration. Under the Act, NCUA is governed by a three-person board, no more than two of whom may be of the same political party. There are two Democrats and one Republican now serving on the Board.

  As CUNA stated in its letter to President Bush in December, the lone Republican on the Board, the Honorable Dennis Dollar from Mississippi, is a strong supporter of the new Administration and has consistently sought to implement policies consistent with the President's stated views and philosophy. Like other Republicans currently serving on federal agency boards who share the President's approach to government, Board Member Dollar could be expeditiously designated Chairman through a Presidential Order.

  Who the President-Elect selects to lead and serve on the NCUA Board is of the utmost importance to the credit union system. In making such choices, the Administration should designate individuals who share the President-Elect's goals for deregulation and the removal of regulatory burden that encumber credit union operations, such as the Community Action Plan (CAP) proposal. We also urge the Administration to chose candidates who can appreciate the importance of credit unions to their members and to the economy, who are willing to support credit union growth and development, and who do not have a social mission for credit unions that goes beyond the requirements of the Federal Credit Union Act or Congressional intent.

  Board Member Dollar's term expires in April 2003. The term of the current Chair, the Honorable Yolanda Wheat, expires in August 2001. The remaining member of the Board, the Honorable Geoff Bacino is a recess appointment, whose term expires when the Senate adjourns this year.

- **Regulatory Flexibility Proposal --** In February of last year, NCUA Board Member Dollar announced the details of a new proposal, Reg-Flex, to CUNA's Governmental Affairs Conference. As designed, the proposal would allow healthy credit unions, as an incentive to remain in sound financial condition, regulatory leeway to increase certain activities permitted under the Federal Credit Union Act in a manner consistent with the Act and safety and soundness. The proposal embodies a regulatory approach, which seeks to empower credit unions to serve their members to the fullest extent they desire, while maintaining safety and soundness.

Reg-Flex is an important proposal that has not advanced at the agency, even though it would facilitate credit unions' operations without jeopardizing safety and soundness. CUNA is vigorously advocating the rapid adoption of this key proposal for federal credit unions.

- **Voluntary Merger Authority --** The National Credit Union Administration last year made a number of important changes to its field of membership policies that facilitate credit union growth. However, one issue that has not been satisfactorily addressed is the voluntary merger of two healthy federal credit unions. The Federal Credit Union Act does not prohibit such mergers, even involving groups over 3,000, despite the bankers efforts in court to prohibit such mergers. CUNA will continue working with NCUA to ease restrictions on such voluntary mergers and to allow healthy federal credit unions to merge without undue interference from the agency.

- **Non-Intrusive NCUA Policy for Federal and State Chartered Credit Unions (NCUA Should Not Run Credit Unions) --** Under the Reagan Administration, then NCUA Board Chairman Edgar Callahan posted a sign that read: "We don't run credit unions." That is an excellent philosophy for NCUA to adopt as its function is to ensure safety and soundness, without needless intrusion into the affairs of federal or state chartered credit unions. We urge the new Administration to redirect federal agencies to uphold principles of federalism that fully respect the proper roles of the states in regulating entities under their purview, such as state chartered credit unions. We also urge the Administration to establish a model regulatory approach that directs agencies to implement regulatory authority for all the entities they govern in the least intrusive manner possible.

- **Moratorium on New Privacy Requirements --** Under the Gramm-Leach-Bliley Act, Congress imposed broad new privacy requirements for financial institutions. While privacy remains a very important issue, we call upon the Administration, working with the financial institution regulators such as NCUA, to impose a moratorium on any new privacy requirements for financial institutions. CUNA is fully supportive of privacy rights for all consumers, and we appreciate that there will be considerable pressure on Congress and the Administration to enact additional privacy measures. However, at least until there is sufficient time to implement and educate consumers about the current requirements, we urge the Administration to oppose further privacy requirements for financial institutions.

- **Expansion of IRA/401(k) Authority, Expansion of Individual Development Accounts (IDA) and Pension Reform --** CUNA strongly believes that credit unions can play a key role in the implementation of goals the President outlined in his campaign such as reform of the Social Security System and increasing the savings rate in the United States, which remains appallingly low. A reform of Social Security that provides for self-directed investments of funds that would otherwise be provided to the Federal Government will benefit from the products that credit unions offer, which are extremely safe and often provide a high rate of return. CUNA also urges the Administration to expand the parameters for accounts such as IRAs, 401(k) and IDAs to provide incentives to workers and other consumers to save, thus helping to improve their own lives and the future of the American economy.

- **Repeal OSHA's Ergonomics Rule --** The Department of Labor has proposed new OSHA standards for disorders and injuries in the workplace related to ergonomics. While CUNA supports reasonable efforts to ensure the health and safety of workers, the OSHA proposal has been roundly criticized within the business community as excessive and requiring employer remedies that scientific studies have not shown are necessary or will produce the desired outcomes. A coalition of businesses has asked Congress to review the rule under the Congressional Review Act and litigation is pending to overturn the rule. We urge the new Administration to eliminate this massive rule and develop other, less intrusive means to address ergonomics issues.

- **Review of Proposed HMDA Changes --** The Federal Reserve Board has proposed changes to Regulation C, the Home Mortgage Disclosure Act, to require additional reporting from lenders regarding home mortgage and home improvement loans. The changes are not required by statute but are intended to provide the Board with more information regarding predatory lending. While CUNA abhors predatory lending, it questions whether additional reporting is necessary at this time, particularly for credit unions that are not involved in abusive practices. CUNA urges the Administration to work with the Federal Reserve Board on issues such as predatory lending to continue bringing attention to egregious lending practices and to ensure current regulatory requirements addressing such practices are fully enforced without burdensome new reporting requirements under HMDA.

- **New directive for every agency to eliminate regulations within nine months that are not required by statute or reasonable safety and soundness principles --** In nominating the Honorable Paul O'Neill to be Treasury Secretary, the President called for a regulatory review and an end to rules that hamstring businesses and prevent entrepreneurs from establishing enterprises. CUNA wholeheartedly agrees with the President's views and urges the Administration to send an early and loud signal that it intends to help rid the business community of needless regulation. CUNA recommends that the Administration direct every agency in the federal government within nine months after Inauguration to remove all rules that are not required by statute or that do not further necessary principles of the Bush Administration, such as safety and soundness.

- **Credit Union Appointments to Federal Advisory Groups --** The President and the various federal agencies often utilize advisory groups to provide guidance on a wide range of issues and priorities. We urge the new Administration, including the Treasury Department and other federal agencies, to include credit union officials on these important panels regarding financial institutions and markets, business and employment issues and other topics to which credit unions may contribute.

- **Community Development Financial Institutions Fund (CDFI) -** The CDFI Fund is administered by the Department of Treasury to increase credit, investment capital and financial services in underserved communities. By providing incentives to traditional banks to participate through the Bank Enterprise Award Program, the CDFI channels funds to other institutions that serve low-income areas. To date, the Fund has provided more than $400 million to financial institutions and community development organizations serving impoverished areas. Community development credit unions, which serve low-income communities, are among the institutions that have received funds from the CDFI. CUNA urges the Administration to support the continuation of the program, which has benefited low-income people across the country.

BUSH CHENEY

August 18, 2000

Mr. Daniel A. Mica, President
Credit Union National Association
805 15th St., N.W.
Suite 300
Washington, DC 20005

Dear Dan:

America's credit unions enjoy a special place in the financial institution marketplace, as well as in the hearts and minds of consumers. As not-for-profit, member owned financial cooperatives, credit unions are treated differently than other depository institutions, notably in the area of taxation.

Through close involvement with "Habitat for Humanity" projects nationwide, and taking a lead in promoting Individual Development Accounts for low income savers, credit unions are working examples of self-help and community involvement.

As part of my overall commitment to lower taxes and provide more opportunities for working Americans, I support continuing the tax-exempt status of credit unions. I am committed to finding ways to reduce regulation for all financial institutions, consistent with safety and soundness concerns, rather than looking for new and intrusive methods of government intervention in well-functioning enterprises.

The credit union movement's focus on member service has meant that you are constantly evolving. I am encouraged that, under the leadership of the Credit Union National Association, credit unions are about to embark on a process of self-examination to enhance their value to consumers in the new century.

Congratulations on this important process, and best wishes for the continuing success of America's credit unions.

Sincerely,

George W. Bush

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CUNA'S RENAISSANCE COMMISSION

A CUNA initiative that has already been focusing on ways to remove barriers from efficient credit union operations, consistent with the President's call for a regulatory review, is CUNA's Renaissance Commission. The Commission is drawing on the views and expertise of a wide range of individuals within the credit union system, as well as seeking comments from policy makers and other individuals outside the credit union community.

In 1998, credit unions achieved a significant legislative victory with the passage of H.R. 1151, the Credit Union Membership Access Act (CUMAA). Some have portrayed this legislation as the credit union movement's "modernization" act, conferring vast new field of membership powers on credit unions. Actually, nothing could be further from the truth. What CUMAA did was reverse a narrow Supreme Court decision handed down earlier in the year that would have invalidated the field of membership policies that the National Credit Union Administration (NCUA) had been operating under since 1982. Under those rules, the NCUA had allowed a single federal credit union to serve more than one employee or other group. The Supreme Court decision would have required NCUA to revert to its pre-1982 practice of limiting each credit union to serving only one group.

In fact, CUMAA did not even restore the NCUA's field of membership policies in effect prior to the Supreme Court decision. The law placed additional restrictions on those policies that had not been in place before the court decision. Also, the law placed new limits on credit union business lending, and imposed Prompt Corrective Action on credit unions for the first time.

The credit union movement believes that correcting the severe field of membership limitations resulting from the Supreme Court decision was essential. Credit unions are proud of how the CUMAA was passed in an overwhelmingly bipartisan fashion barely five months after the decision, ensuring members' continued access to credit unions. However, the CUMAA was just that, a very quick fix to a court ruling. It was not based on a forward-looking review of the laws and rules that credit unions operate under.

To address that long-term need, credit unions recently formed the Renaissance Commission, made up of credit union officials from throughout the country. The Commission has conducted hearings and focus groups to collect input from credit unions and others on what changes in laws and regulations would improve their ability to serve members. After reviewing all input, the Commission will deliberate and make recommendations to the CUNA Board. The Board will then decide on a legislative and regulatory agenda.

It is too early in the process to know what the Renaissance Commission's final recommendations will be. They are likely to be far-reaching and significant.

Credit unions operate under a Federal Credit Union Act that is essentially unchanged since the 1930s. Although the cooperative, not-for-profit principles of credit unions have not and will not change, there must be changes in the way credit unions are allowed to operate if they are to remain relevant in the modern financial services environment.

In August 2000, President-Elect George Bush commended CUNA's Renaissance Commission as a "process of self-examination to enhance their value to consumers in the new century." That language describes the goal of the Renaissance Commission very well.

PROJECT DIFFERENTIATION
A STATEMENT OF COMMITMENT TO MEMBERS

Credit unions today remain as unique as their history. Officially chartered as a financial "movement" in 1934, credit unions undertook the mission to bring economic democracy to "people of modest means" through the extension of affordable financial services.

The fervor of the early pioneers is echoed in today's credit union movement. As cooperatives, credit unions are working hard to position themselves competitively in the financial market through emphasis of their basic cooperative philosophy and democratic principles.

In the past few years, credit unions have refocused attention on how they can best communicate to their members the difference between credit unions and other financial institutions. Successful marketing position has led many of them to examine how they incorporate the basic principles of credit unions into the everyday work of serving their members, and how to proactively communicate these activities to members, legislators, and consumers.

1998, CUNA's Board appointed a Project Differentiation Committee to reemphasize credit unions' philosophy and their commitment to members. The result? A "Statement of Commitment to Members" as discussed further below, encouraging all credit unions to develop their own statements.

What is a Statement of Commitment to Members? Why should you make the effort to create one for your credit union?

The "what is it?" answer is relatively simple. Think of the Statement as a "Philosophy Policy" – similar in nature to your asset/liability management (ALM) policy, but focusing instead on the philosophical aspects of your operations.

The "why do it" answer is a little longer:

- Do it because it's a great way to capture the real value of belonging to your credit union.
- Do it to reinforce your commitment to credit union principles.
- Do it to evaluate how well you carry out your commitment to credit union principles – to document your successes as well as to find gaps that need to be filled.
- Do it because the information it yields can give you a new and exciting strategic marketing position.
- Do it because, once completed, it's great information to share with your board, your staff, your membership, your sponsor(s), and your community at large.
- Do it because it's a great tool for advocacy effort.

- Do it because it's a great tool for education.
- Do it to put some focus back on our philosophical roots; always keep safety and soundness in mind, but never forget why credit unions exist and what our difference is.
- Do it to articulate our difference.

"It's time to show in a tangible way how credit unions practice what we preach."

Credit unions practice what we preach by:

- Providing service to all groups within our fields of membership;
- Providing consumer education;
- Keeping to our demographic principles and ensuring that diversity is embraced, not rejected;
- Supporting other credit unions and our movement as a whole;
- Participating in noncredit union cooperative activities; and
- Supporting our communities, through financial as well as in-kind donations.

Completing this exercise will be well worth your time. Winning H.R. 1151 (the Credit Union Membership Access Act of 1998) has given credit unions terrific visibility and an outstanding opportunity to differentiate ourselves from others in the financial service industry. This Statement of Commitment to Members can be your best tool for accomplishing that, and for taking your credit union into the next century – looking to the future, but keeping an eye on our past.

THE ROLE OF THE CORPORATE CREDIT UNION

A corporate credit union is a not-for-profit financial cooperative that serves natural-person credit unions within its field of membership. Corporates were organized for the express purpose of providing low-cost financial services and competitive investment and lending rates to their member/owners, and are guided by volunteer boards of directors. Corporate credit unions are totally owned and directed by their member credit unions. Profit is not the driving force, rather, corporates exist solely for the benefit of their member credit unions—a pivotal difference from other financial service providers. There is a unique philosophy of cooperation, self-help and economic democracy among the nation's credit unions.

Corporate credit unions can be either state or federally-chartered. The National Credit Union Administration (NCUA) Rules and Regulations apply to all federally-chartered and state-chartered corporates. To protect the National Credit Union Share Insurance Fund (NCUSIF), federal and state examiners jointly examine state-chartered corporates. In addition, the NCUA has an office devoted to examining corporate credit unions and has recently updated the corporate credit union regulations to take advantage of current risk-management technologies.

Corporate credit unions emerged approximately 20 years ago from the same cooperative spirit that gave rise to the American credit union movement in the 1930s. Today, over 99 percent of the nation's 12,000 credit unions use their corporate credit union for one or more services. These credit unions serve over 69 million American consumers.

Early on, credit unions placed utmost importance on making loans to their members that needed credit. As the credit union movement grew, the urgency for central credit unions—or credit unions for credit unions—became apparent. Corporate credit unions were born of that need. Corporates became a source of low cost liquidity for credit unions, usually saving them significant sums of money when they needed to borrow. Also, with deregulation of the financial services industry in the early 1980s, corporate credit unions eliminated credit union reliance on banks and other vendors through products and services designed to meet the needs and safety standards of credit unions.

Over the years, credit unions have demanded financial services from their cooperatively owned corporates that kept pace with emerging technology, flexible service capabilities and income opportunities available in the marketplace. Corporate credit unions have continuously researched and developed financial products designed to help credit unions assist their members (consumers). This has enabled credit unions to remain competitive and continue to flourish.

Offering everything from investment services to payment services, corporates provide their member credit unions with quality services and innovative solutions for their unique situations.

Services and Benefits Provided by Corporate Credit Unions	
Investment Services	Overnight accounts, variable-rate and fixed-rate certificates, certificate special, amortizing certificates, capital share
Credit Products	Demand/Settlement loans, term loans, collateralized term loans, certificate and repurchase loans
Settlement	Settlement of transactions with external vendors, ATM services, share draft processing, automated clearing house (ACH), etc.
Payment Services	ACH Origination, ACH Receiving, Coin and Currency, share draft processing, check collection, foreign item collection, business checking, etc.
Funds-transfer Services	Corporate wires to and from credit union accounts

As the development process continues among all members of the credit union network, the system itself is currently in a period of tremendous transition. Through mergers and partnerships among corporates, as well as more diversified business activities and more sophisticated product and service capabilities, the corporate network is better positioned than ever to provide a stable backbone for the entire credit union movement. This allows credit unions across the country to benefit from the resulting synergism of their collective power and the ability to pass these savings on to their members.

INTERNATIONAL ASSISTANCE TO THOSE IN NEED – CREDIT UNIONS HELP AROUND THE WORLD

Microfinance entails providing broad financial services to large numbers of the working poor through financially sustainable organizations. Credit unions fit into the realm of microfinance because they offer a self-sustaining approach to microfinance that emphasizes the importance of savings. This approach has already met the needs of millions of low-income members around the world. This section addresses two distinct groups of credit unions: U.S. credit unions and those chartered under foreign jurisdiction. U.S. credit unions operate abroad under limitations set by federal or state regulations. Overseas credit unions operate exclusively under the laws of the country in which they are chartered, and often work cooperatively with U.S. credit unions on projects around the world under the umbrella of the World Council of Credit Unions (WOCCU). CUNA is a strong financial supporter of WOCCU.

WOCCU has more than 25 years of experience designing and implementing microfinance savings and credit programs. WOCCU builds credit unions from the grassroots level using its successful model credit union methodology. A "model credit union" uses member savings as the primary source of funds for lending. Competitive rates of interest are paid for savings and charged on loans.

The WOCCU program includes strict standards for credit union managers and requires them to prudently manage members' savings to generate loan funds internally. This is in sharp contrast to obtaining funds to lend through grants or other external sources.

What most distinguishes credit unions from other entities offering microfinance services is the ability of credit unions to mobilize mass numbers of small, voluntary savings accounts. Credit union members are offered robust savings instruments including passbook accounts and certificates of deposit. As they successfully generate internal savings, credit expands, enabling them to increase both the number and volume of loans to members. Many of these members are microentrepreneurs who depend on their credit unions to meet critical loan needs.

WOCCU's model credit union methodology stands out from other microfinance programs. The WOCCU methodology:

- Utilizes a voluntary savings-based approach to drive growth
- Does not rely on external credit for capitalization or funds for loans
- Promotes a "mixed" clientele to ensure that the poor can be reached in a sustainable manner
- Favors an array of products, including micro-loans to yield a diverse loan portfolio

- Recognizes the fungibility of cash
- Charges entrepreneurial rates of interest
- Employs a cooperative member-owned and financed organizational structure
- Focuses on strengthening credit unions rather than second-tier organizations

In short, credit unions are playing an important role in exporting free market concepts and democratic ideals to a developing world desperately in need of both.

APPENDIX 1

COMPARATIVE DATA ON CREDIT UNIONS AND BANKS AND THEIR DEPOSIT INSURANCE

The following graphs present information showing how effective the National Credit Union Share Insurance Fund has been in protecting not only the members of credit unions, but also the taxpayer.

TABLE 1. INSURANCE FUND RATIOS. Since its capitalization in its current form in 1985, the NCUSIF's coverage ratio (total capital divided by insured shares and deposits) has remained in the range of 1.2% to 1.3%. In sharp contrast, the Bank Insurance Fund (BIF, and formerly FDIC) fell from around 1.2% at the first half of the 1980's to near insolvency by the end of the decade. It was at that time that the savings and loan fund, FSLIC, went bankrupt. The bank and S&L funds have since been recapitalized and are in the same territory as the credit union fund.

The NCUSIF was so successful during the turbulent economic times of the late 1980s for two reasons. First, credit unions as cooperatives do not have the incentive to exploit the moral hazard of deposit insurance as do for-profit banks and S&Ls. The absence of stock options for credit union managers and board members eliminates the incentive they may have to pursue more risky strategies with insured deposits. Second, credit unions are required to place on deposit with the NCUSIF an amount equal to 1% of each credit union's insured shares. This unique feature ensures the fund will always be adequately capitalized. If ever the fund falls below 1%, credit unions are required to replenish their 1% deposits. This feature provides a strong incentive to credit unions to support the share insurance fund in its supervision of the safety and soundness of credit unions.

TABLE 2. NET INCOME RATIOS. The net income of credit unions is used to build and maintain reserves, which ensure safe operations and minimize losses to the share insurance fund. Credit union net income has shown less volatility than bank net income over the last two decades. The slight decline in net income over the past few years is because credit union capital levels have reached relatively high levels. Once credit unions become adequately capitalized, as they now are, as cooperatives they do not need to generate as much net income as previously. Credit unions are currently generating enough net income to maintain rather than build capital.

TABLE 3. EQUITY CAPITAL RATIOS. Credit union capital ratios have consistently been above those of banks. This extra capital provides greater protection for the share insurance fund.

TABLE 4. LOAN DELINQUENCY RATIOS. Credit union delinquency ratios are less volatile than bank delinquency, and have generally been lower than bank ratios.

TABLE 5. AVERAGE INSTITUTION SIZE. The average size of a credit union is about one-twentieth the size of the average bank.

TABLE 6. ASSET GROWTH. During the 1980s and early 1990s, credit union asset growth outpaced the growth of banks. Since 1993, bank asset growth rates have compared favorably with credit union rates.

Frequently Requested U.S. Credit Union/Bank Comparisons

	Insurance Fund Ratio		Net Income Ratio		Equity Capital Ratio		Loan Delinquency Ratio		Total Assets (billions)		Average size (millions)		Asset Growth	
Year	**NCUSIF**	**FDIC BIF**	**CUs**	**Banks**	**CUs**	**Banks**	**CUs (60+)**	**Banks (90+)**	**CUs**	**Banks**	**CUs**	**Banks**	**CUs**	**Banks**
1980	$0.30	$1.16	0.30%	0.73%	6.04%	5.80%	3.32%	NA	$69.0	$1,855.7	$3.2	$128.6		
1981	$0.30	$1.24	0.82%	0.76%	6.58%	5.83%	3.18%	NA	$72.3	$2,029.0	$3.5	$140.8	4.8%	9.3%
1982	$0.26	$1.21	0.80%	0.70%	6.84%	5.87%	3.26%	NA	$82.7	$2,193.3	$4.2	$151.8	14.4%	8.1%
1983	$0.29	$1.22	1.05%	0.66%	6.42%	6.00%	2.37%	NA	$98.0	$2,342.1	$5.1	$161.9	18.5%	6.8%
1984	$0.31	$1.19	1.35%	0.64%	6.66%	6.14%	2.05%	2.89%	$113.0	$2,508.9	$6.1	$173.1	15.3%	7.1%
1985	$1.28	$1.19	1.21%	0.69%	6.47%	6.19%	2.14%	2.69%	$137.1	$2,730.7	$7.8	$189.4	21.3%	8.8%
1986	$1.23	$1.12	1.04%	0.61%	6.18%	6.19%	2.19%	2.76%	$166.1	$2,940.7	$9.8	$206.9	21.2%	7.7%
1987	$1.23	$1.10	0.97%	0.09%	6.48%	6.02%	1.93%	3.46%	$181.7	$2,999.9	$11.2	$218.6	9.4%	2.0%
1988	$1.24	$0.80	0.98%	0.80%	6.80%	6.31%	1.80%	2.92%	$196.8	$3,116.0	$12.5	$238.5	8.3%	3.9%
1989	$1.25	$0.70	0.92%	0.50%	7.32%	6.21%	1.77%	2.99%	$205.8	$3,287.2	$13.6	$258.7	4.6%	5.5%
1990	$1.25	$0.21	0.89%	0.48%	7.55%	6.45%	1.68%	3.68%	$221.4	$3,369.9	$15.2	$273.5	7.6%	2.5%
1991	$1.23	-$0.36	0.94%	0.53%	7.63%	6.75%	1.58%	3.69%	$244.5	$3,413.7	$17.5	$286.7	10.5%	1.3%
1992	$1.26	-$0.01	1.37%	0.93%	8.10%	7.51%	1.28%	3.06%	$269.3	$3,486.4	$20.1	$304.5	10.1%	2.1%
1993	$1.26	$0.69	1.39%	1.20%	9.00%	8.00%	1.05%	1.97%	$286.6	$3,684.8	$22.1	$336.4	6.4%	5.7%
1994	$1.27	$1.15	1.22%	1.15%	9.57%	7.78%	0.88%	1.29%	$298.9	$3,984.9	$23.8	$382.0	4.3%	8.1%
1995	$1.30	$1.30	1.12%	1.17%	10.30%	8.03%	0.95%	1.17%	$316.4	$4,312.7	$25.9	$433.8	5.9%	8.2%
1996	$1.30	$1.34	1.10%	1.19%	10.79%	8.20%	1.02%	1.06%	$330.8	$4,578.3	$27.8	$480.5	4.6%	6.2%
1997	$1.30	$1.38	1.02%	1.23%	11.10%	8.44%	1.01%	0.98%	$360.6	$5,014.9	$30.9	$548.6	9.0%	9.5%
1998	$1.30	$1.38	0.95%	1.19%	10.92%	8.49%	0.88%	0.96%	$398.9	$5,440.9	$35.0	$620.1	10.6%	8.5%
1999	$1.30	$1.37	0.93%	1.31%	11.00%	8.52%	0.75%	0.95%	$422.6	$5,734.8	$38.4	$668.4	6.6%	5.4%
Jun-00	$1.32	$1.34	1.04%	1.17%	11.09%	8.41%	0.66%	1.17%	$438.2	$5,983.3	$40.3	$705.8	7.4%	8.7%

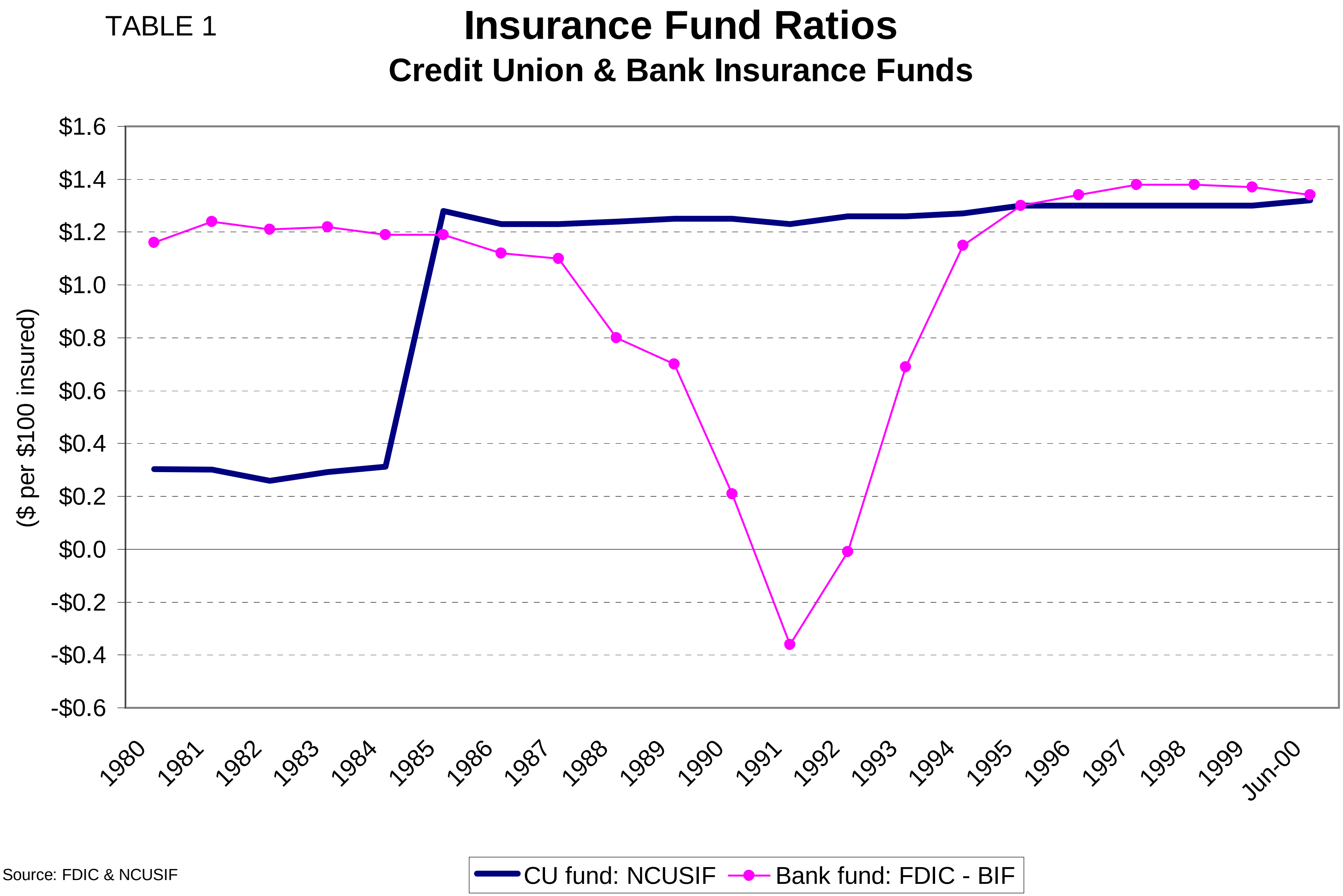
Notes:

NCUSIF & FDIC fiscal years end in December. Prior to 1995, NCUSIF's fiscal year ended in September.
Insurance fund equity is expressed in dollars per $100 insured.
Net income ratio is net income as a percent of average total assets (after tax)
Capital ratio is capital (excluding loss allowances) as a percent of total assets
Loan delinquency expressed as ratio of dollars delinquent to dollar amount of total loans. (CUs 60 days or more delinquent, banks 90 days or more plus non-accrual loans.)
Average size is average assets per institution

Sources:

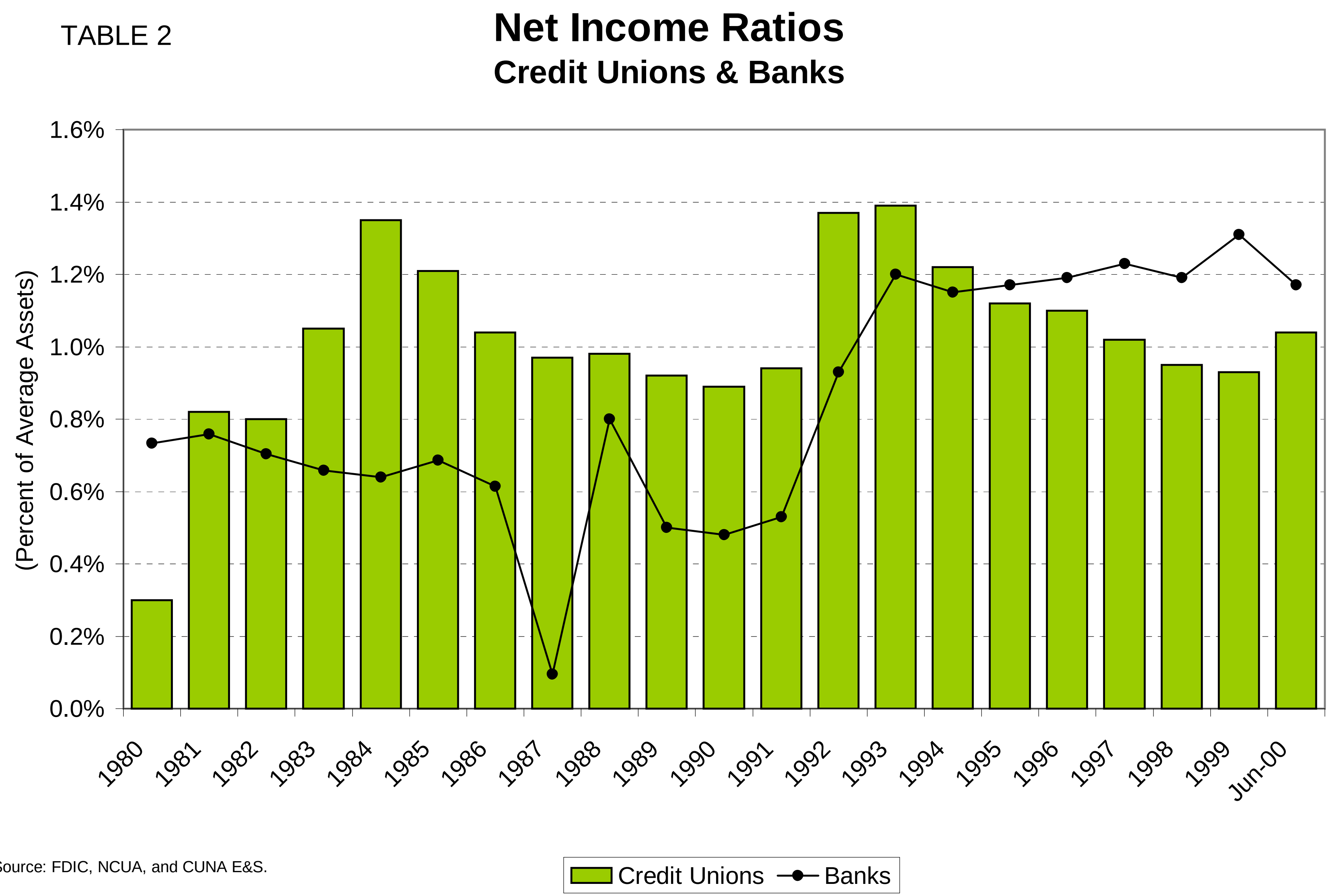
Insurance fund information from NCUSIF, FDIC.
Credit union information from Credit Union National Association, Economics & Statistics Department.
Bank information from FDIC.

TABLE 1



Source: FDIC & NCUSIF

TABLE 2

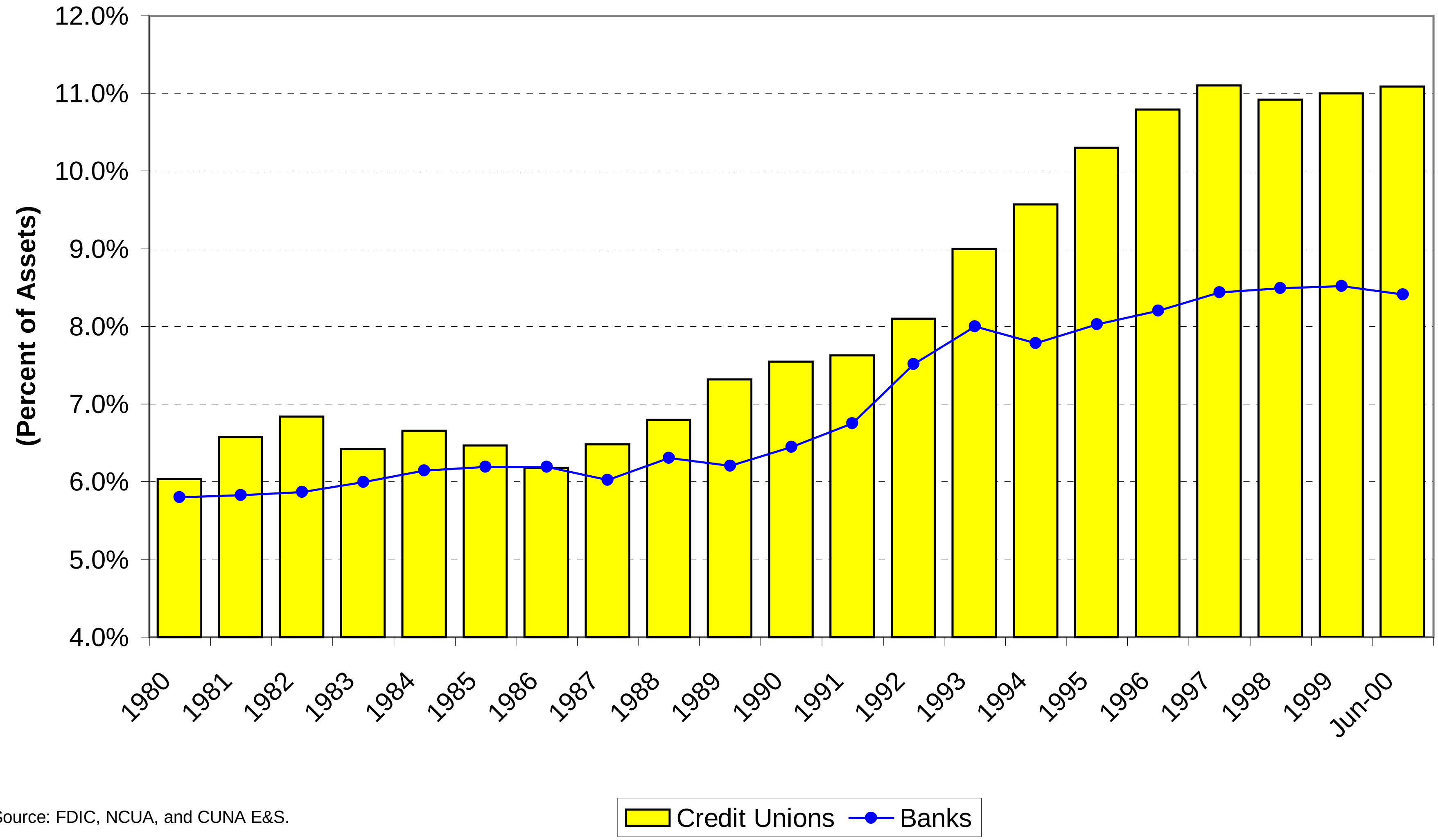


Source: FDIC, NCUA, and CUNA E&S.

TABLE 3

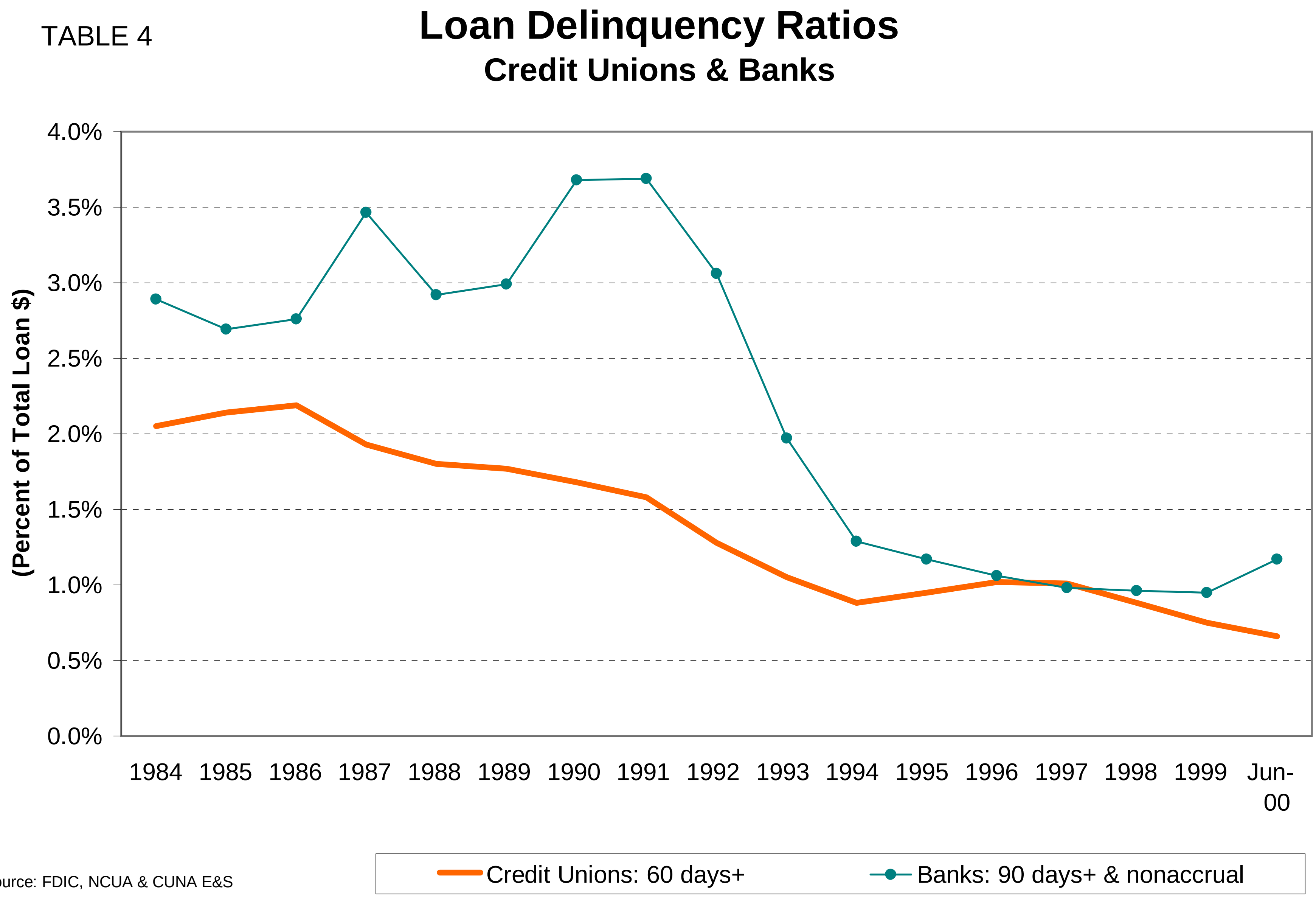
Equity Capital Ratios

Credit Unions & Banks



Source: FDIC, NCUA, and CUNA E&S.

TABLE 4

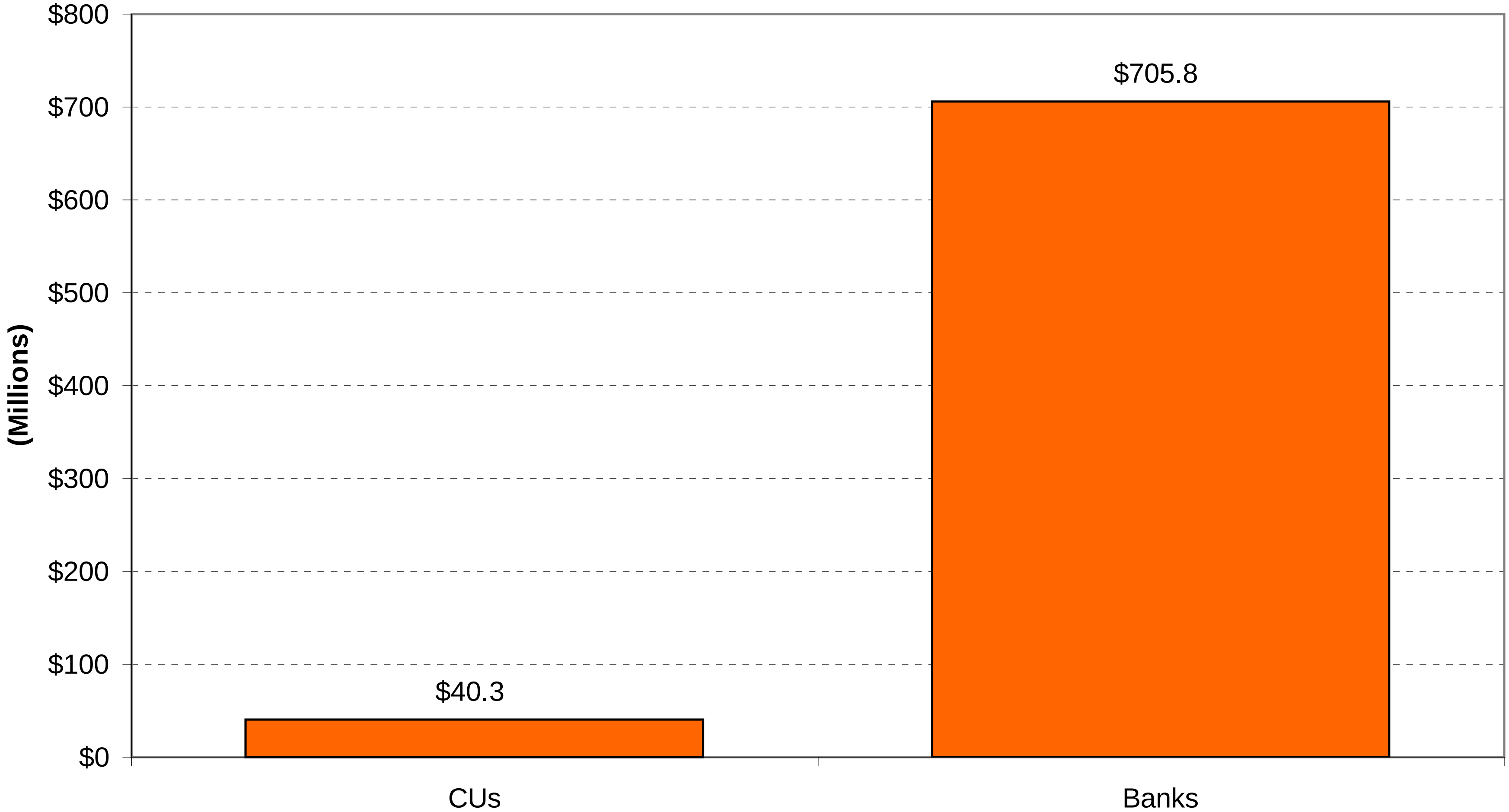


Source: FDIC, NCUA & CUNA E&S

TABLE 5

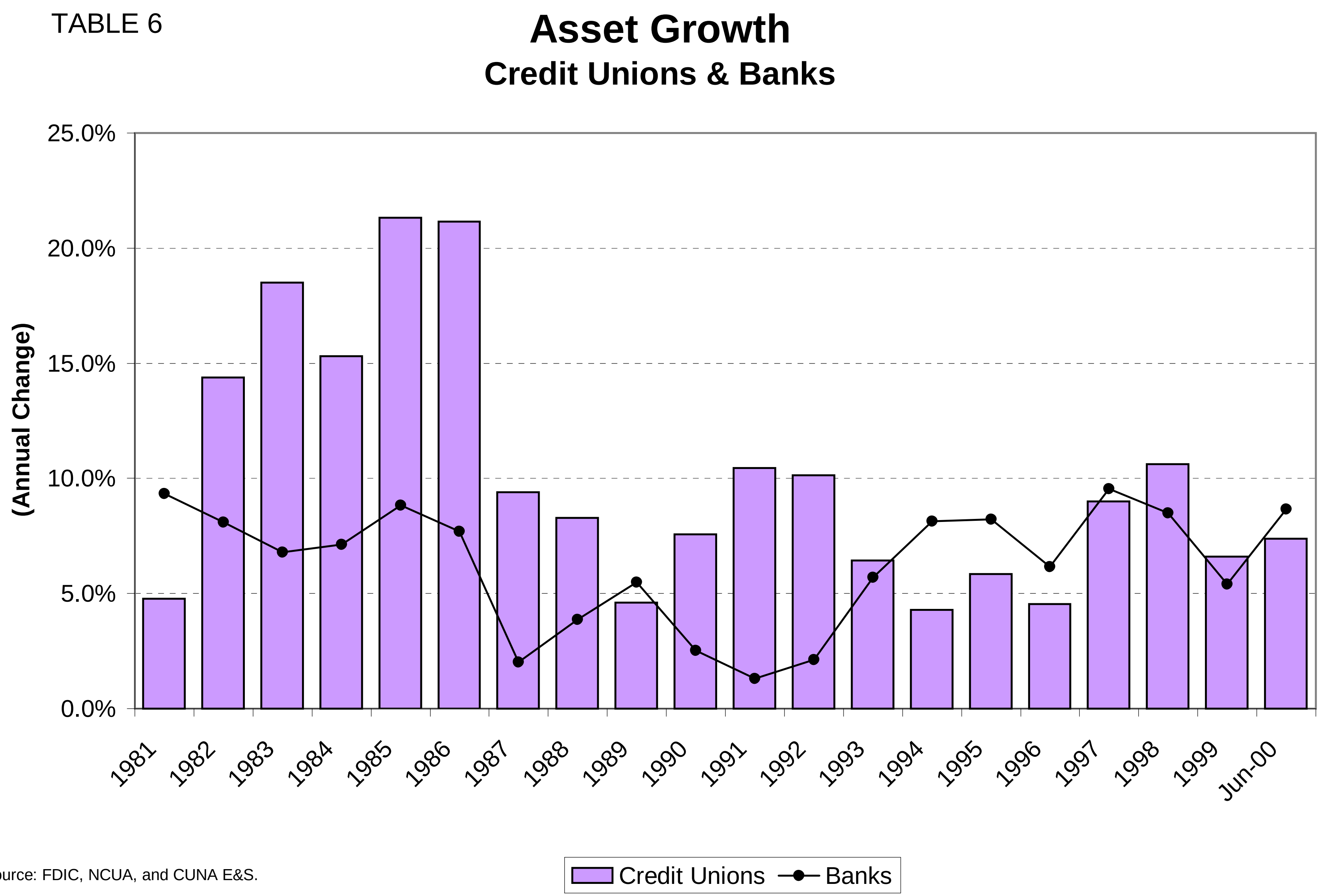
Average Institution Size as of December 1999

Credit Unions & Banks



Source: FDIC, NCUA, and CUNA E&S.

TABLE 6



Source: FDIC, NCUA, and CUNA E&S.