

CREDIT UNION NewsWatch



SEPTEMBER 20, 2010

Legislation, Regulation, And Innovation Online From the Credit Union National Association



House Financial Services Chairman Barney Frank (D-Mass.), in an address at Credit Union House last week, declared to the Massachusetts/New Hampshire/Rhode Island credit union leagues that Community Reinvestment Act requirements are not in credit unions' future. The chairman also said he would continue to work to ensure that all costs are taken into consideration as the Federal Reserve hammers out new interchange rules. (CUNA Photo)

Premium Assessment Released by NCUA

The National Credit Union Administration (NCUA) late last week approved a 12.42 basis point National Credit Union Share Insurance Fund (NCUSIF) assessment, a move that Chairman Debbie Matz said was "absolutely necessary to replenish the share insurance fund to a level that will protect America's 90 million federally insured credit union members."

Matz added that the decision to charge the premium, which would replenish the cash strapped NCUSIF with an estimated \$933 million in funds, was "not taken lightly." NCUA staff said the premium will increase the NCUSIF's equity ratio to 1.3%, but warned that ratio will immediately begin to decline:

"The forward looking analysis shows the premium is sufficient >>  See page 3

Exam Issues Website Launched

With concern over supervisory and examination issues growing, CUNA has responded by creating a new website, entitled "Exam and Supervisory Issues."

The new site, accessible through the "Top Initiatives" section of CUNA's home page, will help credit unions detail their most recent examination experiences and keep up to date with regulators' responsibilities. Credit unions' confidentiality will be protected, as only summaries of examination experiences and concerns will be provided to regulators. Individual credit unions will not be identified in these summaries.

The website will also eventually include a Credit Union Bill of Examination Rights, as well as a policy addressing reasonable expectations for credit unions, examiners, and regulators regarding supervisory and related issues.

"Working with the leagues, we want to make sure that credit unions have the resources and support they need to raise questions, as appropriate, to their examiners and receive reasonable answers, including the legal authority for examiner directives, and be able to offer alternative approaches the credit union feels are in the best interests of its members," CUNA President/CEO Bill Cheney said.

 **Exam and Supervision Website**
http://www.cuna.org/initiatives/exam_supervisory.html

Examination Experience Reporting Form
http://www.cuna.org/initiatives/member_exam_supervisory.html



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Back on NCUA agenda
this Friday



>> Governmental Affairs

MBL Awareness Grew Strong in 111th Congress

In a statement made on Facebook last week, Sen. Mark Udall (D-Colo.) pledged to continue to fight for his legislation that would lift the cap on credit union member business lending from the current 12.25% of total assets to 27.5% of total assets.

While the Senate's failure to add member business lending (MBL) legislation to a recently passed small business jobs bill was definitely a disappointment, CUNA President/CEO Bill Cheney said that this is "the furthest point this legislation has reached in the many years we have been advocating more business lending authority for credit unions."

CUNA continues its efforts and is looking for new vehicles for the MBL legislation, and credit unions can be heartened by



the increased MBL awareness that their advocacy efforts have born. The MBL legislation, which gained significant support in the Senate and has over 100 cosponsors in the House, could be attached to a future legislative vehicle, or brought onto the House or Senate floor as its own standalone bill in the near future, accord-

ing to Cheney. The Obama administration has also publicly backed the MBL legislation, which would lift the cap from the current 12.25% of total assets to 27.5% of total assets.

CUNA has estimated that lifting the cap would provide over \$10 billion in new funds to small businesses, creating over 100,000 new jobs. 🏠

▶ Voters Back Candidates Who Back CUs

As November approaches, both credit unions and candidates should note the results of a CUNA-sponsored survey which found that three in five voters said they would have a "positive reaction" to a candidate fighting against banking interests in support of more credit union business lending.

The polls, which were conducted by a trio of Washington-area pollsters in late August, drew from select congressional districts in Colorado, Kansas, Minnesota, Ohio, Oregon, South Dakota, Texas and Washington. The question was posed to 200 registered voters in each state, for a total of 1,600 interviews.

CUNA President/CEO Bill Cheney said that the poll results clearly indicate that "congressional incumbents and candidates will have warm support from voters if they take on the banks in support of more business lending by credit unions." A poll taken earlier this year showed similarly high support for removing the MBL cap.

CU Tax Status Backed by Think Tanks

A coalition of DC-based think tanks said in a letter to the Obama administration that imposing more taxes on credit unions "would hurt Americans' pocketbooks, damage the economy, undermine the social purposes for which credit unions exist, and raise little revenue." The was co-signed by representatives from The Heartland Institute, Americans for Tax Reform, and the League of United Latin American Citizens. The groups declared that there is "simply no reason" to impose any new taxes on credit unions.

The President's Economic and Recovery Board briefly mentioned taxing credit unions as one of many potential moves to increase government funding. The groups chose to quickly underscore what a bad idea that is.

While credit unions provide many of the same financial services that banks provide, credit unions are "democratically governed, member-owned cooperatives that serve limited fields of membership and, quite often, provide credit and banking services that would not otherwise be available," and, thus, are "not the same as banks," the letter read. 🏠



>> Regulatory Affairs

NCUA National Merger Registry Out in October

The national credit union merger registry, which was recommended to the National Credit Union Administration (NCUA) by CUNA, should be up and running by October, the NCUA has said.

The registry would provide the names of potential credit union merger partners. In addition to the formation of the registry, CUNA has suggested that the NCUA could also provide credit unions with greater information on how the federal regulator works with assorted state regulators in the event that a dual-chartered credit union is involved in a merger. CUNA also recommended that NCUA provide greater detail on its criteria for selecting which credit unions on the merger partner registry should serve as acquirers, and has also urged the agency to address due diligence and loss-sharing incentives.

The NCUA has said that it would continue to evaluate the

merger process and consider improvements going forward. NCUA Chairman Debbie Matz in a recent letter to CUNA said that she did not anticipate changes “in the required due diligence a continuing credit union must exercise to ensure the acquired credit union is appropriate for their operation.”

Matz also noted that the NCUA continues to work closely with state supervisory authorities to obtain names of potential merger candidates when an assisted merger resolution is being sought.

The NCUA earlier this year also provided credit unions with general guidance on the merger process and details how and why the NCUA selects certain partners for assisted mergers or purchase and assumption (P&A) transactions. The NCUA’s guidance also covers the P&A process, types of mergers, and the criteria used to evaluate those mergers and P&As. ■



CUNA President/CEO Bill Cheney greeted each National Credit Union Administration board member before the colossal Sept. 16 open meeting, at which the agency approved a 12.42 basis point National Credit Union Share Insurance Fund assessment, voted to allow credit unions help borrowers avoid predatory payday loans by offering short-term, small-amount loans to members, and announced a special Sept. 24 open meeting to consider a new corporate credit union regulatory plan and what to do with "legacy assets." In this photo, Cheney (left foreground) shakes the hand of board member Michael Fryzel.

(CUNA Photo)

Premium Assessment Released by NCUA

▶ From page 1

to maintain the level above 1.2% through June 30, 2011, while falling to 1.17% by year-end 2011,” the NCUA added. Matz said that the NCUA considered the current economic, employment, and credit union CAMEL Code conditions while making its determination. The state of the economy, and credit unions, created the need for a more “robust” insurance fund, Matz said.

CUNA President/CEO Bill Cheney said that while the premium “could have been somewhat lower,” the 12.42 basis point premium appears reasonable “under current circumstances.”

The NCUA staff said that they have not determined whether or not a similar assessment would be charged in 2011. While there is a chance that the NCUA would not need a followup assessment, the NCUA said that it could not guarantee that there would be no assessment.

According to the NCUA, the most important factor affecting any future assessments is the performance of individual credit unions.

The NCUA has already sent individual letters to credit unions detailing how those credit unions can plan and account for the expense of the NCUSIF premium. Credit unions can expect an invoice in October, and will be required to pay their assessments in November, the NCUA added. ■



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*- Debbie Montgomery, Amy Carter, Ashleigh Shaffer and Ginger Hawk
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Visit training.cuna.org, e-mail cpdonline@cuna.coop,
or call 800-356-9655, ext. 4072.





>> Special Report

What's Basel III Got to Do with CUs

While a Basel III international accord may seem for the most part a non-event for credit unions that obviously don't fall under the new capital rules for banks, credit unions might benefit from the Basel reforms that will require banks to hold more capital as a buffer against future financial shocks. The international bank rules would create a new leverage

ratio for banks with a 7% requirement.

As domestic bank regulators begin to discuss these new capital standards for banks, that discussion could provide a new backdrop for and focus on a conversation about alternative capital for credit unions.

"The good part is the 7% capital ratio for banks would now be the same as the

credit union requirement, and we should be able to use that to support the case for letting credit unions count more than just retained earnings as capital," said CUNA Chief Economist Bill Hampel when the Basel III agreement was announced. 

 **U.S. Banking Agencies Express Support for Basel Agreement**
<http://www.occ.treas.gov/ftp/release/2010-107.htm>

A New Key to Loan Volume



Bill Hampel, CUNA Chief Economist

Increased market share is the key to loan growth during these tough economic times, CUNA Chief Economist Bill Hampel says.

"Households seem to be directing much of their available cash balances to paying down loans rather than increasing savings,"

said Hampel. "This will make building loan portfolios particularly difficult without an increase in market share."

CUNA's recently released monthly review of credit unions found that credit union savings balances rose 0.8% in July, bringing the total amount of savings held in credit unions to \$801.5 billion.

CUNA's monthly survey also found that credit union loan balances again were down in July, contributing to a total loan balance decline of 1% during 2010. The most notable declines in credit union loans, which have decreased by nearly \$5 billion compared to 2009 numbers, have come in both fixed and adjustable mortgages for primary residences.

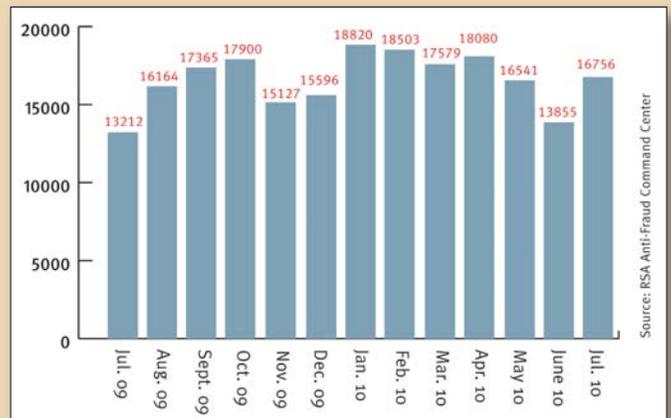
Hampel said that the current period represents the slowest rate of loan growth charted since World War II, and predicted that 2010 could end with zero loan growth for credit unions if they do not beef up market share. 

 **CUNA Monthly CU Data**
<http://www.cuna.org/research/>

RSA Online Fraud Report

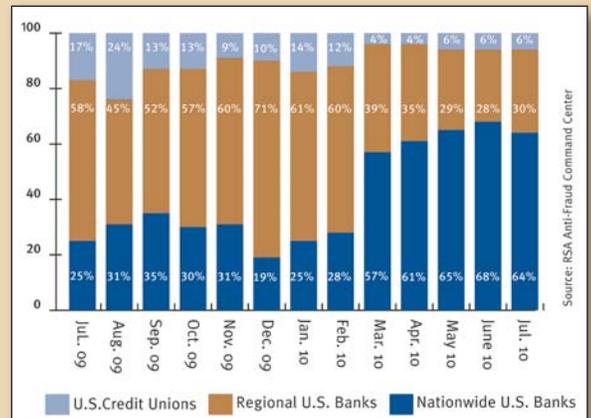
Phishing Attacks per Month

RSA witnessed a 21 percent increase in the number of phishing attacks launched worldwide during July 2010. While there was a sharp spike in phishing attacks, our analysis shows this growth can be directly attributed to an increase in the number of attacks launched against a handful of large entities. Attacks launched against US and UK-based financial institutions accounted for the majority of the increase witnessed in July.



Segmentation of Financial Institutions Attacked Within the U.S.

Despite a four percent decrease in July, nationwide banks remained the most targeted financial segment in the U.S. (in terms of the number of brands attacked). The portion of regional banks attacked increased four percent while the portion of targeted U.S. credit unions remained unchanged for the third consecutive month.



Note: The two charts are excerpts from the RSA Online Fraud Report



RSA Monthly Report

http://www.rsa.com/solutions/consumer_authentication/intelreport/11068_Online_Fraud_report_0810.pdf

Phishing: Don't Take the Bait

<http://www.cuna.org/products-services/detail.php?sku=27032>



>> Notes Bearing Interest

NCUA Corporate CU, Legacy Asset Rules Coming Friday

The National Credit Union Administration (NCUA) announced that it will release its widely anticipated corporate credit union regulatory and legacy asset plans at a special open meeting this Friday.

The corporate credit union plan, which seeks to prevent some of the issues created by questionable investment actions in the past and reorganize portions of the corporate credit union system, has long been in

development. The NCUA has been reviewing over 800 comment letters submitted on its proposed rule to strengthen corporate credit union regulation.

CUNA recently said that the NCUA's proposed corporate credit union reforms would not succeed unless the NCUA also dealt with the issue of legacy assets held by the corporates. The NCUA has estimated that there were \$64 billion in

total legacy assets held in corporate credit unions as of early 2009.

CUNA has asked the NCUA whether the legacy assets will be "held and managed to the point of minimum loss, or sold as soon as the unrealized losses fall to the value" of the NCUA's stabilization fund. CUNA also has asked whether the NCUA's approach will require additional borrowing from the U.S. Treasury. ☰

2010 Hike the Hill Season Kicks Off



Credit union advocates from across the country met with federal lawmakers on key credit union issues

last week as the U.S. Congress returned to session after a month-long district work break. September is the official launch month of CUNA's Hike the Hill program each year. This month's Hill visits include efforts by credit union representatives from Oregon, Montana, Kentucky, West Virginia, Wisconsin, Massachusetts, New Hampshire, Rhode Island, Illinois, Minnesota, Idaho, and Ohio. Member business lending, alternative capital, the credit union tax exemption, and other related topics are on the top of the credit union agenda.

CUNA Hike the Hill Information
http://www.cuna.org/pol_affairs/hike_the_hill.html



Rep. Shelley Moore Capito (R-WV) (left) says CUs play a key role in helping the economy get back on track during a visit with the West Virginia CU League (WVCUL). (WVCUL Photo)



Sen. Jeff Merkley (D) (center) meets with a host of credit union reps from his state in the CU Association of Oregon's (CUAO's) recent Hike the Hill visit. (CUAO Photo)



House Financial Services Committee Chairman Barney Frank (D-Mass.) (left) greets President Dan Eagan (right) of the Mass./N.H./R.I. leagues. (CUNA Photo)

CUNA Nominates Two to Fed's CAC

CUNA earlier this month nominated UW CU Chief Credit Officer Mike Long and re-nominated Idaho Credit Union League president/CEO Alan Cameron to serve on the Federal Reserve's Consumer Advisory Council (CAC).

Cameron's current term on the CAC runs through the end of this year. The CAC is composed of 30 members that serve three-year terms. The group, which holds public meetings three times annually, in Washington, D.C., advises the Fed on its responsibilities under the Consumer Credit Protection Act and on other matters in the area of consumer financial services. The CAC covered loss-mitigation efforts, the Administration's Making Home Affordable program, and other foreclosure-related issues during its most recent meeting, which took place on June 17. The CAC has typically scheduled its meetings in March, June and October.



UW CU Chief Credit Officer Mike Long



Idaho CU Union League President/CEO Alan Cameron



>> CUs In The News

CUs Beat Banks on Trust—Again

Credit unions know what they are doing when building relationships. Banks...not so much. That's according to a recent Mintel Comperemedia report.

A mere 36% of big bank customers trust their bank, compared to 57% of credit union members, according to the Mintel study, which was featured in the Sept. 11 issues of *Marketing Weekly News*. And, even though consumers can be inert



when it comes to moving accounts, 10% of the survey participants reported they switched their primary accounts to credit unions from banks in the past year.

Roughly 60% of respondents said trust in a brand is more important than price. (But, of course, credit unions know they offer the best

in both areas.) Consumers said trust in financial brands is similar to trust in personal relationships, with “honesty”

and “respect” at the top of their list of 12 attributes.

Consumers would feel less resentful about paying fees, Mintel said, if larger banks made a greater effort to do more relationship marketing with their customers.

In related news, just last month credit unions were at the top of a recent poll by the Chicago Booth/Kellogg School Financial Trust Index. About 62% of consumers said they trust credit unions, compared with 57% for local banks, 35% for national banks and 27% for banks in which the government has a stake. ■



>> CUNA Notebook

CUNA Calls for Board Nominations

CUNA is seeking nominations for nine positions on the CUNA Board of Directors. The following positions are up for election, and the successful candidates will take office Feb. 28, serving a three-year term:

- ▶ 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 C; and
- ▶ District 6, Class B.

There is also one special election. CUNA's current District 6, Class C director has indicated he will step down from the board at the end of this year. The successful candidate in that special election will be seated Jan. 1, and will serve through the 2012 CUNA Annual General Meeting.

Voting will take place beginning Oct. 27 and will close on Dec. 17.



CUNA Director Call for Nominations Letter
<http://www.cuna.org/download/10callfornomination_letter.pdf>

Here's a Sample SAFE Policy

CUNA, responding to questions on the Safe and Fair Enforcement for Mortgage Licensing Act (SAFE) policy that must be adopted by Oct. 1, has written a sample policy that credit unions may find useful when developing their own plan. Credit unions have expressed concern about how to devise a policy to comply with the SAFE regulations when there is still uncertainty about all the actual registration requirements. So CUNA put together a sample policy drawn from the regulatory requirements and definitions. Here it is: http://cuna.org/compliance/member/eguide/eguide_mlr_resc.html