



CREDIT UNION NewsWatch



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

DECEMBER 21, 2009



CUNA and the state leagues put the wheels in motion to bring credit union representatives to Washington in mid-December just before Congress began voting on key issues affecting credit unions, such as systemic risk and regulatory reform. Also on the National Hike the Hill agenda: talks with lawmakers about member business lending, overdraft protection, and interchange fees. From a New Mexico delegation, shown here with House Minority Leader John Boehner of Ohio, from left to right: William Jacobs (CEO of White Sands FCU), Gabe Escandon, (VP Operations of White Sands FCU), Boehner, Sylvia Lyon (CEO of CUANM), Ben Heyward (CEO of First Financial CU) and Juan Fernandez (VP Governmental Affairs CUANM). (CUANM Photo)

NCUA Looks to Tailor Chartering Process

The National Credit Union Administration (NCUA) has attempted to more clearly outline the parameters of a community chartered credit union by adding a defined set of objectives and quantifiable criteria to its community chartering policies.

The NCUA, at its December open meeting, also proposed to redefine some of its standards addressing rural credit unions.

NCUA Chairman Debbie Matz said that the new NCUA standards will be far more streamlined, and NCUA staff told the board that the redesigned process will significantly decrease the amount of time needed to gain approval of an application.

The agency underscored that credit unions must provide clear details of their business, community outreach, and marketing plans, and an NCUA Regional Office will verify that these plans are being followed for the first three years that a new community credit union is in business.

The NCUA will collect public comment on its proposed changes to chartering rule for 60 days.

The NCUA also approved a final rule that creates a narrow exception to the 20-year maturity limit on second mortgage loans, allowing credit unions to take part in the U.S. Treasury Department's Making Home Affordable Program.

Also, reporting on the NCUA's National Credit Union Share

>> [See page 2](#)

Spotlight Shines on MBLs

CUNA and its allies continue to press Congress to alter the current member business lending (MBL) standards for credit unions, and the National Association of Realtors (NAR) joined the chorus seeking a hike in the 12.25% of assets MBL cap last week.

Fifteen organizations, including the National Cooperative Business Association, the National Farmers Union, the National Cooperative Grocers Association, the National Association of Manufacturers, the National Association of Mortgage Brokers, and the League of United Latin American Citizens, in a recent open letter called on President Barack Obama and members of Congress to inject much-needed credit into the economy by lifting the MBL cap.

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CUs in D.C. as key Hill votes drew near

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>> Special Report

CUNA's Third-Quarter CU Results

The amount of savings held in credit unions nationwide increased to 10.2% during the third quarter of 2009, CUNA's Economics and Statistics team reported in its most recent U.S. Credit Union Profile.

The profile, which includes overviews of mortgage lending, consumer lending, share/deposits, and other categories, showed reduced loan growth during the period, with a drop to 2.7%, well below the 6.7% loan growth reported during the same quarter in 2008. The profile also showed a decrease in the aggregate loan-to-savings ratio at credit unions, down to 78.1% from the 83.2% recorded in 2008.

While delinquencies and net charge-offs increased, they were still well below the numbers reported by banks.

Increased mortgage loan sales contributed to an overall decline in interest-rate-risk exposure, which declined to 34.6% from the 35.2% rate reported in 2008's third quarter.

In September, 7,773 credit unions averaged \$114 million in assets with the median assets at \$16.1 million, with credit unions reporting a combined \$885.9 billion in total assets. Total loans were \$585.1 billion and total savings were more than \$748.8 billion, and credit unions served a total of 91.3 million members. Total surplus funds in the credit union movement were nearly \$268.2 billion. 📈

 **CUNA's U.S. CU Profile 3Q 2009**
http://advice.cuna.org/download/uscu_profile_4q09.pdf



CUNA President/CEO Dan Mica presents one of the new toys to (left) Private First Class (PFC) Maggie Muguerza-Lopez and Lance Corporal (Lcpl.) Griselda Salinas as part of the CUNA (Washington) employee donations to the U.S. Marine Corps' "Toys for Tots" program. CUNA employees donated more than 85 new toys and joined CUNA in contributing more than \$1,300 in cash to the program. Toys for Tots collects new, unwrapped toys and distributes those toys as Christmas and holiday gifts to needy children in the community in which the campaign is conducted. (CUNA Photo)

Spotlight Shines on MBLs

 From page 1

Legislation that would lift the MBL cap to 25% of a credit unions' assets, which was introduced by Rep. Paul Kanjorski (D-PA.), is awaiting congressional action. Kanjorski has sought support for the MBL cap lift from President Obama and key members of Congress. It is anticipated that the Senate will introduce similar language soon.

Reps. Brad Sherman (D-Calif.) and Thaddeus McCotter (R-Mich.) have also publicly supported lifting the MBL cap, with Sherman telling "CNN Tonight" last week that credit union loans can be a "key" part of helping small business grow.

CUNA has estimated that expanding the capacity of credit unions to make business loans could result in \$10 billion in new business loans and at least 108,000 new jobs in the first year after enactment, with no costs to taxpayers. MBLs was a key topic during the recent National Hike the Hill effort organized by CUNA and the state leagues. (See p. 3) 📈

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NCUA Looks to Tailor Chartering Process

 From page 1

Insurance Fund (NCUSIF), Chief Financial Officer Mary Ann Woodson said that the NCUA has received \$1.7 billion of the \$2 billion dollars expected from the payment of NCUSIF 1% deposits and premium assessments.



>> Political Affairs



House votes on major financial regulatory reforms were drawing close as CUNA and the leagues brought more than 600 credit union activists to Washington on Dec. 8-10 for a "National Hike the Hill."

A main goal of this campaign:

to urge legislators to allow credit unions to provide more help to the economy by lifting the current cap on member business lending. Also on the Hike agenda were discussions with lawmakers on overdraft protection plans and credit and debit card interchange fees.



Minnesota credit union representatives met with all of Minnesota's federal elected officials, including Sen. Al Franken (D-Minn.). (L-R) Front Row: Bernie Brixius (Central Minnesota FCU) Jeff Schwalen (Hiway FCU); MnCUN President Mark Cummins (L-R) Back Row: Kelly McDonough, First Alliance CU Mara Humphrey, MnCUN; Lynn Kothe (North Memorial FCU) Sen. Franken; Chuck Albrecht (Mid Minnesota FCU) Harry Carter (TopLine FCU) Sarah Mason (Affinity Plus FCU) and Chad Middendorf (Central Minnesota FCU). (MCUN Photo)



From left: California CU League President Bill Cheney, Rep. Ed Royce (R-Calif.), and CUNA President/CEO Dan Mica. Royce is an original co-sponsor along with Rep. Paul Kanjorski (D-Pa.) of legislation in the House to raise the credit union member business lending limit. (CUNA Photo)



Georgia CU Association President Mike Mercer (left) and Mass./N.H./R.I. League President Dan Egan (right) have the attention of Rep. Paul E. Kanjorski (D-Pa.), a long-time advocate of credit union issues on Capitol Hill. In the background are Todd Harper, staff director, House Financial Services subcommittee on capital markets (left) and CUNA SVP of Political Affairs Richard Gose (right) (CUNA Photo)



From left: Tucker Cole, President/CEO of Evergreen CU, and John Murphy, president of the Maine CU League, listen to Rep. Michael Michaud (D-Maine) at a meeting the congressman had with representatives from Maine's credit unions on Capitol Hill as part of the national fly-in. (MCUL Photo)



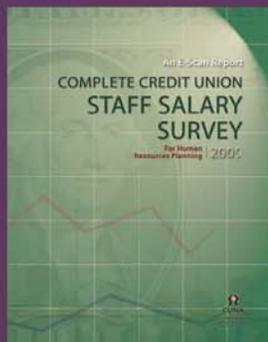
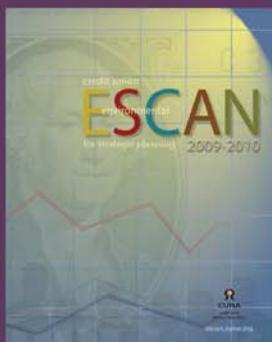
Congressman Russ Carnahan (D-Mo.) (center) meets with (L to R) Gerald Brooks (St. Louis Community), Jay Lewis (Gateway Metro Federal), Laura Alfeldt (First Community) Halley Hayden (MCUA) Patrick Adams (St. Louis Community) and John Servos (Neighbors). (MCUA Photo)



Pictured left to right: NJCUL President Paul Gentile, Rep. Rodney Frelinghuysen (R-N.J.), Alice Stevens (First Financial), Gary Chizmadia (CU of NJ), and Bob Steeves (Essex County Teachers). (NJCUL Photo).

challenge

Success – perhaps even survival – in today’s environment requires adaptability, creativity and boldness. Insightful strategic planning is critical to your credit union’s future success.



CUNA’s E-Scan Report provides a good general backdrop for decision making and strategic planning. Definitely share the information with your board, management team, and staff. We’ve shared E-Scan and it helps our staff understand where we’re at and why we have made some of the decisions that we have.

Carol Galizia
Executive Vice President
Detroit Edison Credit Union



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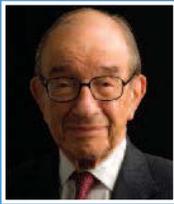
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A Conversation with Alan Greenspan

Alan Greenspan
Former Chairman of the Federal Reserve



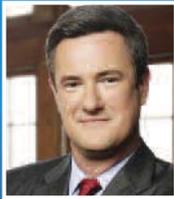
The Economy in 2010

Lawrence Kudlow
Host of CNBC's *The Kudlow Report*



Steering Your Ship Through Rough Waters: Lessons on Leadership

Richard Phillips
Captain of the Maersk Alabama, hijacked by Somali pirates



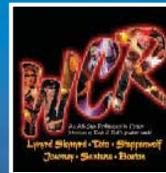
Point/Counterpoint

Joe Scarborough
Host of *Morning Joe* on MSNBC



Howard Dean
Former Chairman, Democratic National Committee

Sunday Kickoff Concert Featuring World Classic Rockers



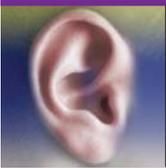
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CUNA Summary of Proposed Revisions to Corporate CU Rule



Mary Dunn, CUNA Senior Vice President and Deputy General Counsel

The National Credit Union Administration issued a much-anticipated proposed changes to its corporate credit union regulation, 12 C.F.R. Part 704, and related provisions of its rules at its November open meeting. The proposal is complex and clearly will result in major changes to the corporate credit union (CCU) system.

CUNA has created a comprehensive summary of the key changes, as well as a chart to facilitate comparisons between the proposal and NCUA's current regulations. Below are brief highlights of the summary, involving the eight key areas of the proposal. For access to the complete summary, the illustrative chart, and CUNA's Comment Call, use the resource links at the end of this article. Comments are due to the NCUA on March 9; CUNA requests comments by Jan. 20.

Highlights of Proposed Revisions

1 Capital Requirements, § 704.3 (generally effective 12 months after the final rule is published in the Federal Register).

■ Currently, corporate credit unions have a single, 4% capital requirement. Under the proposal, all corporate credit unions would be required to maintain three capital ratios in order to be adequately capitalized: a 4% leverage ratio; a Tier 1 risk-based capital ratio of 4%; and a total risk-based capital ratio of 8%.

■ The proposed capital requirements follow closely the capital requirements for banks under Basel I standards.

■ Effective six years after the rule is final, core capital would have to be comprised of at least 100 basis points of retained earnings in order for the corporate to be adequately capitalized.

■ Effective 10 years after the rule is final, a corporate would have to have 200 basis points of retained earnings to be adequately capitalized.

■ Paid-In-Capital (PIC) and Membership Capital Accounts (MCAs) would be replaced by Perpetual Contributed Capital (PCC) and Non-Perpetual Capital Accounts (NCAs).

2 Prompt Corrective Action, § 704.4 (generally effective 12 months after publication)

■ Like Prompt Corrective Action (PCA) for natural person CUs, the proposal would set capital categories and correspond-

ing action that would apply to corporates.

The PCA requirements would be phased in over three years: for years one to three after the final rule, corporates must comply with the current 4% capital level, the risk-based capital ratios, and an "interim" leverage ratio; after three years the new leverage ratio takes effect.

3 Investments, § 704.5 (effective upon publication of the final rule)

■ The proposal also retains current investment authority for securities, deposits, and obligations permitted under the Federal Credit Union Act; deposits in, the sale of federal funds to, and debt obligations of corporate credit unions, national and state banks, trust companies, and mutual savings banks; corporate credit union service organizations; marketable debt obligations of U.S. corporations; and domestically-issued asset backed securities.

■ Two new prohibitions under the NCUA's plan would be the purchase of net interest margin securities (NIMs) and collateralized debt obligations (CDOs) other than senior tranches of Re-REMICs.

■ The proposal would eliminate the authority for corporates to invest in securities rated BBB or equivalent and would add additional NEV modeling requirements and capital requirements of 6% to qualify for long-term investments rated A- or higher and short term-investments rated A-2 or higher.

4 Credit Risk Management, § 704.6 (effective upon publication of the final rule)

■ Establishes both a sectoral investment concentration limit and a more stringent single obligor limit.

■ Exemptions for both concentration limits: Fixed assets, loans and loan participation interests, investments in CUSOs, investments guaranteed or issued by the U.S. Government or insured or guaranteed by the NCUSIF or the FDIC are exempt from both the individual obligor and sectoral concentration limits.

■ Exclusions from sectoral concentration limits: Investments in other federally insured credit unions, deposit in other depository institutions and investment repurchase agreements are exempt from the sectoral concentration limits.

5 Asset and Liability Management, § 704.8 (effective upon publication of the final rule)

■ The proposal would establish a maximum limit of two years on the weighted average life of a corporate's aggregate assets and would require monthly testing for compliance.

6 Liquidity Management, § 704.9 (effective upon publication of the final rule)

■ The proposal retains provisions about general liquidity management, such as regular monitoring and demonstrating accessibility to sources of internal and external liquidity and keeping a sufficient amount of cash and cash equivalents, but adds the requirement that corporate's consider payment system obligations when determining a sufficient amount and limits CCU borrowing for non-liquidity purposes.

7 Corporate Credit Union Service Organizations (CUSOs), § 704.11 (effective upon publication of the final rule)

■ The proposed rule would replace the current list of prohibited activities with a section on permissible activities and a corporate CUSO would have to agree to limit its activities to only those included in this section or otherwise approved by the NCUA.

8 Corporate Governance, §§ 704.14, 704.19, 704.20 (provisions are generally effective upon publication, except as noted)

■ At least a majority of directors of every corporate credit union, including the chair, must serve on the board as representatives of natural person credit unions. (This would be effective 36 months after publication of the final rule.)

■ The proposal strikes current section 704.19 ("Wholesale Corporate Credit Unions") it with provisions on disclosure of executive compensation. 🏠

 **CORPORATE CU PLAN**
<http://edocket.access.gpo.gov/2009/pdf/E9-28219.pdf>

CUNA SUMMARY
http://cuna.org/download/rcc_120509a.pdf

CUNA COMPARATIVE CHART
http://www.cuna.org/download/rcc_120509.pdf

SAMPLE QUESTIONS TO CONSIDER REGARDING THE PROPOSED RULE

Capital

1. What is your opinion of the proposal's Basel I risk-based capital and prompt corrective action (PCA) regime found in proposed section 704.3 and part 704 appendix C, including treatment of off-balance sheet items? (Federal Register pgs. 65221-227, 65264-270)

2. Are the proposed leverage and risk-based capital ratios appropriate? (pgs. 65221-227, 65264-270)

3. What is your opinion of the new CCU capital account definitions (perpetual contributed capital (PCC) and non-perpetual capital (NCA)) in section 704.2? (pgs. 65260-264)

Investments

1. What is your opinion of the likely combined effects of the proposed CCU investment (in section 704.5) and asset-liability management authorities (in section 704.8)? (pgs. 65237, 65270-271, 65272-273)

2. Is the proposed rule's prohibition in section 704.5 on CCUs investing in CDOs (other than senior tranches of Re-REMICs) and NIMs reasonable? (pgs. 65237, 65258, 65271)

3. Are the proposed rule's limits in section 704.6 on CCU investments in "subordinated securities" (i.e. ABS tranches other than senior or super-senior, which would be limited to the lower of 400% of capital or 20% of assets in the aggregate, and the lower of 100 percent of capital or 5 percent of assets in any single investment sector) reasonable? (pgs. 65240, 65272)

Liquidity Management (four questions)

1. The NPR adds the requirement that CCUs "keep a sufficient amount of cash and cash equivalents on hand to support their payment system obligations." Should the Board include guidelines for determining what constitutes a "sufficient amount"? Are there any reasons to keep this requirement out of the regulations? (p. 65273)

2. Should CCUs be permitted to borrow for non-liquidity purposes, i.e. to hold investment securities? (p. 65273-65274)

Corporate Governance (six questions)

1. The standard FCU bylaws state that FCUs will establish "a policy to address training for newly elected and incumbent directors and volunteer officials in areas such as ethics and fiduciary responsibility, regulatory compliance, and accounting" Since CCUs generally are more sophisticated than natural person credit unions, should the standard CCU bylaws be amended to mandate a similar policy? (p. 65251)

Use the resource below to access CUNA's complete list of Comment Call questions.

 **CUNA Comment Call**
http://cuna.org/download/rcc_120509a.pdf



>> Notes Bearing Interest

CU Philosophy, Social Responsibility Awarded

National recipients of the 2009 Dora Maxwell Social Responsibility and Louise Herring Philosophy in Action Awards have been announced from among the state winners.

The Maxwell award is presented to credit unions for outstanding social responsibility projects in their communities. Activities may include solving core community problems, coordinating supply drives for the needy, raising money or organizing special events for charitable organizations, or mentoring students.

The 2009 Dora Maxwell Award winners:

- ▶ Great Horizons FCU in Hammond, Ind.;
- ▶ Pee Dee FCU in Florence, S.C.;
- ▶ Hawaii First FCU in Kamuela, Hawaii;



Dora Maxwell



Louise Herring

- ▶ Latino Community CU in Durham, N.C.;
- ▶ CASE CU in Lansing, Mich.;
- ▶ Rogue FCU in Medford, Ore.;
- ▶ Chartway FCU in Virginia Beach, Va.; and
- ▶ Credit Union Miracle Day, Inc., Washington, D.C.

The Herring award is given to credit unions demonstrating the internal application of the credit union philosophy to

better help members in financial matters and increase financial education. Examples include exceptional member service, financial counseling for members with difficulties, financial educational seminars for members, and educating about the credit union difference.

This year's winners of the Louise Herring Award are:

- ▶ Communicating Arts CU in Detroit;
- ▶ Down East CU in Houghton Lake, Maine; and
- ▶ Credit Union 1 in Anchorage.

Winning entries will be on display at CUNA's 2010 Governmental Affairs Conference, Feb. 21-25, in Washington, D.C. The award winners will be honored during the Feb. 24 reception. 🏛️

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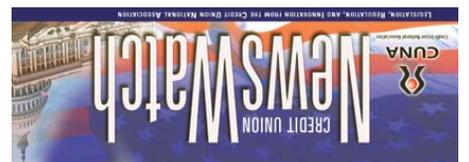


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FIRST CLASS TIME SENSITIVE MATERIAL

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