CUNA
Credit Union National Association

CREDIT UNION NewsWatch

Legislation, Regulation, and Innovation from the Credit Union National Association

JUNE 8, 2009

Bill Lavage, president/CEO of Service 1st FCU, Danville, Pa., is greeted May 20 by House Financial Institutions Subcommittee Chairman Luis Gutierrez (D-Ill.) before Lavage testifies for CUNA on ways to ensure efficient implementation of the corporate credit union stabilization plan. (CUNA Photo)

Forward Look: Corporate CU Law

Uncertainty surrounding the National Credit Union Administration's (NCUA) corporate stabilization plan should be eased when the NCUA board discusses the plan at its June 18 meeting.

The corporate stabilization plan, signed into law by President Barack Obama on May 20, extends NCUA's borrowing authority to $6 billion, with the potential for a further extension to $30 billion under exigent circumstances. The stabilization plan will also allow credit unions to spread the cost of a National Credit Union Share Insurance Fund (NCUSIF) 1% deposit replenishment over seven years. Credit unions will also be granted up to eight years to deal with the cost of a premium assessment that has resulted from losses at wholesale corporate credit unions.

Additionally, any impairments related to the NCUSIF replenishment may be booked over a seven-year period.

Following the board meeting, the NCUA will present

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Outlook for Reg Restructuring

Although comprehensive financial regulatory reform has yet to overtake health care, climate change, and immigration as a prime debate item for Congress, changes to the current regulatory structure are looming—spurred by economic turmoil.

The U.S. Treasury is expected to present its plan for regulatory reform later this month and while few details have emerged, Treasury Secretary Timothy Geithner has said that he is open to a broad re-evaluation of the current system in search of possible reforms. Even the role of the Federal Reserve is under scrutiny.

Recent suggestions that financial regulation could be handled by a single entity, similar in structure to the Department of Homeland Security, have been roundly denounced and various regulatory agencies have looked to shore up their own positions within a changing regulatory landscape.

House Financial Services Committee Chairman Barney Frank (D-Mass.) and other legislators have indicated support for the National Credit Union Administration maintaining its independent oversight of credit unions, no matter what shape the revamped regulators take on.

On other fronts, Securities and Exchange Commission Chairman Mary Schapiro has said that she would question any regulatory model that would

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Inside

CUNA to Testify on SBA Issues

Roger Heacock, president/CEO of Black Hills FCU, Rapid City, S.D., is set to testify on behalf of CUNA this week at a House Small Business Committee hearing.

On June 10, the committee is scheduled to explore the role of the Small Business Administration's (SBA) financing programs in providing access to capital for small businesses. The committee also intends to examine better ways to achieve the SBA mission of providing small businesses with the ability to access capital in the current economic environment.

CUNA has worked closely with the SBA to address barriers to credit union involvement. Some credit unions find the SBA fees prohibitive and the application process unnecessarily complex. Also, the current statutory 12.25%-of-assets member business lending cap can deter some credit unions from more extensive involvement in SBA guaranteed lending.

Heacock's credit union, however, in May was awarded the District Director's Leadership Award from the South Dakota SBA. Black Hills wrote more SBA loans in the state than any other financial institution during 2008-2009 loans for a total of just over $1.6 million, an average of $56,703 per loan.

Forward Look at Corporate CU Law

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implementation guidance and allow credit unions to have their questions about the plan answered by NCUA staff in a June 24 webinar.

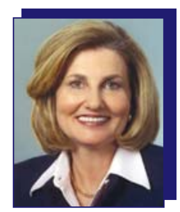
NCUA Chief Financial Officer Mary Ann Woodson has said that she would analyze the financial impact that the newly enacted provisions would have on the agency. Once completed, the results of this analysis will be reported to the NCUA board, and will also be released to the public.

CUNA President/CEO Dan Mica has addressed concerns surrounding the plan, saying that the amount of the insurance premiums, which, for this year, would be 10 to 15 basis points of insured shares, could increase, decrease, or remain the same in future years. CUNA has also said that spreading out replenishment costs over time would help all credit unions, including those that have been impacted by the downturn in the economy.

The NCUA has not announced exactly when credit unions will need to make any adjustments to their accounting, but CUNA believes that all federally insured credit unions will be required by accounting rules to apply the same accounting methods to their NCUSIF costs by years end.

CUNA Corporate Stabilization Resources
http://cuna.org/initiatives/ncua_corp_action.html

Matz Nomination Heading for Senate



Deborah Matz

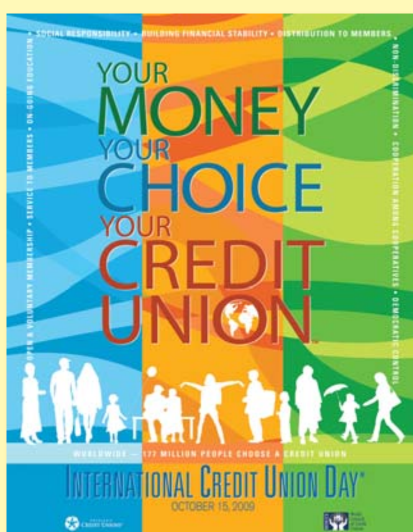
President Barack Obama on June 2 nominated former National Credit Union Administration board member Deborah Matz to chair the NCUA.

Matz, who recently led Maryland-based Andrews FCU, would serve on the board until 2015, if confirmed.

Current Chairman Michael Fryzel and board member Gigi Hyland could remain on the NCUA board. Rodney Hood, whose term expired in April, will make way for Matz.

Matz's Partnering and Leadership Success initiative, created during her previous stint with the NCUA, encouraged credit unions to share their best practices through a series of workshops. Topics covered during these workshops included affordable housing partnership development and targeted marketing initiatives for reaching underserved communities.

Though the Senate has not scheduled Matz's confirmation hearing, CUNA this week urged the Senate to "reflect the swiftness with which the administration has acted and consider Ms. Matz's nomination as soon as is possible."



This year's International Credit Union (ICU) Day theme will remind people everywhere of the advantages that credit unions provide their members. ICU Day is Oct. 15 and takes place during National Credit Union Week. This year's theme: "Your Money. Your Choice. Your Credit Union."

Compliance Website Renewed

CUNA has revamped its comprehensive compliance website and the changes went live on June 1. The site now features up-to-the-minute information on federal regulatory developments.

"What's New in Compliance" appears in the center of the new compliance website, with information on CUNA's upcoming compliance-related events and training resources appearing in the right-hand column. That column also carries key links to CUNA's Regulatory Advocacy website, which features comment letters, comment due dates, regulatory effective dates, and other related information.

The left-hand column of the site provides users with CUNA's dues-supported compliance materials, including CUNA's *e-Guides to Federal Laws and Regulations*, the *Bank Secrecy Act Compliance Guide*, as well as CUNA's monthly, lively *Compliance Challenge*. This portion of the site also contains valuable compliance-related stories from *Credit Union Magazine.*

Valerie Moss, director of compliance information for CUNA, said the new format helps credit union compliance professionals focus on their most pressing issues, with links to federal agency announcements, CUNA compliance information, and a heads up when something is expected to be released or is stalled.

Compliance Website
www.cuna.org/compliance/member/index.html

Mortgage Registry Plan Issued

The National Credit Union Administration (NCUA) and other associated financial agencies have issued proposed rules that would implement a national mortgage originators' registry.

The proposal, implementing part of the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act, would require employees acting as residential loan originators to register with the Nationwide Mortgage Licensing System and Registry. The SAFE Act also requires employees to obtain and maintain a unique identifier that is associated with the originator within the Registry system.

Under the rules, financial institutions must adopt and implement written policies and procedures to ensure compliance with the requirements. Overall, they would be tailored to better fit the nature, size, complexity, and scope of a given institution's mortgage lending activities.

The rules will apply to federally insured credit unions, but not to credit union service organizations (CUSOs), which are not regulated by NCUA. However, CUSOs and their employees must comply with state licensing and registration requirements that are also mandated under the SAFE Act.

Comments on the proposed rule are due within 30 days of its publication in the Federal Register.

Federal Register Document
www.occ.gov/ftp/release/2009-58a.pdf

Seeking CU Comment....

These issues are open for public comment. Credit unions are asked to submit a copy of their comment to CUNA.

NCUA

AGENCY DUE DATE	PROPOSAL	CUNA DUE DATE
Sixty days after publication in the Federal Register	Proposed Changes to the FACT Act Rules and Guidelines on the Accuracy of Credit Information	July 20, 2009
June 9, 2009	Unfair or Deceptive Acts or Practices Rules	passed

Outlook for Reg Restructuring

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shift investor protection functions to another oversight body. And Fed Chairman Ben Bernanke last week told a congressional committee that the Fed's exact role in any future regulatory regime is yet to be determined.

There is also debate on how to legislate any regulatory changes, with Sen. Chris Dodd (D-Conn.) speaking in favor of an all-in-one approach that would compile all of the regulatory changes into a single bill. Frank has publicly advocated separating the tasks of consolidating governmental agencies and enhancing oversight of "systemically important institutions" into separate bills.

Rep. Luis Gutierrez (D-Ill.) last week hinted during a hearing that a federal regulatory regime for the remittance industry could be folded in to the pending financial industry regulatory reorganization. Gutierrez also plans to address the disclosure and transparency issues faced by the remittance industry in to-be-introduced legislation.

What makes your credit union different?

Five ways to generate a powerful credit union difference.

Member service!

Service has always been the true differentiator between credit unions and other financial institutions. Building on this distinctive strength, the Creating Member Loyalty™ System of Training is designed to help credit unions serve members better and increase bottom-line sales.

Currently used by more than 200 credit unions, Creating Member Loyalty™ uses exceptional service to drive sales.

It initiates a change of both individual and organizational behavior throughout your credit union, helping you cultivate a sales culture that exceeds your members' expectations.

Helping you create a new culture

Competing and thriving in today's market requires anticipating members' needs, and when those needs are met, true loyalty is formed. Our training systems and solutions will help initiate a complete transformation of your employees and your organizational focus.

A positive impact on your bottom line

Without tangible benchmarks, it's impossible to evaluate the success of a training program. The Creating Member Loyalty™ System of Training was created to generate specific, measurable results so that you can see the positive effects on your bottom line.

CREATING MEMBER LOYALTY™
SYSTEM OF TRAINING

Informed staff!

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- Special Issues in Financial Counseling
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Knowledgeable board!

A credit union board meeting is no place for someone who doesn't know what they're doing.
Give your board the best tools to understand the credit union as well as their duties and liabilities.

Volunteer Achievement Program (VAP) – With more than 40 affordable VAP courses, credit union boards have every resource at their fingertips from compliance to marketing.

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  VAP's self-study, easy-to-read format allows volunteers to complete courses on their own schedules.
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  Online exams through CPDOnline offer 24/7 access and immediate scoring of proven knowledge.
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  Join the more than 2,000 credit unions that use VAP — CUNA offers years of proven credit union training and is widely recognized in the credit union movement.

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Volunteer boards make credit unions unique financial institutions. Create membership value for your board with Certified Credit Union Volunteers, the mark of a volunteer with proven knowledge for leading a credit union!

- **Certified Knowledge**
  By earning your Certified Credit Union Volunteer (CCUV) designation you'll have the confidence, knowledge, and credentials of a credit union expert.
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  The Board of Directors and Supervisory Committee Tracks have learning plans to direct your training to all areas of study.
- **Core Competencies**
  Areas of study and credits are determined by research of which competencies help build the best credit union volunteer. With CUNA Volunteer Certification Program, you're building skills based on what credit union volunteers need to know.

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CCUE – the mark of a true credit union leader!
CUNA's Certified Executive Program (CEP) is a perfect fit for current or aspiring credit union executives! The program's self-study, credit union courses are in step with your personal and professional goals and put you in charge of your future. You'll learn the skills, and earn the recognition andcertification you need to become a more effective, strategic leader.

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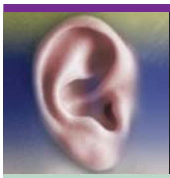
- Certified Financial Services Professional (CFSP)
- Certified Financial Management Specialist
- Certified Lending Specialist

Take the first step to raise the level of growth and performance at your credit union by enrolling today.

FOR MORE INFORMATION

- **Visit: training.cuna.org**
- **Call:** 800-356-9655, ext. 4072
- **E-mail:** training@cuna.coop



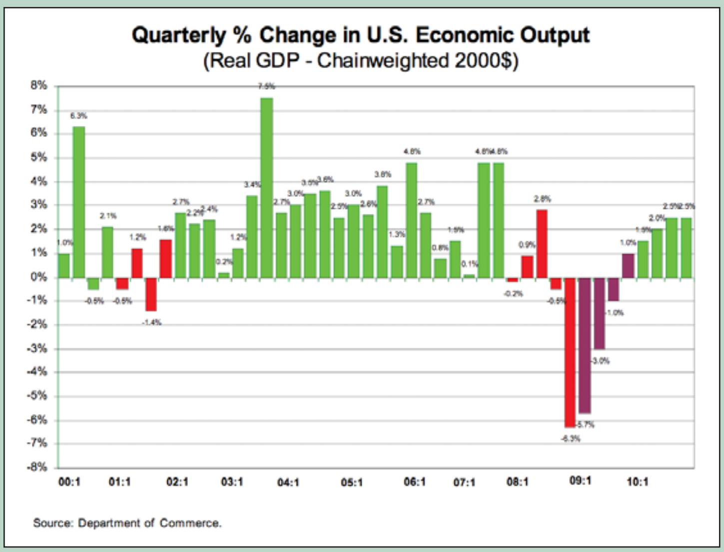
>>CUNA Confidential

Economic Outlook: What CUs Can Expect

Steve Rick, Senior Economist

With the current recession dragging on for more than a year and a half now, many are asking when the economy will begin to turn around. There is good news and bad news. The bad news is that the economy will continue to contract through the second and third quarters of this year and only hit bottom sometime later this year. The good news is that this contraction will take place at a slower pace when compared to the last few quarters. And even better, we expect the economy to start growing in the fourth quarter of 2009 (see chart 1).

Chart 1



Four factors are responsible for this anticipated expansion. First, the largest injection of bank liquidity by the Federal Reserve in their 96 year history, along with their new lending initiatives, will stimulate additional borrowing and spending later this year. Second, the largest fiscal stimulus in American history will finance "shovel ready" investment projects over the next few quarters. Third, a recent inventory correction, which led to a 12% year-over-year drop in industrial production, will have run its course with factories increasing the pace of their production. Fourth, an economic contraction is an aberration for any economy. The U.S. economy typically grows 3.5% per year, due to 1% labor force growth and 2.5% productivity growth. Economists consider this the "natural" or "organic" rate of economic growth. Since the U.S. population has not stopped growing, nor have individuals stopped thinking up new ways to increase efficiency, the economy still has this natural tendency to expand.

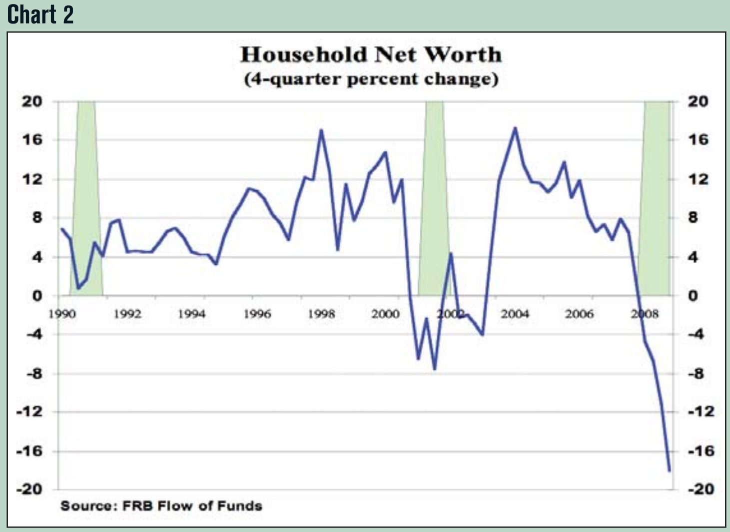
Consumer behavior and economic recovery

Changing consumer behavior will alter the nature of the upcoming economic recovery. Household wealth declined 18% in 2008 (see chart 2), roughly $11 trillion. This has now produced a strong incentive for Americans to increase their saving rate from near zero in 2005-2007 to 5.7% today, the highest rate since February 1995.

No longer can households rely on rising stock and home prices to fund their retirement accounts. They must boost retirement funds the old fashioned way, by consuming less than their incomes. Personal income rose 0.7% in the year to April while consumption spending was down 1.5%, according to the Bureau of Economic Analysis. Goods spending fell sharply over the last year, while service spending improved to limit the overall spending decline.

The desire to increase savings by the majority of households leads to what is called the "paradox of thrift," a term coined by the famous 20th century economist John Maynard Keynes. The paradox arises from the fact that when an individual reduces consumption and increases savings out of a given income, that will increase net worth and financial position. But if the vast majority of households begin to save more at the same time, that will prolong the economic contraction and lead to further layoffs.

Chart 2



Rebound may be slower

With consumer spending expected to grow slower than income over the next few years, aggregate economic demand will rebound slower than past economic revivals. A jobless economic expansion and a rising unemployment rate will last well into 2010.

You may ask how an economic recovery can coincide with a rising unemployment rate. Four factors explain this counterintuitive result. First, when firms begin to see a pickup in demand for their good or service, they do not hire new workers but increase the output of their current workforce. We historically have seen a pickup in labor productivity in the first year of every economic expansion. Second, many firms use part-time workers. If the rise in demand begins to overwhelm the firm's workforce, the firm will offer part-time staff the option of working full time. Even though this action benefits the workers' financial position, it does not reduce the unemployment rate which already counted part-time workers as having a job. Third, discouraged workers return to the labor force upon hearing the recession is over. As they search for work the government now counts them as unemployed. Lastly, population growth, and therefore the labor force growth will be faster than the growth in output when adjusted for productivity growth.

The unemployment rate is projected to rise to over 10.5% by mid-year 2010. Financial institutions are well aware of the positive correlation between the unemployment rate and non-performing loans. Credit card delinquency and charge-off rates have jumped dramatically over the last two years as the nation's unemployment rate rose from a low of 4.4% in March of 2007 to 8.9% today (see chart 3). Credit union credit card delinquency rates rose from 1.05% in 2006 to 1.89% in 2008, while their charge-off rates rose from 0.87% to 1.36%.

Chart 3

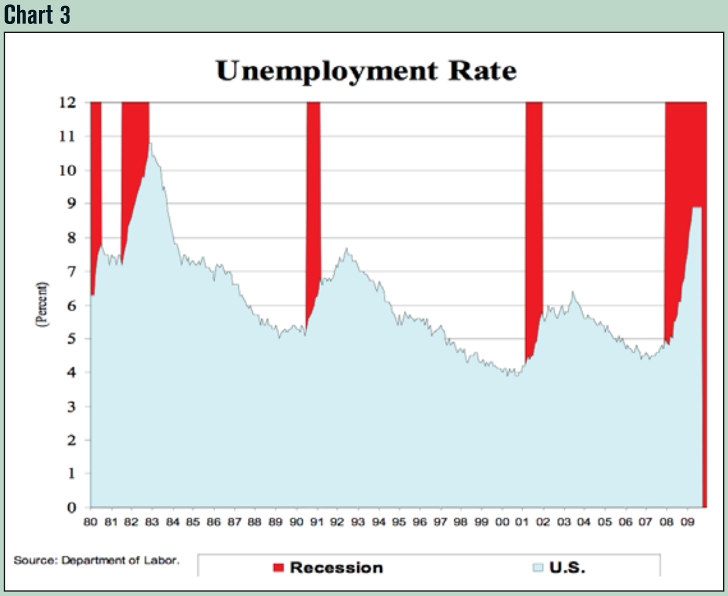
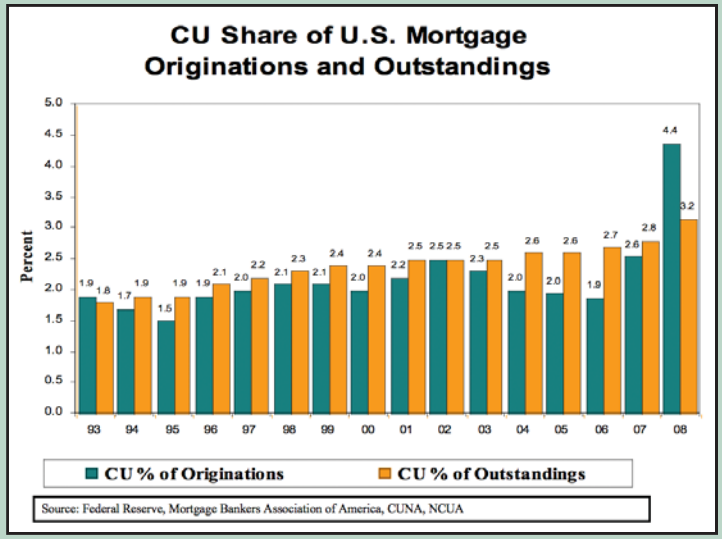


Chart 4



CUs make significant gains

Relative to other financial institutions, credit unions maintain more consistent credit standards throughout business cycles. This cost credit unions some loans in good times but is now increasing their credit market share in the current economic downturn. Specifically, credit unions are making significant gains in the mortgage market. Fixed-rate mortgage loans are up 10.5% from April 2008, while home-equity loan balances are up 13%. In 2008, credit unions originated 4% of all mortgage loans in the U.S., up from 2.6% a year earlier (see chart 4). Credit unions need to guard against a rising adverse selection problem, however, as high-risk borrowers who are denied credit at banks turn to credit unions for loans.

As U.S. households change their financial behavior by de-leveraging their balance sheets, credit unions are seeing a surge in deposit growth. Savings balances rose 0.7% in April and 6.4% year-to-date, the fastest pace since the 2001 recession. With the collapse of the "shadow banking system", the asset-backed securities market, many banks are now returning to the traditional way of banking, taking in deposits and making loans to hold on their balance sheet. This leads to the question: Will there be enough deposit growth to go around?

Credit unions should not minimize the scale of the changes sweeping over the financial services industry and should begin planning for the "new normal" business environment. Over the next couple of years all financial institutions are going to find it harder to generate earnings. Credit unions are now operating with a heightened awareness of risk, especially the systemic risks that emanate from an economy going through the worst recession since the Great Depression.

CUNA Research and Statistic
http://advice.cuna.org/

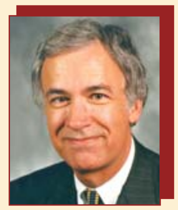
>>Notes Bearing Interest

Direct Deposit Ruling's Important Implications

The implications of a recent decision in a California direct deposit case are important to credit unions, other financial institutions, and consumers, CUNA Counsel Eric Richard pointed out immediately after a state supreme court ruling in *Miller v. Bank of America* (BofA).

The court ruled that BofA and other depository institutions in California are permitted to cover overdrafts and overdraft fees from Social Security funds and other protected public benefit deposits.

The decision upheld an appeals court opinion that the bank's overdraft practices did not violate the California Unfair Business Practices Act. It was a second override to a 2004 Superior Court of San Francisco verdict upholding an over-$1 billion dollar jury award against BofA for violating state law.



Eric Richard, General Counsel

CUNA'S Richard said the favorable ruling for BofA helps to assure access to checking accounts for those receiving protected federal benefit funds .

"If a financial institution's ability to recoup losses and fees caused by overdrafts was invalidated because an account was funded in part or fully by protected federal benefit deposits such as Social Security funds , it could have the unfavorable result of making it harder for those consumers to have checking accounts and other services such as ATM cards ," he said.

Credit unions have been watching the case unwind for years since it affects both California credit unions and credit unions doing business in the state.

CUNA and the California CU League, as well as banking trade associations, and the U.S. government, took an active role by filing amicus briefs in the appellate court in support of BofA's position. Many of the same parties, including CUNA, filed an amicus brief with the California Supreme Court.

Social Security Funds Usage
www.cuna.org/compliance/member/eguide/eguide_socsecurity.html

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Lisa McCue, Washington Editor
Phone: (202) 508-6766 • Fax: (202) 638-7716 • newswatch@cuna.coop
Address Changes:
CUNA E&S, P.O. Box 431, Madison, WI 53701-0431; or call (608) 232-8045

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