CREDIT UNION NewsWatch

CUNA Credit Union National Association

LEGISLATION, REGULATION, AND INNOVATION FROM THE CREDIT UNION NATIONAL ASSOCIATION DECEMBER 22, 2008

The lights from U.S. Capitol Grounds Christmas Tree outline the Capitol Dome on Dec. 18. The holiday season quickly will yield to a new Congress and Administration in 2009. Swearing-in day for the 111th Congress is Jan. 6. President-elect Barack Obama will be sworn-in during Inauguration ceremonies on Jan. 20. (CUNA photo)

NCUA Bans Unfair Card Practices

The NCUA at its open board meeting last week approved stricter rules to ban unfair and deceptive credit card practices. The federal regulator also approved expanded activities for credit union service organizations (CUSOs).

Effective July 1, 2010, the credit card rule prohibits the following five practices:

- ▶ Providing insufficient time for consumers to make payments;
- ▶ Failing to provide reasonable allocation of payments among balances with different interest rates;
- ▶ Applying increases in annual percentage rates to pre-existing balances;
- ▶ Calculating finance charges using double-cycle billing, which computes finance charges using the average daily balance from the last two billing cycles rather than only the most recent billing cycle; and
- ▶ Requiring excessive security deposits and account-

>> See page 3

CUNA: Obama Urged to Back Removing MBL Cap

President-elect Barack Obama has been asked by CUNA to encourage the U.S. Congress to eliminate the cap on credit union member business lending (MBL).

In a letter to the incoming president, CUNA President/CEO Dan Mica noted that during a Thursday press conference, Obama remarked that problems in the U.S. economy will continue "if small and large businesses cannot get access to enough credit."

The credit union system remains generally healthy and credit unions are not only willing, but able, to continue lending to their members safely and soundly.

Mica wrote that if the cap on MBLs were lifted, credit unions could lend up to an additional $10 billion to the nation's businesses in the first 12 months of losing the restriction.

"This is an economic stimulus measure that does not cost the taxpayers a dime, and does not increase the size of government," Mica wrote.

The Dec. 18 letter follows a similar one sent by CUNA to members of the House Financial Services Committee *(see page 2)*.

Full text of letter
cuna.org/press/press_releases/mica_121808.html

Inside

Small Business Owners Need More MBLs, Congress is Told

CUNA reminded federal lawmakers that the credit unions continue to lend despite the country's credit crunch, and urged Congress to let credit unions do more to help small business owners.

In a follow up to an oversight hearing on the U.S. Treasury Department's implementation of the Troubled Asset Recovery Program (TARP), CUNA sent a letter on member business lending to House Financial Services Committee members.

The letter noted that during that panel's hearing, several committee members remarked repeatedly that small business owners, homebuyers and other consumers were having difficulty in securing credit because banks, including several recipients of TARP funds, were not making loans.

Mica reported that, through September, the fastest growing type of credit union lending was business lending. Overall, credit union loans outstanding increased 0.5% from September 2008 to October 2008, and 6.6% over the first 10 months of 2008, compared to increases of 0.7% and 5.6% during the same periods last year.

> "This is economic stimulus that does not cost the taxpayers a dime, and does not increase the size of government."
>
> -CUNA's Dan Mica

Mica told the lawmakers that the current statutory limit on credit union member business lending, essentially 12.25% of total assets, is far beneath the level of business lending that a healthy credit union could extend in a safe and sound manner.

"We encourage Congress to remove the statutory cap on credit union business lending as a mechanism to ensure that your small business owning constituents can continue to access the credit that they need to operate their businesses," Mica said.

CURIA CO-SPONSORS COUNT

Bush Urged to Sign Pension Bill

CUNA sent a letter to the White House to urge President George W. Bush to sign a bill that would give organizations some flexibility in shoring up pension plans hurt by the current economic upheaval.

H.R. 7327, the Worker, Retiree, and Employer Recovery Act was introduced by Rep. Charles Rangel (D-N.Y.), the head of the powerful tax-writing Ways and Means Committee. It was approved last week by the U.S. Congress and amends the Pension Protection Act of 2006.

One of the changes would allow organizations with defined benefit pension plans to phase in funding targets over three years.

CUNA President/CEO Dan Mica wrote in his letter to the President: "The decline in the market value of equity assets held in defined benefit plans has caused plans that were once fully funded to fall below the capitalization levels required under the Pension Protection Act of 2006.

"As a result, many organizations face the prospect of being required to shift operating capital into their defined benefit pension accounts."

The broader three-year timeframe is critical to viability of existing plans during the country's current difficult economic times, said Mica, and he urged Bush to sign the act into law.

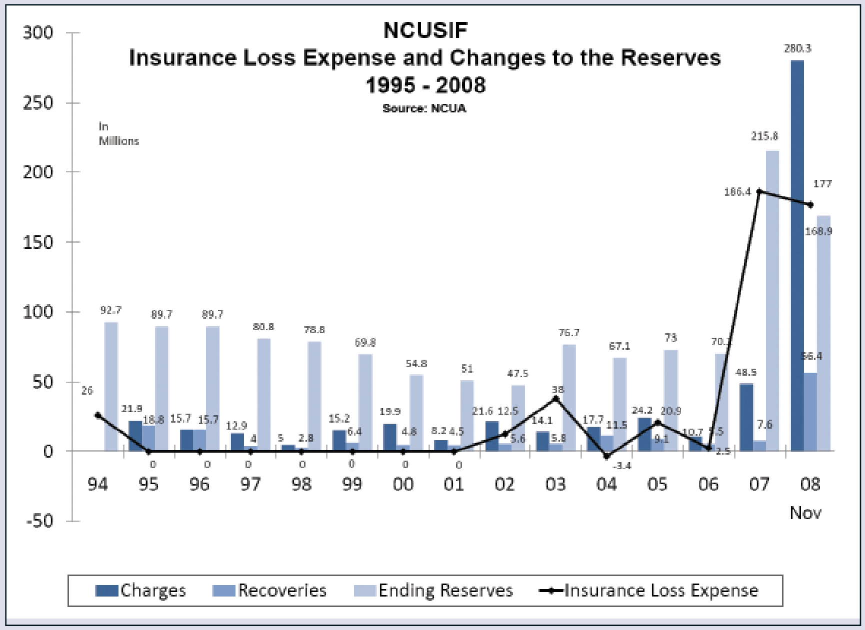
NCUSIF: Yearend Equity Projection at 1.27%

The National Credit Union Share Insurance Fund (NCUSIF) equity level is currently at 1.27% and it is expected to remain at that level through the end of the year, according to a monthly NCUA status report.

The equity projection by NCUA Chief Financial Officer Mary Ann Woodson would preclude the possibility of an NCUSIF dividend to federally insured credit unions.

Woodson, at the open NCUA board meeting last week, also reported that there are now 257 CAMEL 4 and 5 rated credit unions, which is up from 211 at the end of last year. She indicated that 92% of these CAMEL 4 and 5 organizations have asset sizes of under $100 million.

Other items of interest: The total insurance loss expense for 2008 is expected to be around $177 million, and actual net income for 2008 will likely be lower than the current $23 million projection.



Woodson indicated that, while unlikely in her opinion, it is not impossible that the NCUSIF would end the year with a slightly negative net income. She added that checking back as far as 1971, it would be the first time the fund closed its year in that position.

More NCUSIF details
ncua.gov/NCUABoard/draftboardactions

NCUA Bans Unfair Card Practices

From page 1

opening fees for the issuance or availability of credit.

The NCUA rule applies to federally chartered credit unions, but not to state-chartereds, which fall under Federal Trade Commission (FTC) regulation. The FTC has said it will address the issues on a case-by-case basis. The Federal Reserve Board and Office of Thrift Supervision approved substantively identical rules the same day as the NCUA action.

Regarding CUSO activities, the NCUA approved two new permissible categories: credit card loan origination and payroll processing services. The rule also allows additional activities within existing categories and expands the scope of certain services to include persons eligible for credit union membership.

New permissible activities under the board's action are related to the routine daily operations of credit unions and include:

- Real estate settlement services;
- Employee leasing and support;
- Purchase of non-performing loans;
- Business counseling and related services for credit union business member; and
- Referral and processing of loan applications for members turned down by the credit union.

Before the start of the Dec. 18 monthly NCUA Board meeting, Executive Director Len Skiles talks with CUNA Deputy General Counsel Mary Dunn. It was Skiles' last board meeting before he retires at the end of 2008, after a 36-year career with the agency. (CUNA photo)

The CUSO changes will go into affect 30 days after the regulation is published in the *Federal Register*, and publication is likely to occur within the next week or so.

Your Attendance at the GAC is Critical

Daniel A. Mica

President & CEO
Credit Union National Association

Change – it's the new watchword in Washington, and it's coming. In January, 10% of the Senate and 12% of the House will be new. The GAC is our opportunity to make a strong impact early and ensure that this new Congress understands who credit unions are, how we're different, and what we do to help our members and our communities. The country is gripped by a financial crisis. But, as they say, "In every crisis, there is opportunity." This is our opportunity to show legislators on Capitol Hill that credit unions were not part of the problem but, in fact, an essential part of the solution.

With the member business lending (MBL) cap lifted, with the growth potential that comes from capital reform, and with added flexibility to reach out to new members, we can do even more to help the economy. All of these changes are at the top of our priority list when credit unions meet with their members of Congress. We need as many as possible to come to the GAC and help us state our case. This is a unique opportunity and we must make the most of it.

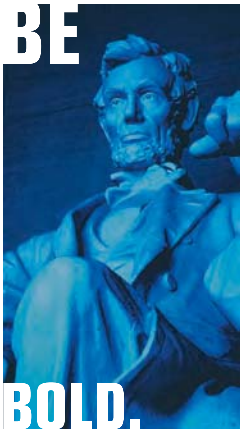
CUNA
Credit Union
National Association

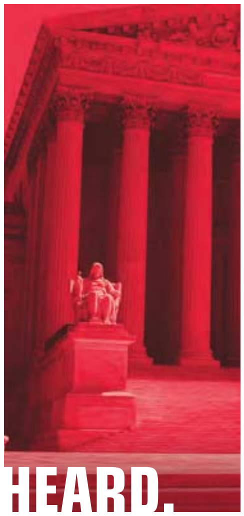
Be Bold. Be Heard. Be There.

Mark your calendars for the 2009 GAC.
February 22-26, 2009

Attend the 2009 GAC, where credit unions make their voices heard!

Register at gac.cuna.org | gacinfo@cuna.coop | 800-356-9655 ext. 5700





GAC Kick-Off Sunday Event

Gary Sinise & the Lt. Dan Band

The **Lt. Dan Band** was formed by actor/musician Gary Sinise and Chicago composer Kimo Williams. Sinise is best known for his role as Lt. Dan in *Forrest Gump* and for his starring role in the TV series *CSI: NY*. The band has completed six tours for the USO and performs regularly for troops stationed around the world. *Presented by CUNA Councils*

Keynote Highlights

Paul Begala

CNN political analyst

Tucker Carlson

MSNBC senior correspondent

Unique Perspectives From Inside the Beltway

Paul Begala and **Tucker Carlson** will share their diverse political insights, with a face-off that will offer an entertaining and informative look at the new Congress and White House.

Steve Forbes

Chairman and CEO of Forbes Inc. and editor in chief of *Forbes* magazine

America's Economic Outlook and Opportunities

An influential pro-growth advocate and lauded economic commentator, **Steve Forbes** is one of the most highly respected businessmen of our time.

Al Roker

America's most loved weatherman, host of NBC's *Today Show*, and best-selling author

Let a Smile Be Your Umbrella

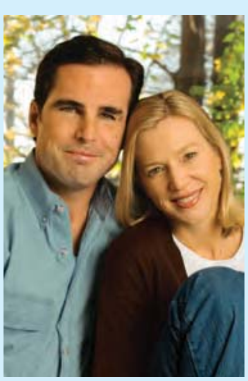
To close the GAC on a lighter note, **Al Roker** brings to the podium the same charisma and sense of humor that have propelled him to number one in America's hearts.

Bob Woodruff

ABC News anchor/reporter and author

Lee Woodruff

Author, freelance writer, and contributing editor, ABC's *Good Morning America*



In An Instant

As an anchor and reporter for ABC News, **Bob Woodruff** is a respected, informed correspondent making popular waves in American broadcasting. In January of 2006, while reporting on U.S. and Iraqi security forces, Woodruff was seriously injured by a roadside bomb that struck his vehicle near Taji, Iraq. In an instant, his life had altered forever. Bob and his wife **Lee** will share stories from his moving and inspirational best-selling memoir *In An Instant*.

GAC 2009

CUNA GOVERNMENTAL AFFAIRS CONFERENCE

FEBRUARY 22-26 • WASHINGTON, D.C.

Fed Action Continues CU Multi-Featured Open-End Lending

Changes adopted last week by the Federal Reserve Board to its Regulation Z will permit credit unions to continue offering multi-featured open-end lending, such as under LoanLiner.

Credit union members have used multi-featured open-end lending for the last 25 years as a convenient and efficient means of accessing credit from their credit union.

The Fed plan as proposed may have put that authority in jeopardy and CUNA and CUNA Mutual Group launched a substantial effort to inform the Fed of the possible problems credit unions might face under the Reg Z plan as proposed.

The proposal would have required "closed-end" disclosures for certain types of loans provided under these types of programs, instead of the "open-end" disclosures that are currently used.

The goal of CUNA and CUNA Mutual was to preserve the ability to use the current disclosures. The groups reminded the Fed that have been no problems or concerns raised by credit union members that have used these programs.

CUNA President/CEO Dan Mica cautioned that some changes may be necessary by credit unions to fully comply with the new regulation.

"We will be carefully reviewing the details and providing guidance to leagues and credit unions regarding these changes, including verifying creditworthiness and other issues," he said.

The final rule approved by the Fed last week made fairly comprehensive changes to the format, timing, and content requirement for the five main types of open-end credit disclosures that are required under its Regulation Z.

The types of disclosures covered include credit card application and solicitation disclosures, account-opening disclosures, periodic statements, change-in-term notices, and advertising provisions.

It is unclear the extent to which disclosures provided with open-ended lending under LoanLiner may need to be revised. As mentioned, the rule did not change timing requirements for making advances under an open-end lending plan. The Fed won't require that each sub account under a plan have a self-replenishing credit limit.

Also, credit unions are permitted to verify continuing creditworthiness, but may not conduct additional underwriting.

Credit unions and other lenders must comply with the new rules by July 1, 2010. Until then, current lending processes and disclosures may be used.

More details about Reg Z
cuna.org/reg_advocacy

Treasury Cuts Bank Taxes While Pushing CU UBIT

CUNA has complained to the U.S. Treasury Department that in its attempts to address the national crisis in the financial markets, the department has created a "disturbing disparity" in the tax treatment of different kinds of depository institutions.

Treasury has showered banks with tax relief to help them survive the current financial crisis, while credit unions needs have not been addressed, CUNA said in a letter to the Treasury and Internal Revenue Service (IRS).

> "This harsh position has imposed substantial burdens on credit unions, diverting funds which might better be used to provide loans to consumers for homes, cars and education."
>
> —Dan Mica

To make matters worse, CUNA added, state-chartered credit unions continue to have unrelated business income tax (UBIT) claims piled on them. The IRS's aggressive re-interpretation of law to increase the tax liabilities of state-chartered credit unions under UBIT leaves "less funds for them to lend," CUNA President/CEO Dan Mica pointed out in the CUNA letter.

"This harsh position has imposed substantial burdens on credit unions, diverting funds which might better be used to provide loans to consumers for homes, cars and education," Mica wrote.

CUNA has requested a meeting with Treasury Secretary Henry Paulson and IRS Commissioner Douglas Schulman to discuss recent actions that have caused the disparity.

Noting the "urgent circumstances," Mica requested that the IRS be directed to halt its efforts against credit unions, and a meeting be scheduled with CUNA to discuss this significant issue.

UBIT Resources for CUs
cuna.org/compliance/member/eguide/eguide_ubit.html

Seeking CU Comment…

These issues are open for comment by the general public. Credit unions are asked to submit a copy of their comments to CUNA:

- **Share Insurance Signs to Reflect Increased Limits**
  Agency: NCUA
  Due date: Dec. 22
- **Use of Formatted Remittance Information for Certain ACH Payments**
  Agency: NACHA
  Due date: Jan. 9
- **Proposed Revisions to Regulation Z Mortgage Loan Disclosures**
  Agency: Federal Reserve
  Due date: Feb. 9

Comment Calls
www.cuna.org/reg_advocacy

Mica Explains CU Difference on CNBC-TV

CUNA President/CEO Dan Mica last week took an opportunity on national television to spell out the credit union difference, note how credit unions are still lending to consumers in today's economy, discuss a federal backup plan for corporate credit unions, and explain why credit unions need their own federal regulator.

In a comprehensive live interview on CNBC "Squawk on the Streets," Mica first responded to a question from host Erin Burnett about how credit unions differ from banks.

The CUNA leader said, "In clear, quick terms, a credit union is a not-for-profit financial institution. Banks are for-profit. There's the bank, the shareholder and you. They try to make money to get to it the shareholders. The credit unions, there's you and the credit union. Any money left over goes to you."

Mica also noted that credit unions have equal federal insurance through the NCUA as banks and thrifts have through the FDIC. All federally insured accounts currently are covered to $250,000, he said.

Mica also spoke about the strength and soundness of credit unions, noting that they "have 11% capital nationwide—the rest of the financial services industry would love to say that." And because of their strong capital position and their avoidance of the problem types of subprime loans that have unsettled the housing and mortgage markets, Mica emphasized, credit unions are still making loans.

When asked if a single financial regulator would be a good idea for credit unions, Mica said that the unique nature of credit unions makes such a plan a bad one.

More CUs in the Media
cuna.org/newsnow/keyword_headlines.php?keyword=20

CU HARP Application Period Extended

The NCUA announced an extension last week in the application period for credit union participation in the Credit Union Homeowners Affordability Relief Program (CU HARP). The agency moved the deadline back 10 days so credit unions now have until Dec. 29 to submit an initial request to participate in the program.

CU HARP is designed to help credit unions modify mortgage terms to assist delinquent borrowers or borrowers facing undue hardships. The NCUA estimates CU HARP will provide interest rate relief to 10,000 households. It also estimates that about 600 credit unions are eligible for the program.

The NCUA this week hosted an audio conference jointly with CUNA and the National Association of Federal Credit Unions to address credit union questions about CU HARP and its companion initiative, the Credit Union System Investment Program (CU SIP).

Under CU SIP, participating creditworthy credit unions would borrow from the NCUA's Central Liquidity Facility and invest the proceeds in participating corporate credit unions.

The NCUA has provided an archived edition of its audio conference. That, as well as program details for CU HARP and CU SIP are available on the NCUA website at *www.ncua.gov*.

CU HARP/SIP details
www.ncua.gov/CLF

Annual Survey to Be Sent to CUs

The CUNA Annual Survey will be mailed out to all U.S. credit unions at the start of January.

This year CUNA has added a special question on back office services that should enable it to help credit unions to find more sources for the services.

The survey is used to track new trends in credit union service offerings not covered by the National Credit Union Administration 5300 Call Report.

"It is our only source of information on the number of groups in credit union fields of membership," said Marc Shafroth, CUNA director of data and statistics. "This year we have added a section to help us answer the frequently asked question: How many members join credit unions each year and how many leave? From the 5300, we only know the net gain."

The survey allows CUNA to answer questions from the public, government agencies and elected officials. It can be completed on the Web.

"The time required to complete the survey should be under 15 minutes," Shafroth said. "We hope that you will be able to spare this time and this way help the movement collect the information it needs to prosper."

If you have any questions about the survey please contact Marc Shafroth at 608-231-4182 or email *mshafroth@cuna.coop*.

CUNA Annual Survey
http://resource.cuna.org/econstat/yearbook/qstpre.html

Fed Rate Cut Will Ease CU Bottom Line Pressure

Last week's Federal Reserve action to establish a target range for the federal funds rate of 0 to 0.25% will result in marginally wider spreads—the difference between asset yields and funding costs—easing bottom line pressure for credit unions, according to CUNA Senior Economist Mike Schenk.

"Also, it may help slow the deterioration in asset quality because members with debt linked to the funds rate will find payments easier to make," he said.

The Fed's rate cut was the 10th of 2008—and the lowest target rate on record.

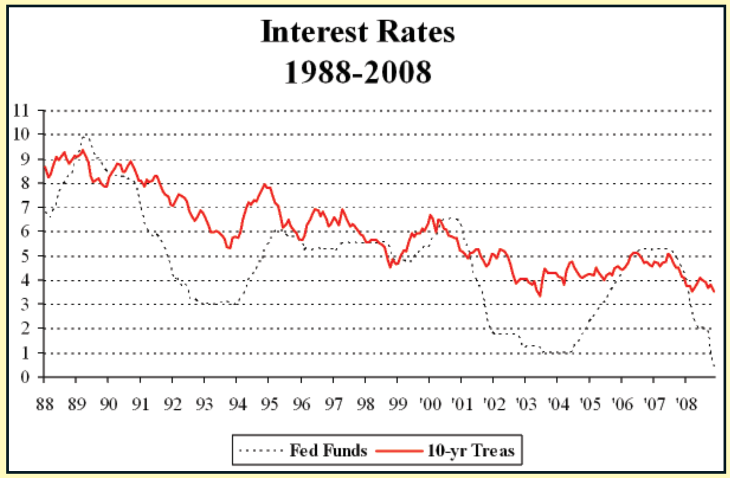
Since the committee's last meeting, the Fed said the outlook for economic activity had weakened further, which CUNA's Schenk said recognizes marketplace realities.

"While the fed funds target has been 1% since the end of October, the effective funds rate averaged 0.38% in November, 0.23% in the first half of December and has been well below 0.25% for the past week," he said.

"We're beyond the point that a 75-basis-point cut will translate into a big surge in consumer demand," he added. "Consumers are facing too many headwinds—rapidly deteriorating labor markets, wealth declines, high debt, and little in the way of rainy day funds—to begin to increase borrowing and spending substantially in response to today's action."

On the other hand, many consumers carry variable-rate debt and the cut should help to reduce the debt service burden for those borrowers, Schenk said.

CU Economics & Statistics
advice.cuna.org



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Contact: David Klavitter, vice president, editorial communication
Phone: (202) 508-6767 • 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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