



From left, CUNA President/CEO Dan Mica, Political Affairs Senior Vice President Richard Gose and Legislative Affairs Vice President Ryan Donovan read questions from credit unions during a live CUNA webinar on Nov. 19. The event was webcast from the CUNA offices on Pennsylvania Avenue in Washington, D.C. (CUNA photo)

A Glimpse of CU Agenda

More than 600 credit unions tuned into the Nov. 19 live webinar from CUNA to address the challenges credit unions face as a result of the financial crisis.

The event featured CUNA President/CEO Dan Mica, Political Affairs Senior Vice President Richard Gose, Legislative Affairs Vice President Ryan Donovan and Senior Economist Steve Rick.

Rick provided an update of the current economic climate, Gose gave an overview of the election results, and Donovan offered a legislative update. Each focused on the credit union impact.

With a new “working majority” in Congress, Mica said credit unions have a number of vital issues coming up.

“Some issues will be in our best interest, and some will

>> [See page 7](#)

NCUA Moves to 12-month Exam Schedule

The NCUA approved changes to its risk-based scheduling policy for credit union examinations. This will now be based on a 12-month cycle, instead of the current 18-month cycle.

The change is a response to current economic conditions, which the agency says warrant more frequent on-site reviews in order to identify and mitigate safety and soundness concerns at an earlier stage.

Earlier problem detection and earlier remedial action combined could potentially save the NCUA’s share insurance fund millions of dollars in addressing credit union problems, said NCUA Executive Director Len Skiles when he presented the plan for action at the Nov. 20 open board meeting.

Skiles acknowledged that implementation of the accelerated exam schedule will be challenging and there is a cost associated with it, but he added that otherwise he foresaw no downside to more frequent regulatory observations. Approximately \$6.84 million has been budgeted for the program in 2009.

The program authorizes 56 new positions, including 50 examiners, five supervisory examiners,



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CUNA’s PAC among the most bi-partisan contributors.



>> Governmental Affairs

CU HARP Would Help Homeowners

CUNA welcomed the NCUA's proposed innovation, unveiled last week, which is intended to help credit union members who are experiencing mortgage-related financial difficulties to preserve their homeownership.

Called the CU Homeowners Affordability Relief Program—or CU HARP, the plan would allow the NCUA, through its Central Liquidity Facility (CLF), to work with credit unions and their members to temporarily lower monthly mortgage payments.

In addition to NCUA board approval, the agency said CU HARP must also receive sign off by the U.S Treasury Department and the Federal Reserve Board.

According to the NCUA, the CLF would provide credit unions with funds, borrowed from Treasury, at lower rates than available through private sources. In turn, credit unions would

pass the entire rate reduction to struggling low- and moderate-income borrowers.

The credit union, in exchange for the reduced likelihood of borrower default on the mortgage, would also match the rate break, doubling the benefit to struggling homeowners.

The NCUA says CU HARP will be administered at no cost to taxpayers: CLF loans are made to credit unions on a fully secured basis, and all advances received by the CLF will be repaid to the Treasury's Federal Financing Bank, with interest. The program would receive initial funding of \$2 billion.

A credit union would have the option of setting the period of the rate break, from three to five years, and would be able to create a 40-year maturity and/or reduce the principal balance to increase mortgage affordability, said the agency. 🏠

Trades Suggest 'Capital' Strategy

Out of agreement that the current system of capital standards for credit unions needs reform—compounded by the current economic crisis—CUNA and the National Association of Federal CUs (NAFCU) issued a joint statement declaring they will work together “for change in capital standards applicable to credit unions.”

NCUA Board Chairman Michael Fryzel asked both trade groups to determine between them one method to pursue in addressing credit union capital—risk-based (PCA reform), or supplemental capital. The joint statement, in response to Fryzel's request, was sent to him on Nov. 13.

In the statement, the two trade associations acknowledge they have different areas of emphasis on the issue of capital standards. However, they note two objectives they share:

▶ A system based primarily on risk-based capital standards; and

▶ Support for a system giving credit unions access to supplemental capital—in addition to retained earnings, now the only source of capital for most. 🏠

 **Joint Statement**
cuna.org/download/cuna_nafcu_stmt111308.pdf

▶ A Quick Look at CU Rescue Options

Relatively speaking, most U.S. credit unions are in very good shape, with strong net worth and low delinquencies in comparison with other financial institutions. That said, it's always good to have options.

U.S. Treasury Department's Troubled Asset Relief Program (TARP)

Originally designed to purchase distressed mortgage-backed assets, program lately focuses on direct capital investment into struggling financial institutions, thereby excluding credit unions

CUNA Position: Should not be tapped directly by credit unions, but stand as a back-up for credit union programs and systems, if needed.

NCUA's proposed CU Homeowners Affordability Relief Program (CU HARP)

Plan would allow the NCUA, through its Central Liquidity Facility, to work with credit unions and their members to temporarily lower monthly mortgage payments. NCUA board, Treasury and Fed must approve.

CUNA Position: A good, first step. CUNA believes more can also be done for credit unions themselves, by credit unions with their own resources.

CUNA proposed "CU Shadow TARP"

Proposal would use funds from the NCUSIF to purchase troubled securities from and inject money into credit unions to shore up capital, if needed.

CUNA Position: Best of all proposals. Maintains long tradition of credit unions “taking care of our own.”

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NCUA OKs Changes to Underserved, Net Worth, and Low-Income Rules

The NCUA board had a full plate of agenda items at its Nov. 19 meeting. In addition to consideration of a new examination cycle and budget issues (see stories in this issue of *NewsWatch*), the federal regulators also made changes to the criteria for approving credit union service to underserved areas, as well as to definitions of post-merger net worth and low-income designation.

Service to Underserved Areas

The NCUA's final rule was an improvement over its proposal, but CUNA believes the rule is still unnecessarily complex and will seek further changes.

The final rule dropped a proposed requirement that "underserved area" applicants file a supporting letter. It changes the economic distress criteria for determining if a community is an investment area so that it is more compatible with the criteria used by the Community Development Financial Institutions (CDFI) Fund. And it eases a burden that would have required a one-page narrative statement that describes the "significant unmet needs" for loans or other financial services in a proposed area.

The rule continues to "grandfather" credit unions that are approved to serve "underserved areas," but does not grandfather the underserved areas themselves.

However, applicants do not have to demonstrate that the area is distressed if no new decennial Census data has been published since the area was last approved as "underserved."

Definition of Post-Merger Net Worth

This final rule expands the prompt corrective action (PCA) definition of a natural person credit union's "net worth" to include as capital the retained earnings

of a credit union that is merging into it and to make consistent changes for corporate credit unions.

The change applies to other combinations as well, such as purchase and assumption transactions. However, the change will only apply to measuring capital under PCA and will not apply for other financial reporting purposes.

The new rule covers credit union mergers taking place after Dec. 31. NCUA staff noted that the Call Report will be amended to collect data on these mergers and will provide instructions on the reporting of retained earnings.

Low-Income Definition

The NCUA's new definition of "low-income" credit unions uses median family income (MFI) instead of median household income (MHI) to determine if a credit union can classify as low-income.

The 2006 Member Service Assessment Pilot Program (MSAP) recommended that the formula for determining whether a federal credit union qualifies as low-income be reassessed. The NCUA Outreach Task Force agreed with the MSAP that the standard for low-income designation be changed from MHI to MFI, consistent with the practice of other federal agencies.

For a metropolitan area, the final rule will define low-income members as those living in an area that is at or below 80% of the greater of either the standard for the whole metropolitan area or the national standard.

Similarly, for those not within a metropolitan area, the rule will include low-income members living in an area in which the standard is at or below 80% of the greater of either the state-wide non-metropolitan area standard

or the national non-metropolitan area standard. 

 **NCUA website**
www.ncua.gov

NCUA Moves to 12-month Exam Schedule

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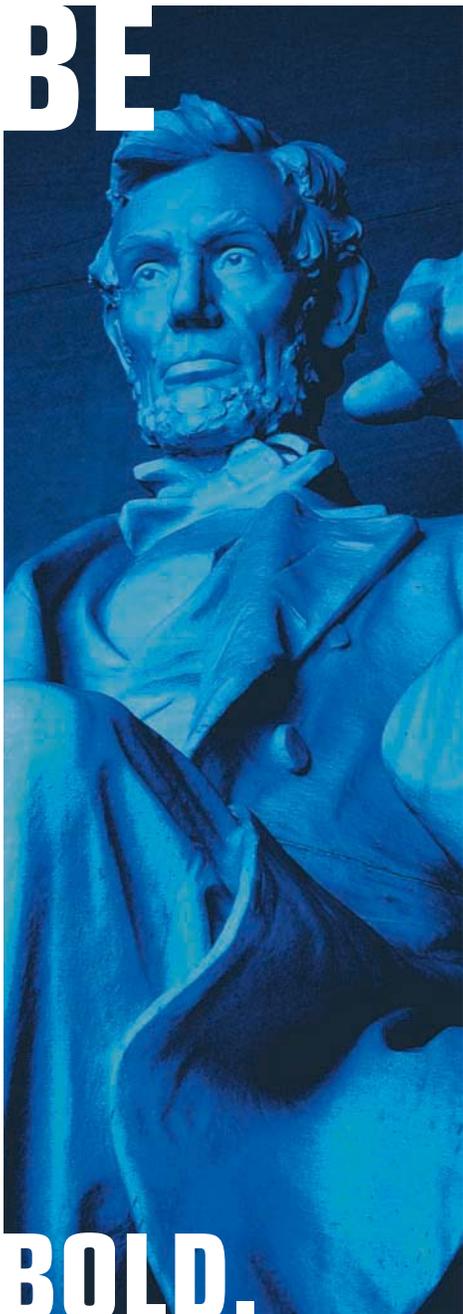
and one human resource specialist. The hirings will occur throughout the year; therefore the NCUA equates the hiring to 45 new full-time equivalent (FTE) positions.

NCUA board member Gigi Hyland questioned the necessity of filling even the 45 FTE positions, but also noted that the number was lower than the 100 examiner-hires originally proposed under the plan. She added that hiring a limited number of new examiners would help mitigate future NCUA staff retirements.

Hyland suggested that NCUA staff carefully coordinate with state credit union supervisory agencies on examinations, in part because the budgets of many state supervisory agencies have been set in advance and may not include funding for expanded examinations or additional examiners.

The focus of the accelerated risk-based examination policy will first be on states where market dislocations are the greatest.

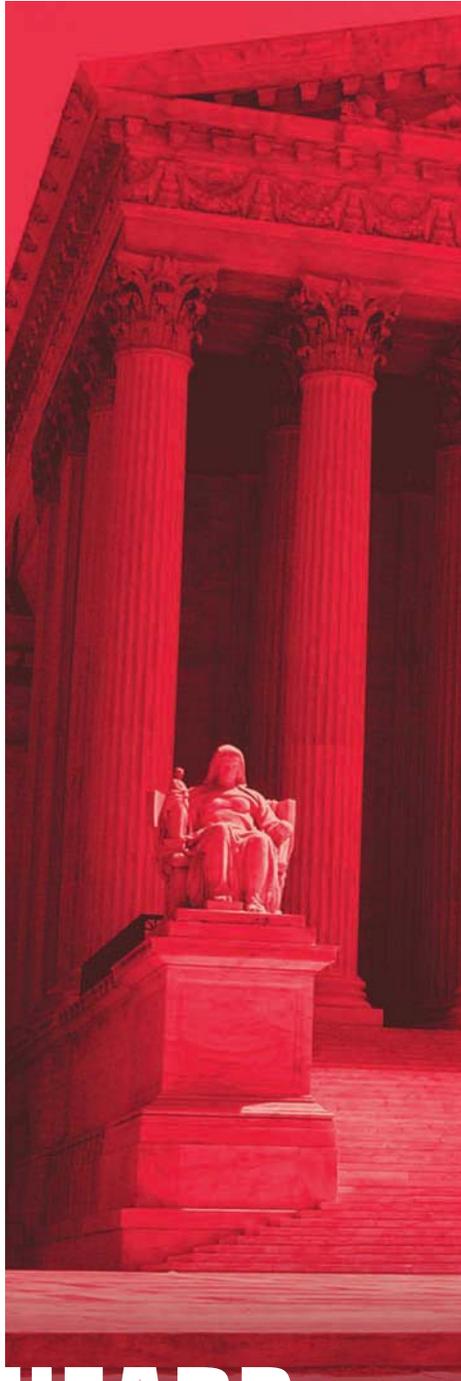
Under the approved rule, agency staff will present a written evaluation of and briefing on the 12-month program at the October 2009 NCUA open board meeting.



The **2009 CUNA GAC** is your time to step up, tell your story, and make a difference. This event also gives you the opportunity to hear from influential Washington policy makers and network with peers.



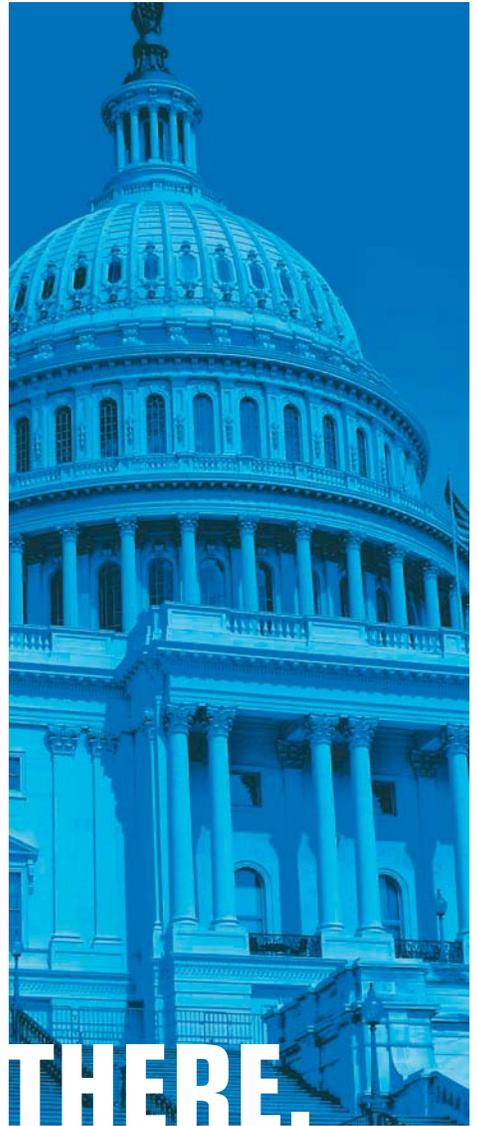
Register at gac.cuna.org



HEARD. Uncertainty in the financial industry requires you to be vocal about what credit unions offer. In a year that will see a new Congress and Administration, the GAC is your opportunity to visit Capitol Hill and ensure lawmakers understand our tradition of people helping people.

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

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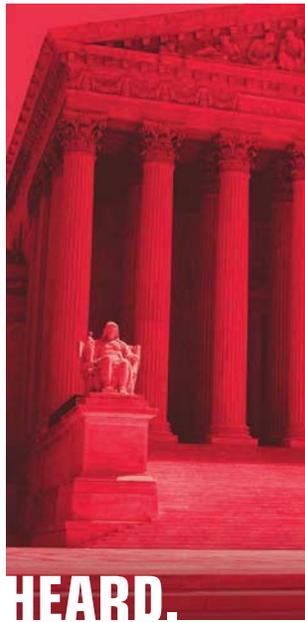
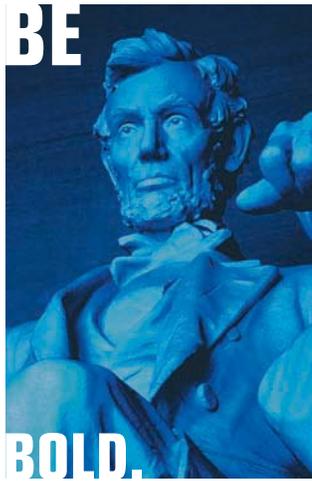


THERE. The greater the number of attendees, the bigger the impact you can make on the Hill. And this year's conference promises to be extra special, as we celebrate 100 years of America's credit unions and the 75th anniversary of CUNA and the Federal Credit Union Act.



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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

(more coming soon!)



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.



"In response to the housing and credit crises that has gripped our nation, we know policy makers will be giving close scrutiny to the regulatory scheme and structure that governs the financial sector. At such a critically important juncture, it is essential that we make our voices heard. The GAC—where we bring together thousands of credit union representatives—presents a unique opportunity to have a powerful and lasting impact."

CUNA President and CEO Dan Mica

HOUSING INFORMATION

Make your lodging reservations by visiting gac.cuna.org and click on housing. This link will take you to the Housing Bureau, where you can choose from 13 comfortable hotels near the convention center. Shuttle service is provided Sunday through Thursday for each of these official conference hotels.



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>> Regulatory Affairs

NCUA Approves 12.1% Increase for 2009 Budget

The NCUA Board during its November meeting set the agency's 2009 budget at \$177.86 million—a 12.1% increase from the 2008 level, but about \$5 million less than the agency said it would need at its annual budget briefing last month.

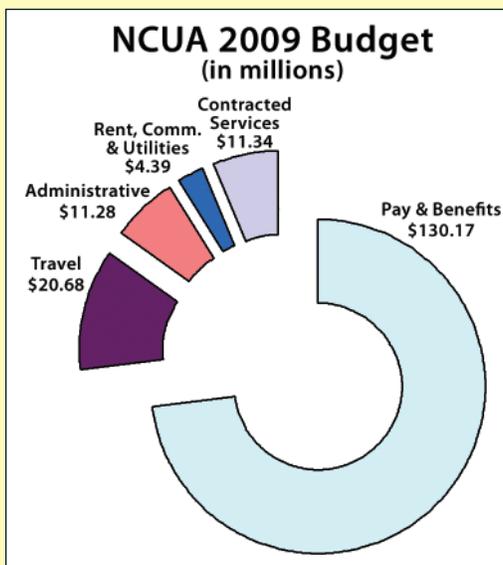
The shift in part reflects a significant downward revision in the number of new examiners the agency thinks it will need. However, 2009's travel budget increased by 34%, which NCUA staff partially attributed to its recently accelerated risk-based examination cycle.

For fiscal year 2010, NCUA approved a tentative budget of \$189.97 million—a 6.8% increase over the requested amount for 2009.

CUNA's Examination and Supervision Subcommittee will continue to monitor the agency's budget, especially given the current economic crisis, according to CUNA Deputy General Counsel Mary Dunn.

Operating Fee Scale

The NCUA Board yesterday also approved an increase in the 2009 operating fee scale, which the agency uses to determine the operating fee assessed to federal credit unions. The changes increase the operating fee scale by 6.77%.



The operating fees for federal credit unions, which will be assessed based on assets as of Dec. 31, 2008, will be due to NCUA no later than April 15, 2009.

Overhead Transfer Rate

The NCUA board increased the Overhead Transfer Rate (OTR) from the current 52% to 53.8% for 2009.

Under the Federal Credit Union Act, NCUA may transfer funds from the National Credit Union Share Insurance Fund (NCUSIF) to fund administrative

and other expenses related to federal share insurance. NCUA uses the OTR to allocate those expenses.

According to the agency, the 2009 OTR reflects the results of its most recent examiner survey that it says indicates examiners are spending a larger amount of their time on insurance related issues—such as financial analysis, evaluating risks, and assessing efforts to protect earnings and net worth.

NCUA staff indicated that the OTR increase attributable to insurance related issues is a trend likely to continue.

NCUSIF Report

NCUA staff reported that NCUSIF's equity level is now at 1.27% and is expected to be at that level at the end of this year—precluding the possibility of a NCUSIF dividend to federally insured credit unions.

Agency staff noted that its 1.27% estimate is .01% below October's projection.

There are currently 246 CAMEL 4 and 5 credit unions, up from 211 at the end of last year. The total insurance loss expense for 2008 is estimated to be approximately \$176.5 million. ☝

 **CUNA Regulatory Affairs**
cuna.org/reg_advocacy

BSA Reorganization Intends to Make Rules User-Friendly

Credit unions and other interested parties have until March 19 to comment on a Financial Crimes Enforcement Network (FinCEN) plan to reorganize Bank Secrecy Act (BSA) information to make it more user friendly.

Under the new plan, FinCEN would move BSA regulations to a new chapter in the Code of Federal Regulations (CFR). That chapter would then be organized by financial industry, according to a document published in the Nov. 7 *Federal Register*.

The reorganization is intended to make BSA regulations "more easily identifiable by a particular regulated industry,"

FinCEN said recently of its restructuring idea.

Additionally, FinCEN is proposing to divide the regulations relating to currency transaction reporting (CTR) into separately numbered sections.

"Interested parties will be able to identify specific CTR requirements, including those relating to filing reports, identification, aggregation, and structured transactions, more readily as they have been grouped together, rather than throughout the subpart or in several subparagraphs within a section," the FinCEN document noted.

On another BSA topic important to

credit unions, here's a reminder. By the first of next year, the agency will require all electronic BSA filing to be executed through its new, more secure BSA Electronic Filing program. FinCEN has announced that it will retire its current BSA Magnetic Media Filing Program in favor of the new system.

Use the resource link below to register to use BSA E-Filing. ☝

 **Transfer and Reorganization of Bank Secrecy Act Regulations; Proposed Rule**
<http://edocket.access.gpo.gov/2008/E8-25550.htm>

BSA e-Filing System
http://bsaeifiling.fincen.treas.gov/Why_use_BSA.html



>> Political Affairs

A Glimpse of CU Agenda

▶ From page 1

not,” he explained. “We will need to be even more nimble to move from one end of the spectrum to the other.”

The group discussed the opportunities and challenges ahead for credit unions—including secondary capital, prompt corrective action reform,

member business lending, protecting credit unions’ regulatory structure and insurance fund, and leveraging the “white hat” image to help members and the country.

Mica provided a glimpse of CUNA’s approach to these issues in the 111th

Congress.

Affiliated credit unions can access the one-hour archived webinar on CUNA’s website. 📺

📺 **Archived Nov. 19 webinar**
http://training.cuna.org/elearning/webinar/EW11198_nfo.html

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- ▶ Next up on this morning's NCUA Board agenda: Criteria to approve service to underserved areas. **8 minutes ago**
- ▶ NCUA's low income definition to use median family income. Says it hopes to encourage participation by making rule easier to understand. **9 minutes ago**
- ▶ Next up on NCUA Board agenda: Low income definition. **15 minutes ago**
- ▶ Definition of natural person CU's net worth to include retained earnings of merging CU as capital. **15 minutes ago**
- ▶ NCUA Board approves Overhead Transfer Rate of 53.8% for 2009. **34 minutes ago**
- ▶ more...

Top 20 Political Action Committee (PAC) Contributors to Federal Candidates, 2007-2008*

PAC Name	Total Amount	Dem Pct	Repub Pct
National Assn of Realtors	\$3,122,000	57%	43%
Intl Brotherhood of Electrical Workers	\$2,666,300	98%	2%
American Bankers Assn	\$2,631,850	40%	60%
Operating Engineers Union	\$2,612,957	86%	14%
National Beer Wholesalers Assn	\$2,426,500	53%	47%
AT&T Inc	\$2,415,200	41%	59%
Air Line Pilots Assn	\$2,309,500	85%	15%
National Auto Dealers Assn	\$2,280,000	34%	66%
American Assn for Justice	\$2,277,500	95%	5%
International Assn of Fire Fighters	\$2,149,900	76%	24%
Machinists/Aerospace Workers Union	\$1,964,300	96%	3%
Laborers Union	\$1,943,500	92%	8%
National Air Traffic Controllers Assn	\$1,934,975	79%	21%
Credit Union National Assn	\$1,914,049	52%	48%
Sheet Metal Workers Union	\$1,911,360	96%	3%
Plumbers/Pipefitters Union	\$1,855,925	94%	6%
Service Employees International Union	\$1,839,700	94%	6%
Honeywell International	\$1,815,616	53%	47%
American Dental Assn	\$1,805,612	53%	47%
United Auto Workers	\$1,802,450	99%	1%

Totals include subsidiaries and affiliated PACs, if any.

*For ease of identification, the names used in this section are those of the organization connected with the PAC, rather than the official PAC name. For example, the “Coca-Cola Company Nonpartisan Committee for Good Government” is simply listed as “Coca-Cola Co.”

Based on data released by the FEC on October 27, 2008. SOURCE: Center for Responsive Politics.

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>> Compliance

New RESPA Rules Effective Jan. 16

CUNA is executing a thorough review of the U.S. Department of Housing and Urban Development's (HUD) new final rules implementing its overhaul of Real Estate Settlement Procedures Act (RESPA) provisions.

The changes were years in the making and are meant to simplify and improve disclosure requirements for mortgage settlement costs. CUNA's initial assessment of the revisions shows a few beneficial changes in the final from an earlier proposal, which will be good news to credit unions.

One idea dropped from the final is a cumbersome requirement that would have made settlement agents read a "closing script" of disclosures to a borrower at the closing table.

CUNA strongly opposed this provision for a number of reasons, including the presumption that all individuals would prefer to receive the information in this manner.

CUNA also was concerned that some might be insulted by a process in which information is read to them, with the possible implication that they are incapable of reading it for themselves.

Other good changes supported by CUNA:

The final rule adopted a longer, 30-day period for lenders and settlement service providers to correct potential RESPA violations.

The Good Faith Estimate (GFE) is now three pages. This is only a slight improvement to the proposed four

pages, which CUNA warned would be confusing to borrowers.

Lenders will not be required to use the new GFE until Jan. 1, 2010.

In announcing the final changes, HUD Secretary Steve Preston said that changes in the housing market and increases in home foreclosures demanded this action, which represents the first changes to the rules in 30 years.

HUD received approximately 12,000 comment letters following the proposal of the new RESPA rule.

CUNA will soon be issuing a final rule analysis on the RESPA changes. 🏠

Federal Register Document
<http://edocket.access.gpo.gov/2008/pdf/E8-27070.pdf>
HUD RESPA Announcement
<http://www.hud.gov/news/release.cfm?content=pr08-175.cfm>

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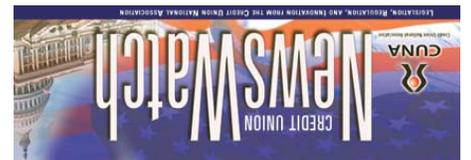
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FIRST CLASS TIME SENSITIVE MATERIAL

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