



Federal financial regulators wait for the start of the June 7 House Financial Services Subcommittee hearing on credit card protection for consumers. From left, Federal Reserve Board Governor Frederic Mishkin; Comptroller of the Currency John Dugan; FDIC Chairman Sheila Bair; Office of Thrift Supervision Director John Reich; NCUA Chairman JoAnn Johnson; and New York State Banking Department Superintendent Richard Neiman, on behalf of the Conference of State Banking Supervisors. (CUNA photo)

## Johnson: CUs Protect Credit Card Users

NCUA Chairman JoAnn Johnson testified last week at a House subcommittee investigation into credit card practices that her agency and the credit union community are protecting consumers while offering innovative credit card products and services.

Johnson said credit unions look forward to working toward further improvements in the area of disclosures to credit card users, as proposed by the Federal Reserve Board, but added it is her agency's view that credit unions offer credit

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## GAO: CUs No Threat to Bank Profits

An independent study by the investigative arm of Congress, the Government Accountability Office (GAO), confirmed what CUNA has long argued: Banks are not harmed by credit unions, despite the banking industry's constant carping.

The study includes data showing net income has increased at banks an average of 7% for the last 10 years, when adjusted for inflation. During the same period, and using the same parameters, the study showed credit union net income increased only 3% annually. The report was requested in 2006 by Bernard Sanders, at the time an Independent member of the House representing Vermont, who is now a Senator from that state. (See related sidebar)

"This study pounds a big dent into the bankers' persistent and loud argument to Congress that banks are suffering at the hands of credit unions," said CUNA President/CEO Dan Mica.

The GAO analysis also noted that return-on-assets at banks—called the "basic yardstick for measuring bank profitability" by the Federal Deposit Insurance Corp. (FDIC)—has largely grown every year since 1993. During the same period, ROA at credit unions remained flat or declined. The GAO study shows that, at year-end 2006, ROA was 1.27% for banks, 0.96% for thrifts—and 0.81% for credit unions.

The GAO also looked

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# >> Legislative Affairs

## CURIA Co-Sponsors Just Shy of 100

Six more added their names in support of the Credit Union Regulatory Improvements Act (CURIA, H.R. 1537) last week: Reps. Dennis Kucinich (D-Ohio), Robert Brady (D-Pa.), James Walsh (R-N.Y.), Timothy Bishop (D-N.Y.), Darrell Issa (R-Calif.), and Peter Roskam (R-Ill.).



John Magill

That addition to the official co-sponsor list brings the total number of backers to 98. “Two years ago, it took until October to hit the century mark on the co-sponsor list,” said John Magill, CUNA senior vice president of legislative affairs. “We expect the bill to meet and surpass that level within the next week—marking 100 official supporters in just three months.”

“CURIA’s quick rise in the 110th Congress shows that more lawmakers are starting to understand that this is legislation that helps real people by allowing credit unions to better serve the financial needs of their members,” Magill added.

The 2007 CURIA bill was introduced in March by its authors Reps. Paul Kanjorski (D-Pa.) and Ed Royce (R-Calif.), who added two key provisions to their 2006 version: One addressing field of membership rules, the other establishing additional consumer safeguards in the event of a credit union conversion to another form of financial institution.

Learn more about CURIA on CUNA’s website. 📌

📌 **CURIA, H.R. 1537**  
[www.cuna.org/initiatives/member/curia.html](http://www.cuna.org/initiatives/member/curia.html)

## ▶ Lawmakers, Regulators Talk Preparedness

Hurricane season, considered June 1 to Nov. 30 for Atlantic, Caribbean, and Gulf of Mexico regions, has begun and credit unions are being reminded to have their disaster plans in good shape at all times.

Since Hurricane Katrina, the NCUA has issued a series of letters of guidance on contingency plans for catastrophes that could range from natural disaster to an influenza pandemic. Also, CUNA has extensive resources available to its members via its website.

Most recently at the NCUA, to mark National Hurricane Preparedness Week, Vice Chairman Rodney Hood met with U.S. Rep. Spencer Bachus (R-Ala.), the ranking Republican member of the House Financial Services Committee to outline NCUA plans.

Hood noted his agency’s improvement of contingency processes for information reporting and communication, as well as various updates to examination processes.

Specifically he noted a recent NCUA proposal regarding credit union record retention and a letter to credit unions encouraging participation in the Treasury Department’s Go Direct program for direct deposits.

“NCUA is taking proactive measures to maintain the safety and soundness of the credit union system and protect the financial well being of members in the event” of a disaster, Hood told the congressman.

📌 **CU Disaster Preparedness Resources**  
[www.cuna.org/initiatives/disaster\\_prepare](http://www.cuna.org/initiatives/disaster_prepare)

## Johnson: CUs Protect Credit Card Users

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cards “in a sound and beneficial manner.”

“Federal credit unions are subject to a regulatory framework containing significant consumer protections for lending transactions,” Johnson said, “In addition to Regulation Z, federal credit unions must comply with lending requirements established by the Federal Credit Union Act and NCUA’s lending regulations.” She noted that includes an 18% interest rate cap on all lending, a cap that has remained constant since May 1987 despite NCUA authority to make adjustments every 18 months from a statutory 15%.

The hearing was the second and likely final of a series by the House Financial Services subcommittee on financial institutions and consumer credit. Witnesses included consumer advocates, credit card representatives, and state and federal bank and thrift regulators. That included Federal Reserve Board Governor Frederic Mishkin, who attracted much of the attention of the congressional panel because of his agency’s proposed

changes to its Regulation Z, intended to improve disclosures to consumers with revolving credit, such as credit cards.

The ranking Republican member of the House Financial Services Committee, Rep. Spencer Bachus of Alabama, said in a hearing statement that he is not convinced the Fed’s proposal “does enough to stop abusive credit card practices,” a sentiment echoed by other subcommittee members. 📌

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**AS OF 6/8/07**



# >> Regulatory Affairs

## Feds Issue Nontraditional Loan Illustrations

Federal credit union, bank, and thrift regulatory agencies have issued their final illustrations of consumer information intended to help borrowers make sense of nontraditional mortgage products.

The illustrations supplement interagency guidance issued last October, which discusses prudent underwriting and risk management practices for the nontraditional mortgage loans that allow borrowers to do such things as to defer repayment of principal and sometimes interest.

The illustrations are comprised of:

- ▶ A narrative explanation of nontraditional mortgage products;
- ▶ A chart comparing interest-only and payment option adjustable rate mortgages (ARMs) to a traditional fixed-rate loan; and
- ▶ A table that could be included with monthly statements for a payment option ARM showing the impact of various payment options on the loan balance.

Institutions are not required to use the illustrations. They may choose to use either the illustrations, provide information based on the illustrations, or provide the

consumer information described in the guidance in an alternate format.

The NCUA and federal bank and thrift regulators, making up the Federal Financial Examination Council (FFIEC), issued the nontraditional loan guidelines last year because of concerns that some borrowers may not fully understand the risks of those products that allow borrowers to exchange lower payments during an initial period for higher payments later.

**Regulatory Advocacy**  
[www.cuna.org/reg\\_advocacy](http://www.cuna.org/reg_advocacy)

## Steps Can Cut SARs Frustrations

Take heart credit unions, writes CUNA Federal Compliance Counsel Nichole Seabron in CUNA's *CU Magazine*. As certain as it is that kinks still need to be worked out of the Suspicious Activity Report (SAR) filing system, it is just as certain that there are steps a credit union can take to diminish frustrations.

Credit union doubts about the value of the filing process should be eased by two Financial Crimes Enforcement Network (FinCEN) reports detailing the benefit of SAR filings to law enforcement officials, Seabron says in her June article called "SAR Filers, Take Heart." SARs are used, in particular, in the country's efforts to battle money laundering and terrorist financing schemes.

However, though valuable, Seabron notes, suspicious activity reporting is clearly an "imperfect process." She says that a frequent credit union complaint involves recurring SAR filings or law enforcement failing to investigate filings.

CUNA advises these credit unions to add a step to their filing process as a way to combat frustration: Contact local law enforcement directly, in addition to filing the SAR, to expedite investigation.

"Get to know your law enforcement officials and how they handle (Bank Secrecy Act) investigations," Seabron writes. She notes that several leagues and credit unions are involved in roundtables that put them in touch with local law enforcement, providing valuable information and contacts.

**CUNA's eGuide to Federal Compliance**  
[www.cuna.org/compliance](http://www.cuna.org/compliance)

## ▶ 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:

- ▶ **Member Inspection of FCU Books, Records and Minutes**  
Agency: NCUA  
Due date: June 22
- ▶ **Disclosure of Merger Related Compensation Arrangements**  
Agency: NCUA  
Due date: June 22
- ▶ **Electronic Disclosures for Regulations Z, B, E, DD and M**  
Agency: Federal Reserve Board  
Due date: June 29
- ▶ **Changes to Federal Credit Union Bylaws**  
Agency: NCUA  
Due date: Aug. 6

**Comment Calls**  
[www.cuna.org/reg\\_advocacy](http://www.cuna.org/reg_advocacy)

## Bylaw, Conversion Manual Comments Sought

Proposed changes to NCUA's approach to enforcing federal credit union bylaws appeared in the *Federal Register*, establishing Aug. 6 as the last day of a 60-day comment period.

Also published and sharing the comment period is the agency's plan to amend its chartering and field of membership manual. Both proposals were approved for comment at the NCUA open board meeting May 24.

The NCUA has proposed to reverse an action taken in the 1980s, intended to provide some regulatory relief to federal credit unions, and reincorporate their bylaws into agency regulations. That action would reassert that the NCUA has discretion to use a range of administrative remedies when a federal credit union is not in compliance with its bylaws, and could give the agency more clout in bylaw disputes that threaten what the board referred to as

members' "fundamental rights."

Regarding the chartering manual, the NCUA's proposal would, in part, retain the current process allowing reduced documentation for single political jurisdictions and would add a new process for community charter approvals for multiple jurisdictions using a standard statistical definition of a "well-defined local community."

Visit CUNA's website for more information.

**Regulatory Comment Calls**  
[www.cuna.org/reg\\_advocacy](http://www.cuna.org/reg_advocacy)



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*"..Big banks are right about one thing: there is not a level playing field, but the big banks seem to have the advantage."*

—U.S. Sen. Bernard Sanders (I-Vt.)

## Senator: GAO Report Debunks Bankers' CU Complaints

It is time for Congress to turn a deaf ear to "the pleas of big banks to undermine credit unions," according to the federal lawmakers who requested the recent Government Accountability Office (GAO) study of how the banking and thrift industries have benefited from tax breaks.

"GAO: Uncle Sam Favors Banks Over Credit Unions," was the headline of a press release from Sen. Bernard Sanders' (I-Vt.) on his assessment of the government investigation.

Sanders noted that credit unions have helped millions of members with lower fees and reduced interest rates.

"Instead of questioning the tax-exempt status of credit unions...the American public would be much better served if Congress took a serious look at the escalating fees, economic concentration, and CEO compensation packages that big banks are receiving," Sanders wrote.

He added: "As documented by the GAO, big banks are right about one thing: there is not a level playing field, but the big banks seem to have the advantage. I hope that Congress will listen to the evidence in this report and finally ignore the pleas of big banks to undermine credit unions." ■

## GAO: CUs No Threat to Bank Profits

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into bank tax breaks, and findings included: 31% of all banks paid no corporate income taxes at all by becoming Subchapter S corporations; some banks have evaded millions of dollars in U.S. taxes by setting-up illegal tax shelters; and the taxpayer cost for bailing out savings and loans in the 1980s has mushroomed to more than \$200 billion in today's dollars.

"Banks have a distinct advantage, and they are well aware of it," Mica said, and called on Congress to turn a deaf ear to their empty protests against the CU Regulatory Improvements Act, a bill to help credit unions better serve their members.

"Their complaints—and opposition to CURIA—are rooted in their fundamental zeal to drive out other providers in the financial services industry."

## For-Profits Earned \$36 Billion in First Quarter

Commercial banks and savings institutions insured by the Federal Deposit Insurance Corp. (FDIC) reported net income of \$36 billion in the first quarter of 2007—the fourth-highest ever reported by the industry.

In releasing the latest results, the FDIC said the profits were slightly below the \$36.9 billion earned in the first quarter of 2006. It cited the housing slump, unfavorable interest rate conditions, slower growth in the U.S. economy, and higher levels of problem loans as the main reasons why industry earnings were flat during the first quarter.

"It is clear that the operating environment is more challenging now than it has been in recent years," said FDIC Chairman Sheila C. Bair. "Key indicators of industry health—capital, earnings and asset quality—remain very strong by historical standards. However, current conditions underscore the importance of banks remaining vigilant and following sound risk-management practices, especially for lending."

## ▶ Banks Net Increased Tax Breaks

Almost \$900 million in tax breaks for Subchapter S entities, including banks, was swept along in a 2007 emergency war supplemental spending bill signed by President George W. Bush at the end of May.

While banks could enjoy much of the \$892 million price tag to taxpayers for Sub S tax relief, \$400 million would be specifically targeted to benefit sub S banks, according to John Hildreth, CUNA senior legislative representative.

Subchapter S entities already benefit from a number of breaks including an exemption from federal corporate income tax.

"The bankers really pushed for this relief tucked in the war spending bill—and got it. We can only ask if this will serve to dampen their aggressive lobbying to try to impose additional taxes on not-for-profit credit unions," Hildreth said.

"It is worse than unseemly that the banking industry successfully wins more tax breaks for itself while pursuing higher taxes for credit unions—a cost that falls directly on consumers who are the member-owners of the non-for-profit financial cooperatives," Hildreth added.

*"It is worse than unseemly that the banking industry successfully wins more tax breaks for itself while pursuing higher taxes for credit unions..."*

—CUNA Lobbyist John Hildreth

# >> Notes Bearing Interest

## ▶ The Front Burner

The most viewed News Now stories on [cuna.org](http://cuna.org) during May 2007 reveal the hottest issues for credit unions. Access the complete stories and register to receive daily credit union news headlines at [www.cuna.org/newsnow/top10](http://www.cuna.org/newsnow/top10).

**10 Elvis got a car loan from a CU**  
None other than Elvis Presley knew the value of a credit union.

**9 NCUA: Can a non-member inherit IRA insurance coverage?**  
Does a member's IRA continue to receive federal share insurance coverage after the account owner's death if a designated beneficiary who inherits the account is a non-member?

**8 Two former CEOs plead guilty in separate fraud cases**  
Two former credit union CEOs pleaded guilty in separate cases related to falsifying documents and fraud.

**7 House panel looks at SARs, CTRs usefulness**  
The House Financial Services oversight and investigations subcommittee scheduled a hearing on the balance between law enforcement utility and regulatory burden of Suspicious Activity Reports (SARs) and Currency Transaction Reports (CTRs).

**6 Robber killed by police at CU in Minnesota**  
West St. Paul police shot and killed an armed robber who was attempting to leave a Retail Employees CU branch with money shortly before it opened in the morning.

**5 Contactless cards wave of the future, are CUs ready?**  
Only 27 million contactless payment cards were in circulation in the U.S. in 2006, but that number is expected to balloon to 109 million by 2011, according to "Smart Cards in the U.S.: Contactless Payment Cards," a new Packaged Facts report.

**4 Today's boards are more likely to force out CEOs**  
If the trend set by corporate boards holds true for credit unions, credit union CEOs will be held more accountable for their performance, compared to 10 years ago.

**3 Reg Z changes inch closer**  
For two and a half years, the Federal Reserve Board has been studying credit card disclosures and now the agency has put the topic on the agenda for its scheduled meeting.

**2 Robbers pose as sheriffs, tie up CU employees**  
Two men who robbed a credit union posed as sheriff's deputies claiming they were to pick up a package left in the drop box. They said the package contained anthrax.

**1 Mica condemns Reich stance on CUs**  
That a bank regulator fails to grasp the public policy reasons behind the tax status of credit unions is surprising, but that he would act publicly to cheer bankers on in their attacks on the member-owned financial cooperatives is both disappointing and reckless, said CUNA President/CEO Dan Mica.

## Mica: Priority on CURIA Won't Change

"You don't have to be a genius to see the dramatic changes in Washington. Everything has turned into politics about the presidential election or Iraq. It's sucking the air out of Washington, but it doesn't change CUNA's priority—CURIA," vowed CUNA President/CEO Dan Mica, referring to the Credit Union Regulatory Improvements Act (H.R. 1537).

Mica spoke June 6 at the closing general session of America's Credit Union Conference & Expo in Las Vegas.

"CURIA has three things of importance to credit unions: prompt corrective action, member business loans and field of membership issues," he said.

Meanwhile, banks claim that credit unions are harming them on member business loans, but Mica quoted statistics from the bankers themselves about who their real competitors are: "50.7% say its commercial banks, and 43.2% say large banks are responsible, while credit unions account for only 1.9% of their competition."

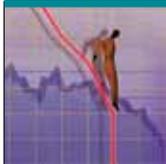
He pointed to a large chart with these figures and said, "It's time we take this chart to Congress and ask, 'Are the banks misleading you?'" He said CUNA is considering asking for a congressional inquiry into the "truth (of the statements) banks are putting out to Congress."

Credit unions "are the white hats, and we're the only thing that stands between Americans" and higher fees and interest rates. "We have a philosophy to help people—not just a bottom-line profit. We've set the benchmark at the low end for fees." He thanked credit unions for being "the heart and soul of the movement." ▲



CUNA President/CEO Dan Mica spoke about the Credit Union Regulatory Improvements Act (CURIA) at the closing session of America's Credit Union Conference & Expo in Las Vegas. (CUNA photo).

**Daily News from the ACUC&E**  
[www.creditunionmagazine.com/acuc\\_dailies.html](http://www.creditunionmagazine.com/acuc_dailies.html)



# >> The Marketplace

## CU Savings Balances Fell 0.5% in April

Credit union savings balances fell 0.5% in April 2007, according to CUNA's "Monthly Credit Union Estimates."

"April is normally the slowest month of the year for savings growth due to members withdrawing funds to pay their tax bills," said Steve Rick, CUNA senior economist. "We usually see a strong upward movement in May."

The April 2007 overview showed that year-to-date, savings growth was 3.5%, compared to 2.6% during the same period last year, bringing total savings to \$642 billion. Certificates and individual retirement accounts increased 1.0% and 0.5%, respectively, during April.

Regular shares (2.5%) and share drafts (2.0%) declined for the month. As loans outpaced savings growth, credit unions' average loans-to-savings ratio grew from

79% in March 2007 to 80% in April.

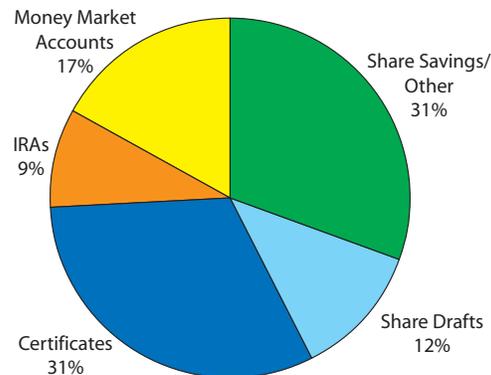
Also, the monthly sample of credit unions found that the dollar amount of loans outstanding increased 0.8% in April 2007.

"Traditionally, the fourth strongest month of the year for loan growth is April," Rick explained. "It is the beginning of the summer home-and-car buying season."

Year-to-date, loans outstanding grew 1.1%, compared to an increase of 1.8% during the same period last year. Other loans rose 4.4% during April, followed by other mortgages (2.4%), credit card loans (1.5%), fixed-rate first mortgages (1.4%), and unsecured personal loans (0.5%).

Adjustable-rate first mortgages, new auto loans, and used-auto loans declined

## Distribution of Credit Union Savings: April 2007



April 2007 Aggregate Savings Balance = \$642.2 billion

0.8%, 0.5%, and 0.1%, respectively.

Also, the average capital-to-asset ratio increased from 11.3% in March to 11.4% in April, and delinquencies increased to 0.7% in April. ▲

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