



## CU's on the Air

During taping of inaugural Home & Family Finance radio program, CUNA President/CEO Dan Mica, right, explains to host Paul Berry the stark differences between credit unions and banks. The weekly show is available nationally and first broadcast Sunday, Sept. 10. (CUNA photo)

Adding to the credit union movement's already substantial efforts to provide consumers with important financial education to improve their lives, CUNA has launched a weekly, national one-hour radio program. Devoted to a wide range of consumer finance issues—from teen budgeting to retirement savings—the broadcast series was launched Sunday (Sept. 10).

The program, *Home and Family Finance*, represents a major consumer education and brand awareness initiative for CUNA and for credit unions. The program will be introduced as “presented by America’s Credit Unions.” It will air Sundays at 3 p.m., ET, on the Radio America network. *Home and Family Finance* builds on the recognition established by CUNA’s credit union-member quarterly newsletter of the same name.

The show’s host is Paul Berry, who is known to credit unions as master of ceremonies of CUNA’s annual Governmental Affairs Conference and is a veteran broadcast journalist and former Washington, D.C.-area television news anchor with more than 30 years of experience.

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## Congress is Back: Where Stands Reg Relief?

Both Houses of Congress returned to session last week after a month-long Summer District Work Session. It is expected that one of the things that could be finalized during a compacted session before adjournment for the year is final passage of a financial institutions regulatory relief bill.

Dean Sagar, CUNA’s legislative affairs vice president, said it is quite likely that the House will step back from its broad-based bill and adopt the Senate’s much more modest approach with minor adjustments. This could happen very early in the current month-long session, he added.

House Financial Services Chairman Michael Oxley (R-Ohio) had, in fact expressed such plans back in May.

However, in early summer the House proposed that the Senate adopt a compromise package that included a major enhancement for the thrift industry—the elimination of a ceiling on business lending. CUNA, the leagues, credit unions and others successfully urged the Senate to reject the proffer arguing that it would disrupt the “the tenuous balance between federal thrift and credit union charters.”

Congress plans to adjourn for the year perhaps as early as Sept. 29. Sagar said there is always a chance

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## Reps Demand Transparency in Conversions



At an Aug. 24 press conference in downtown Washington, D.C., Leroy Proctor, vice chairman of the board at District (of Columbia) Government Employees FCU, listens to Rep. Eleanor Holmes Norton (D-D.C.) advocate for more disclosure in credit union conversions to banks. (CUNA photo)

A chorus of credit union members and co-op groups joined U.S. Rep. Eleanor Holmes Norton (D-D.C.) for an Aug. 24 press conference to demand greater transparency in a Washington-area credit union's bid to convert to a mutual savings bank.



Rep. Eleanor Holmes Norton

"Perhaps the best way to understand why we are here today is to focus on a close, commonly understood analogy: We are asking the ballots be distributed after the issues have been aired—not before," said Holmes Norton of Lafayette FCU's apparent process of balloting.

Lafayette is based in Kensington, Md., and serves a host of federal employees and District of Columbia residents. It announced its intention to convert to a mutual thrift in June.

Norton, who is a member of Wright Patman Congressional FCU, said she was "neutral" on the final outcome of Lafayette's conversion bid, and added, "I am never neutral, however, on the process when transparency and full disclosure involving

money is concerned, especially the money and ownership of D.C. residents and federal employees."

The press conference, held in downtown Washington, came after an Aug. 21 letter from Norton and Rep. Chris Van Hollen (D-Md.) to Lafayette FCU President/CEO Michael Hearne. The lawmakers asked Hearne and the credit union board to provide credit union members additional time and the "opportunity to better understand" the proposed conversion to a bank charter.

Norton said Hearne "indicated only a willingness to comply with minimum requirements necessary." The NCUA approved Lafayette's disclosure materials Aug. 22.

Tom Stienes, a member of Lafayette FCU and employee of USAID, said he would oppose the conversion because he believes members would pay more money for financial services if Lafayette converted to a bank.

Norton said the attempted conversion would spur action on the CU Regulatory Improvements Act (CURIA, H.R. 2317). The bill would change the number of credit union members necessary for a bank conversion to 20% of members—the previous standard before 1998. 🏠

**CUNA Principles on CU-to-Bank Conversions**  
[www.cuna.org/initiatives/conversion\\_principles.html](http://www.cuna.org/initiatives/conversion_principles.html)

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### Congress is Back: Where Stands Reg Relief?

lawmakers could schedule a lame duck session after November elections.

The Senate bill has four provisions of key interest to credit unions: One would allow check-cashing and money-transfer services to be offered to nonmembers within a credit union's field of membership.

Another would increase the current 12-year term limit on unsecured federal credit union loans to 15 years.

A third would provide clarification of the definition of net worth for purposes of credit union mergers.

A fourth would restore authority for the U.S. Military to charge a nominal fee, rather than fair market value, to credit unions leasing land on military bases.

The bill would also streamline the process of filing currency transaction reports and suspicious activity reports. It would also authorize the Federal Reserve to pay interest on sterile reserves maintained by credit unions and banks, and allow banks to pay interest on business checking accounts.

### CURIA Co-Sponsors Count



**CURIA (H.R. 2317)**  
[http://www.cuna.org/initiatives/member/curia\\_video.html](http://www.cuna.org/initiatives/member/curia_video.html)



# >> Regulatory Affairs

## Lee Williams Nominated to Fed Council



Lee Williams

President/CEO A. Lee Williams of Central Star CU in Wichita, Kan. was nominated last week by CUNA to become a member of the Consumer Advisory Council (CAC) of the Federal Reserve Board.

The CAC advises the Fed Board on its responsibilities under the Consumer

Credit Protection Act and on other matters in the area of consumer financial services.

Williams has been head of Central Star since 1997, and has held positions at the credit union for the past 18 years. Among other accomplishments, she has served on the chartering committee to establish Communities United Credit Union, Kansas' first community develop credit union serving a low-income neighborhood.

Williams has served as chairman of CUNA's state issues subcommittee and as a member of CUNA's Governmental Affairs Committee. As chairman of CUNA's Payday Lending Task Force, Williams testified before Congress in 2001 about credit union alternatives to payday lending. She also co-authored a comprehensive booklet—now in its third printing—highlighting alternatives to payday loans. ☝

## NCUA Conversion Rule Based on CU Principles

CUNA supports an NCUA proposed rule that aims to protect credit union members from exploitation in the event their institution's leadership decides to convert to a mutual savings bank.

The rule, says CUNA, is based on the right principles—that "credit unions are different from banks and that credit union members have rights that do not accrue to bank depositors." As a result, CUNA added, there are differences between the fiduciary duties of bank directors and credit union board members that should be and are reflected in the agency's proposal.

The Aug. 28 letter also suggested a number of changes to improve the agency's proposed rule. In part, CUNA said NCUA should: define "fiduciary duty" for officials within the context of the conversion rule; decide to enforce properly adopted federal credit unions' bylaws; and address the use of incentives in conversions in the body of the rule as well as in the agency guidance.

CUNA also argued that the rule should prohibit the improper use of incentives that may be offered to affect the outcome of a vote rather than to encourage participation in the voting process.

Boxed disclosures should be included with all written materials, and the boxed disclosures regarding potential profits by directors should be modified to parallel the disclosure on rates and to reflect actual experience, the CUNA letter said. ☝

## ▶ ROA: All in Perspective

The role that return on assets (ROA) plays in a credit union's effort to attain the highest CAMEL rating must be put in perspective, according to CUNA Chief Economist Bill Hampel. He added that a recent NCUA supervisory letter making it clear that it is not necessary to reach a 1% ROA to be rated as CAMEL 1 will be welcomed by many credit unions.

The NCUA letter clarified that its examiners are expected to evaluate each credit union's earnings level relative to net worth needs, financial and operational risk exposures, the current economic climate, and the institution's strategic plans.

ROA levels below 1% will be viewed favorably if they are the result of "a sound and well-executed strategy to balance risk exposure or incur costs to position the credit union to achieve longer-term growth and member-service objectives," the letter noted.

According to Hampel that last point is an important one in the current rate environment dominated by a flat yield curve. "Credit unions should now feel more confident in pursuing fee structuring strategies that will encourage membership and savings growth when and where appropriate," he said.

Ratio (% Average Assets)	As of 2000	As of 2005	Effect on ROA
Net Interest Margin	3.77%	3.24%	- 53bp
+ Fee & Other Income	0.94%	1.22%	+ 28bp
- Operating Expenses	3.39%	3.24%	+ 15bp
- PLLL	0.32%	0.40%	- 8bp
+ Non-Operating Income	0.01%	0.03%	+ 2bp
= ROA	1.01%	0.85%	- 16bp

SOURCE: NCUA

**CUNA Comment Letter**  
[http://www.cuna.org/reg\\_advocacy/comment\\_letters/comment\\_letters06.html](http://www.cuna.org/reg_advocacy/comment_letters/comment_letters06.html)

**NCUA letter to FCUs**  
[www.ncua.gov/letters/letters.html](http://www.ncua.gov/letters/letters.html)

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▶ SERVICES



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# >> Compliance Challenge

## Is Breach Notice Always Required?



Valerie Moss

In the busy world of a compliance officer, it is as important to know what is not required as it is to know what is. For instance, when must a federally insured credit union notify its regulator of a possible security breach involving sensitive member information?

CUNA's Valerie Moss, director of compliance information, advises that compliance staff can save themselves time and effort by knowing notice is not necessary every time a possible breach is identified.

According to an NCUA April opinion letter, agency rules on security programs do require credit unions to conduct a risk-based evaluation of every possible breach, Moss said, but does not demand notice of each one.

Once a credit union has assessed the scope and nature of an

incident, it must also evaluate the likelihood of harm to the member whose information has been affected. And that, says Moss, is the key to determining whether to follow up with official notice.

"Where an incident, even one involving sensitive member information, involves little or no likelihood of harm to the member, a credit union need not notify the NCUA," according to Moss. When notification is appropriate, Moss advises credit unions to contact the NCUA "as soon as possible."

She adds that although NCUA does not prescribe a specific form for the notice, it recommends that it be something that the credit union can document such as a letter, fax or email. 🏠

**CUNA Compliance**  
[www.cuna.org/compliance](http://www.cuna.org/compliance)

## BSA/AML Stay Hot Summer Topics

Bank Secrecy Act and anti-money laundering (BSA/AML) rules—perennial hot topics in the compliance world—received a lot of attention from federal financial regulators this summer.



The Federal Financial Institutions Examination Council (FFIEC), comprised of NCUA and the four other federal financial institutions regulators, last week announced two nationwide conference calls on the topic for September. That followed the agencies' joint release of an updated

BSA/AML compliance guide for credit unions, banks and thrifts.

Credit unions also got help from NCUA when its most recent monthly podcast included information on the new guide. And, the Office of Thrift Management had a recent call-in session during which participants heard about BSA/AML weaknesses and violations.

Upcoming is a CUNA BSA Conference in San Diego from Dec. 3 to 6, which will bring together compliance officers, examiners and regulators, and industry experts. It will also provide credit unions with an opportunity to have staff, through testing, be certified as having specialized BSA compliance expertise.

The conference will address:

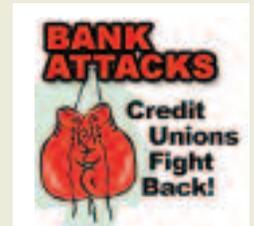
- ▶ Components of a compliance program;
- ▶ Latest news from the Financial Crimes Enforcement Network (FinCEN), OFAC, and NCUA;
- ▶ BSA compliance challenges for credit unions; and
- ▶ How to make credit union BSA compliance programs work, among other topics.

CUNA is presenting the program in partnership with the National Association of State Credit Union Supervisors. 🏠

**BSA Conference**  
[http://training.cuna.org/on\\_site/BSACA06\\_fct.html](http://training.cuna.org/on_site/BSACA06_fct.html)

## ▶ Banks Get Rich—But Want More

Commercial banks and savings institutions posted record profits for the second quarter of this year, in excess of \$38 billion, according to the Federal Deposit Insurance Corp. (FDIC).



CUNA President/CEO Dan Mica noted this is the fifth time in the last six quarters that the banking industry has posted all-time high quarterly profits. "Given that, how could anyone take seriously the bankers' carping about 'rapid growth' of credit unions, or 'aggressive business lending' by credit unions?"

Mica speculated that perhaps the banking industry is really saying that their profits are not "record enough," and credit unions stand in the way of them earning even greater amounts. "That would be a serious statement," Mica said.

According to the FDIC, the new quarterly profit record by banks is due to strong commercial and consumer loan demand, which sparked an increase in net interest income. That, in turn, the agency stated, outweighed the effects of rising interest rates and narrower spreads between short- and long-term interest rates.

FDIC also stated that the industry's second-quarter profits represent a 3.2% increase over the first quarter performance—which, in itself, was a record-setter at \$36.9 billion in profits—and a 10.9% improvement over the same period in 2005.

**BANK ATTACKS: CUs Fight Back!**  
[www.cuna.org/initiatives/bank\\_attack](http://www.cuna.org/initiatives/bank_attack)



# >> Notes Bearing Interest

## CU Mortgages, Economy Touted on National Radio

CUNA Chief Economist Bill Hampel was a frequent guest on Bloomberg Radio during August, where he discussed declining nationwide homes sales and spotlighted credit unions' Home Loan Payment Relief (HLPR) mortgages to lower-income, first-time homebuyers.

Hampel said first-time homebuyers have been especially squeezed the last two years, first by rising home prices, then a run up in mortgage rates. Asked about credit unions' response, Hampel cited the introduction last November of the HLPR mortgage.

With their emphasis on serving all working people, Hampel said credit unions "are coming together" to offer the

loan at a percentage point lower than the market rate to first-time homebuyers whose income is below the area median. "There are no gimmicks, no extra fees—it's a really good deal," he told Bloomberg.

Credit unions have committed more than \$1 billion to the program, he said, and have more than \$200 million in active loans. "There are quite a few applications and approvals, but members are still having trouble finding affordable homes—more evidence of the affordability issue facing first-time



Bill Hampel

homebuyers," Hampel noted.

However, Hampel told Bloomberg, the housing affordability index is "probably peaking," with home prices leveling off and mortgage rates seeming to be on the decline. "If rates come down a bit, affordability will improve slightly," Hampel said.

The CUNA economist reiterated his expectation that the economy is heading toward a soft landing rather than a recession, a point he made in a separate interview on Bloomberg Radio. 📍

**CU HLPR Mortgages**  
📍 [www.cuna.org/initiatives/hlpr](http://www.cuna.org/initiatives/hlpr)

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### CUNA Launches Weekly Consumer Finance Radio Show

Scheduled guests for the first show included CUNA President/CEO Dan Mica on why CUNA has launched this initiative; University of Wisconsin Professor Karen Goebel on disaster proofing important documents; Jeanne Hogarth, manager of consumer education at the Federal Reserve Board, on leasing vs. buying vehicles; and Jack Gillis, author and director of public affairs for the Consumer Federation of America, with auto buying tips in this period of high gas prices.

"A natural audience for this show is the nation's 88 million credit union members, but the

program will not be a promotional program about credit unions," explained Mark Wolff, CUNA SVP of Communications. "Rather, it will be devoted to giving consumers wide-ranging, objective information and advice on the personal finance issues that matter most in their daily lives."

CO-OP Financial Services is the national presenting sponsor. Accel, VISA and CUNA Strategic Services are national sponsors. 📍



HFFO Radio host Paul Berry discusses with consumer advocate Jack Gillis the pros and cons of buying or leasing an automobile. Berry also is emcee for CUNA's Governmental Affairs Conference. (CUNA photo)

**Radio Radio America**  
📍 <http://www.radioamerica.org/schedule.htm>

### ▶ Nominations Begin for CUNA Board

CUNA has received the first nomination from a candidate for a CUNA board seat. Six districts are having elections for eight director seats on the board and two league president seats.

John A. Graham, president/CEO of Kentucky Employees CU, Frankfort, Ky., has submitted his nomination for the District 2, Class A position on the board. He is the current incumbent.

The deadline for nominations and seconds is Oct. 13 for seats from:

- ▶ District 1, Class C;
- ▶ District 2, Class A;
- ▶ District 3, Class B;
- ▶ District 4, Class C;
- ▶ District 5, Class B and D; and
- ▶ District 6, Class A and D.

Two league president seats are open in Districts 5 and 6.

Voting will run between Oct. 18 and Dec. 18. Visit CUNA's website for more information about nominations.

**Nomination Instructions**  
📍 [www.cuna.org/cuna/boardelec.htm](http://www.cuna.org/cuna/boardelec.htm)

# >> Special Report

## Slower Loan, Savings Growth Strains CUs' Liquidity

Credit unions' year-to-date savings growth and loan growth both are down from last year, to 1.9% and 4.9% respectively, increasing the loan-to-savings ratio to 81.8%—the highest in more than 20 years.

"With loans slowing a bit and the slowdown in savings as well, this will make liquidity pressures more obvious," said Mike Schenk, CUNA vice president of economics and statistics.

"The fact that the loan-to-savings ratio continues to go up when we thought it would go down or at least flat-ten, will keep it on the radar screen for longer than we expected," he said.

July 2006 savings were \$607.7 billion compared with \$593.1 billion one year previous—a 3.2% year-to-date growth in 2005, according to CUNA's monthly credit union estimates for July.

Savings increased 0.9% in July from

we had a slowdown in loans and an increase in savings," Schenk said. That would mean consumers were returning to "normal" spending of about what they make instead of overspending.

For loans, year-to-date growth is 4.9%—down from 6.6% last year. July loans stand at \$497.3 billion, an increase of 0.9% from \$493 billion in June.

Compared with the \$456.7 billion level of last year, loans are up 8.9%.

The slip in savings also indicated a small decline in credit unions' market share. Yields on money market accounts and mutual funds from outside the depository arena are giving credit unions greater competition on rates, he said.

Credit union membership stood at 88.5 million in July with 8,826 credit unions. ■

**CUNA Economics and Statistics**  
[http://advice.cuna.org/econ/cu\\_stats.html](http://advice.cuna.org/econ/cu_stats.html)

Year-to-Date Growth			Year-to-Date Interest Rate Averages		
Period	Loans	Savings	Long-Term 10-Year Treasury	Short-Term Fed Funds Rate	Difference (Long - Short)
July-06	4.86%	1.90%	4.82%	4.68%	1.40%
July-05	6.55%	3.24%	4.29%	3.21%	1.08%
July-04	6.45%	5.11%	4.27%	1.35%	2.93%
July-03	4.58%	7.66%	4.02%	1.13%	2.89%
July-02	4.82%	7.17%	4.61%	1.67%	2.94%

Source: CUNA

\$613.1 billion. Savings growth is up 2.5% over last year.

"Up until these numbers came out, it seemed like

[www.cuna.org/initiatives/hpr](http://www.cuna.org/initiatives/hpr)

144 participating credit unions have committed more than \$1.1 billion.



RETURN SERVICE REQUESTED



Published 23 times per year by Credit Union National Association, Inc., 601 Pennsylvania Ave., NW, South Bldg., Suite 600, Washington, DC 20004  
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FIRST CLASS TIME SENSITIVE MATERIAL

SEPTEMBER 11, 2006



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