



Bob Hoel, executive director of the Filene Research Institute, explains various motivators behind credit union-to-bank conversions, according to a recent Filene study by Professor Jim Wilcox. Hoel spoke July 21 during the American Association of CU Leagues (AACUL) Summer Meeting in Seattle, Wash. For more on the study, SEE PAGE 7. (CUNA photo)

## CUNA: FOM Needs Legislative Fix

All credit unions should be allowed to provide financial services to areas of their communities that are left underserved by other financial institutions, and CUNA believes Congress should intervene in the field of membership (FOM) uncertainty created by a recent banker lawsuit.

Dean Sagar, vice president of legislative affairs, said CUNA is working with regulators and state leagues, as well as having discussions with lawmakers, about a possible statutory clarification of Congressional intent regarding FOM issues.

He said that a recent ruling by the NCUA to allow only multiple common-bond credit unions to expand into underserved communities—an action prompted by a banker lawsuit in Utah that challenged FOM expansion into underserved areas—could bar a lot of credit unions from

>> [See page 2](#)

## CUs Keep Heat on Reg Relief

Leading to the final days before Congress adjourns for an August break, credit union representatives continued their efforts to urge federal lawmakers to block the addition of a major thrift charter enhancement to a bare-bones financial regulatory relief bill.

CUNA and the state leagues urged credit unions to oppose legislative language that would remove the ceiling from thrift business lending. The grassroots response was a resounding 10,000 messages—mostly emails—sent to the House and Senate.

CUNA urged credit union action as soon as it became public that the House proposed the Senate adopt the provision in its regulatory relief legislation as part of a compromise between the House and Senate bills.

Calling the proposed compromise “unacceptable to credit unions,” CUNA wrote Senate leaders asking them to reject the initial House proffer because it would “severely damage the tenuous balance between federal thrift and credit union charters.”

CUNA’s legislative affairs team expects the House and Senate to continue informal discussions to resolve differences between their approaches to regulatory relief legislation soon after returning to session in September.

**Latest CU News from Washington**  
[www.cuna.org/newsnow](http://www.cuna.org/newsnow)

### Inside

#### 2 | Congress Takes August Recess

Lawmakers will return to a full plate on Sept. 4.

#### 3 | GAO Agrees to Study Bank, Thrift Tax Breaks

Study’s scope may extend completion date.

#### 6 | ‘Red Flags’ Go Up for ID Theft

Proposed guidelines could indicate an incidence of identity theft.

#### 7 | Special Report: Conversions

Report says direct stock conversion may protect members’ capital.



## Congress Will Return to Full Plate

The House was expected to adjourn at the end of business July 28 for the August District Work Session and the Senate is scheduled to follow on Aug. 4. Both bodies are slated to return to session on Sept. 4.

There is quite a long list of legislative items of interest to credit unions still pending action by the federal lawmakers. They include: **▶ Financial Institutions Regulatory Relief:** CURIA (H.R. 2317), with 123 co-sponsors, has not yet been assigned a hearing date. The House and Senate have both passed versions of regulatory relief for financial services providers, but have not yet determined what a final bill will look like. Credit unions have vehemently opposed the inclusion of unlimited thrift business lending, and CUNA expects informal negotiations to hammer out a compromise bill will resume soon after lawmakers return to Washington.

**▶ Data security:** Six committees between the House and the Senate have their own legislation, which raises questions if a consensus will be reached before the end of the session.

**▶ Adverse tax provisions:** CUNA continues to monitor many legislative fronts to assess potential threats to credit union tax status.

**▶ Treasury Appropriations bill:** (See related story) CUNA continues to advocate higher CDFI funding in appropriations bills passed by the House and the Senate Appropriations Committee.

**▶ SBA 7 (a) lending:** An amendment is expected to the Science, State, Justice and Commerce Appropriation bill to provide \$40 million in funding to help reduce fees to the 7a program.

CUNA is also monitoring a number of bills of interest to credit unions including one on funding for international cooperative grant programs—as well as pension reform and lobbying reform. 🏠

**CU Issues 2006: A-Z**  
[www.cuna.org/gov\\_affairs](http://www.cuna.org/gov_affairs)

▶ From page 1

## CUNA: FOM Needs Legislative Fix

reaching out to those underserved areas.

“The ruling could preclude approximately 3,000 federal credit unions with single group and community charters from being able to include eligible underserved areas in their memberships,” Sagar said. “It’s a situation we think Congress will certainly want to look at.”

When casting his dissenting vote on the FOM rule, NCUA Board Member Rodney Hood said, “I believe the (FOM) proposal as presently written benefits bank trade groups and their lawyers. The underserved remain just that—underserved.”

The ABA announced after the NCUA action that it was dismissing the Utah lawsuit against the agency, but underscored that it would do so “without prejudice” to leave open the possibility that the group could instigate another court action on the issue.

NCUA Chairman JoAnn Johnson and Board Member Gigi Hyland, both of whom voted in favor of the new rule, have suggested the need of a legislative change to make it clear that all federal credit unions may provide service in underserved areas.

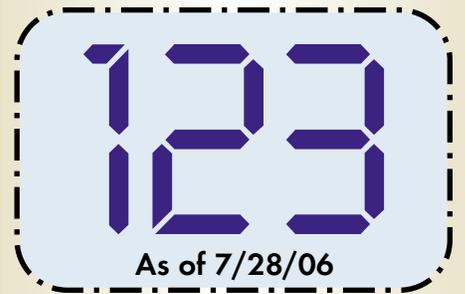
“We agree with the NCUA Board position that Congress needs to address the uncertainty caused by the bankers’ hypocritical stance complaining that credit unions aren’t serving those of modest means while throwing up litigious roadblocks at every opportunity,” Sagar said, adding, “The question is not if Congress should act, but when.” 🏠

## ▶ Reg Relief Issue Alive During Hikes



*Credit union issues—including regulatory relief—remain front and center throughout the year as nearly 50 state leagues visit Washington as part of CUNA’s Hike the Hill program. Rep. Carolyn Maloney (D-N.Y.), a member of the House Financial Services Committee, was one of 19 lawmakers New Yorkers like Robert Nemeroff (left), of Melrose CU, and Edgar Alleyne, of Central CU, met during the New York State CU League’s (NYSCUL) Hike the Hill event. (NYSCUL photo)*

## CURIA Co-Sponsors Count



The newest CURIA co-sponsor is Rep. Brian Bilbray (R-Calif.)

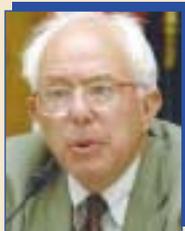
**CURIA (H.R. 2317)**  
[http://www.cuna.org/initiatives/member/curia\\_video.html](http://www.cuna.org/initiatives/member/curia_video.html)

# GAO Agrees to Study Bank, Thrift Tax Breaks

The Government Accountability Office (GAO) last week said it has agreed to perform a study requested by Rep. Bernard Sanders (I-Vt.) into how the banking and thrift industries have benefited from tax breaks.

Warren Gunnels, legislative director for Sanders, said the GAO's report will "provide, for the first time, a comprehensive review of how much banks, especially big banks, have benefited through tax breaks and subsidies.

"And what we expect to find," Gunnels added, "is that banks'—especially big banks'—benefits will make pale in



Bernard Sanders

comparison what credit unions receive from their tax-exempt status."

Gunnels added that Congressman Sanders "strongly supports the tax-exempt status of credit unions" and is "very opposed" to bankers' efforts to push for increased taxes for credit unions, "especially in light of the billions of dollars in benefits (banks) receive through taxpayers dollars."

Sanders is the ranking member of the

House Financial Institutions and Consumer Credit Subcommittee and currently running for election to the Senate.

CUNA said that a government study of how the banking and thrift industries have benefited from tax breaks is just what is needed in the current environment of bank attacks on credit unions.

A GAO spokeswoman said the study will not get underway for a couple of months, with investigations starting perhaps in September. Because of the scope of the study, both she and Gunnels projected an extended completion date. ■

## Top 20 Political Action Committee (PAC) Contributors to Federal Candidates, 2005-2006\*

PAC Name	Total Amount
National Assn of Realtors	\$1,953,005
Assn of Trial Lawyers of America	\$1,806,000
Intl Brotherhood of Electrical Workers	\$1,793,650
National Beer Wholesalers Assn	\$1,762,500
Operating Engineers Union	\$1,697,135
AT&T Inc	\$1,691,433
<b>Credit Union National Assn</b>	<b>\$1,631,599</b>
United Parcel Service	\$1,565,709
American Bankers Assn	\$1,555,174
National Auto Dealers Assn	\$1,541,100
National Assn of Home Builders	\$1,421,250
Teamsters Union	\$1,383,275
United Auto Workers	\$1,381,850
Laborers Union	\$1,375,150
Carpenters & Joiners Union	\$1,349,640
American Fedn of St/Cnty/Munic Employees	\$1,306,671
International Assn of Fire Fighters	\$1,163,705
American Federation of Teachers	\$1,137,000
Air Line Pilots Assn	\$1,096,500
Machinists/Aerospace Workers Union	\$1,069,000

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 Federal Election Commission on 07/10/2006.

## Senate Panel Boosts Development Funding

The Senate Appropriations Committee recently voted in favor of \$55 million in funding for the Treasury Department's Community Development Financial Institutions (CDFI) Program, surpassing the \$40 million earmarked for the program by the House in June. The figure soared above the \$7.8 million requested by the Bush administration, which wants to cut the fund and shift it under a program in the Commerce Department.



Katie Herberger

CUNA, in conjunction with the Coalition of Community Development Financial Institutions, opposes the shift and cuts to the CDFI Fund, and is working with the coalition to keep it under Treasury and restore funding to \$80 million for technical assistance.

Katie Herberger, CUNA legislative manager, noted that the demand for CDFI funds continues to grow as the CDFI industry strengthens and reaches out to more and more distressed communities.

"The CDFI Fund uses small amounts of federal dollars to leverage significant amounts of private and non-federal dollars, and has added a tremendous boost to the CDFI industry," Herberger added.

Like the House, Senate Appropriations approved \$941,000 for the Community Development Revolving Loan Fund (CDRLF) and a \$1.5 billion borrowing ceiling for the Central Liquidity Fund (CLF), with \$331,000 for operating costs. ■

# Board & Volunteer Resources li

**CUNA Board & Volunteer Resources** give you the knowledge and confidence you need. Whether you want to brush up on your financial knowledge, learn about legal requirements, or just better understand the credit union world; our training opportunities, research, planning tools, and other resources will lead you to make stronger contributions as a board member or volunteer.

## What they're saying about CUNA Volunteer Institutes:

The real life, nuts and bolts training sessions gave me real information, not just theoretical management techniques."

"The insight offered in the sessions provided me with a wealth of information for critical areas to keep an eye on."

**"Networking was great and to hear challenges facing other credit unions around the country and how to address them was invaluable!"**

## CUNA Volunteer Institutes

CUNA Volunteer Institutes are all about gaining insights into critical issues facing you and your credit union – in stress-free venues!

These Institutes provide opportunities for volunteers to discuss specific issues and their impact on credit unions, and leaves evenings free to enjoy the beautiful surroundings.

October 14-18, 2006

Waikoloa, HI

Tuition: \$1,195 (\$1,295 after September 1, 2006)

January 20-24, 2007

Cancun, Mexico

Tuition: \$1,195 (\$1,295 after December 1, 2006)



## Volunteer Achievement Program (VAP)

Education that's straight to the point...

New self-study courses to tackle today's issues for credit union boards and volunteers:

- Budgeting Basics for Directors, course V425
- Investment Essentials for Directors, course V424
- Bankruptcy, course V407

Discover how the more than 40 quick-reading courses from Volunteer Achievement Program (VAP) can help you make informed decisions and improve credit union performance.

## CEO Total Compensation Survey Report

If you want to hire or retain top-notch CEO talent, the right compensation package is a high priority. Put your credit union in the best position to attract and retain your CEO. This report shows nationwide results by asset size, region, and other key points of comparison.

#27278P \$750 (PDF)

#27278-NW \$799 (Print)



Discover learning opportunities from Credit Union National Association, f

Visit [buy.cuna.org](http://buy.cuna.org) and enter NWBDVL in the product finder, or call 800-356-8010, press 3.

# Gift you to full potential

Order BoardAssessment.com and get 6 months of Directors Newsletter FREE!

Special offer through September 30, 2006! This special offer is the complete package for continuous board improvement! Mention promo code M08106 when ordering.

For more information, call 800-348-3646 or e-mail [mktresearch@cuna.coop](mailto:mktresearch@cuna.coop).



## Credit Union Directors Newsletter

Gain advice, information, and inspiration for solid board performance. Every director needs Directors Newsletter. It's a monthly read that keeps directors up to speed on trends, board/CEO relations, governance, and more.

Per Copy Subscription Rates (1 year = 12 issues)

	1yr.	2yr.	3yr.
One copy	\$88	\$170	\$246
Two to nine copies	\$64	\$122	\$171
Ten or more copies	\$53	\$100	\$141

\*New PDF option! get unlimited use of Directors Newsletter as a PDF for your credit union every month for \$500/year!



Get everybody on board with BoardAssessment.com the newest and most innovative board assessment tool for credit unions today. Complete with online group and self evaluation, this tool not only helps your credit union measure the skills and knowledge of your credit union board, it also provides CUNA resources to build competency levels. Use this tool annually to measure your board's knowledge and performance. For \$495 you gain access to BoardAssessment.com for a year. Complete the initial assessment, then add new board members if needed during the year FREE. To learn more, visit BoardAssessment.com.



# Volunteers

for every volunteer...every schedule...every budget!





# >> Regulatory Affairs

## NCUA Leaves Rate Ceiling at 18%

The top interest rate that federal credit unions can charge will remain at 18% through March 9, 2008 thanks to a ruling by the NCUA at its most recent open meeting on July 20. The rate ceiling was set to revert to 15% on Sept. 8 had NCUA not extended authority for the higher rate which better reflects market conditions.



The Board also adopted a final rule giving it more flexibility in the ways in which it can provide notice to credit unions of a temporary change in the 15% cap. The rule allows the agency to publicize the change through a Letter to Federal Credit Unions, as well as in other official NCUA publications, and in a press release, whereas previously it has to do so by issuing a final rule and publishing it in the Federal Register.

In other action, the NCUA proposed to liberalize authority of federal credit unions to invest in the mortgage note market. Specifically, federal credit unions could invest in repurchase transactions in which the instrument consists of first-lien mortgage notes. The plan incorporates amendments intended to help credit unions manage risks that can be associated with these investments and stressed that purchase of the mortgage notes, including those involving non-members, would be permissible only when the transactions are a part of an investment repurchases deal. 🏠

 **NCUA Board Meeting Summaries**  
[www.cuna.org/reg\\_advocacy](http://www.cuna.org/reg_advocacy)

## ▶ Comment on NCUA Conversion Rule

The NCUA is proposing to amend its rules on the conversion of insured credit unions to mutual savings banks or mutual savings associations. The amendments are primarily intended to improve the information available to a credit union's members and its board of directors as they consider a possible conversion. Comments are due by Aug. 14 and can be submitted via CUNA's website.

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

## 'Red Flags' Go Up for ID Theft

The NCUA, along with the other financial institution regulators and the Federal Trade Commission, issued proposed guidelines for "red flags" that could indicate an incidence of identity theft.

Under the agencies' plan, an identity theft prevention program established by any financial institution or creditor must include policies and procedures for detecting any "red flag" relevant to its operations. It must also include a mitigation strategy appropriate for the level of risk detected.

The proposal lists patterns, practices, and specific forms of activity that could signal a risk of identity theft. The 30 possible warning signs include:

- ▶ The existence of fraud alerts;
- ▶ Altered and inconsistent information;

- ▶ Account use that fits a pattern of fraud;
- ▶ Notifications of unauthorized charges or fraudulent account charges;
- ▶ Returned mail or e-mails; and,
- ▶ Attempts to access accounts by unauthorized users.

Jeff Bloch, CUNA senior assistant general counsel, said the proposed rules adopt a risk-based, flexible approach that will require financial institutions to have a written identity theft prevention program appropriate to the size and complexity of the institution, as well as the nature and scope of its activities.

CUNA is seeking credit union comments on the proposal by Sept. 7. They are due to NCUA on Sept. 18. 🏠

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

## NCUA Letter Lists Conversion Concerns

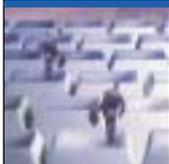
NCUA Region II Director Edward Dupcak sent a 12-page letter to Lafayette FCU, Kensington, Md., outlining three categories of concerns regarding its members-information packet that he said must be addressed before the credit union can continue its push to convert to a mutual savings bank charter.

The three areas were described as: issues that must be addressed in order to comply with NCUA statutory and regulatory requirements; issues to address the objective of a fair and informed membership vote; and areas that require more information for the NCUA board to consider.

The letter went on to identify six ways in which the disclosure documents fall short of NCUA requirements, such as referring to a proxy card for member voting when proxy voting is prohibited by the FCU Act.

The Region II letter also identified 12 areas in the disclosure documents that need clarification in order to "address the objective of a fair and informed membership vote," including projections of loan and deposit rates after a conversion and the value of the federal credit union tax exemption.

The final section listed issues about which NCUA had "questions or request additional information." Reflecting statements made in the information packet by Lafayette, NCUA asked the credit union to explain such things as how being a federal credit union restricts Lafayette's ability to offer increased branching or to offer increased products and services. 🏠



## Report: Better Way to Protect Members' Capital in Conversions

Credit unions with too much capital are irresistibly juicy conversion targets, according to Filene Research Institute Executive Director Bob Hoel, who presented findings of a study about how credit union-to-bank conversions affect members.

"If a credit union truly must convert, the report finds skipping the mutual thrift step and switching directly to a stock commercial bank would help ensure the original capital stayed with the members," said Hoel.

The report was authored by Professor James Wilcox, Haas School of Busi-

ness, University of California at Berkeley. Hoel presented the findings July 21 during the American Association of CU Leagues 2006 Summer Meeting in Seattle, Wash.

By year-end 2005, 27 credit unions had converted to mutual thrifts or merged with such institutions and represented \$3.1 billion of total credit union assets. The conversions occurring in the first part of 2006 account for more than \$2.5 billion.

Hoel noted that credit union-to-mutual thrift conversions are usually a first step toward stock ownership.

Of 17 credit union conversions between 1995 and 2002, 14 former credit unions have issued some type of stock or have merged with stock-issuing former credit unions. Two other former credit unions have converted to mutual holding companies that may issue stock without an additional vote by members.

The Filene report assessed that members are unlikely to benefit from conversion if their credit union provides moderately better loan and savings rates than stock competitors, or if the credit union is not overcapitalized.

Overcapitalized credit unions may avoid becoming conversion targets by distributing excess capital to members, either directly as cash, or indirectly by offering even better loan and savings rates.

The report proposes a demutualization alternative that the NCUA could implement without requiring legislation, by permitting credit unions to convert directly into stock commercial banks.

Professor Wilcox's suggestion would dramatically reduce the windfall gains obtained by outside speculator and by insiders, thereby lessening many of more attractive incentives to converting credit unions.

The report offers up the idea that shares of stock in the bank—created from demutualization—would be distributed directly to members in proportion to their historical savings and/or borrowing.

This would reduce transfers from members who, under current Office of Thrift Supervision and Federal Deposit Insurance Corp. regulations, do not receive all, and typically do not receive any, retained earnings when mutual thrifts convert. ■

**Filene Research Institute**  
 [www.filene.org](http://www.filene.org)

### National Rate Index Comparison

Product	Credit Union Ave %	Bank Ave %	Best Average Rate
<b>Savings</b>			
Regular Savings	0.90	0.71	CUs by 0.19
Interest Checking	0.58	0.56	CUs by 0.02
Money Market	1.78	1.14	CUs by 0.64
1-Year CD	4.51	4.10	CUs by 0.41
<b>Consumer Loans</b>			
Regular Credit Card	12.27	14.60	CUs by 2.33
48-Month New Car	6.02	7.50	CUs by 1.48
48-Month Used Car	6.30	8.14	CUs by 1.84
36-Month Unsecured	11.10	12.68	CUs by 1.58
<b>Mortgage Loans</b>			
Home Equity LOC	7.89	8.26	CUs by 0.37
1-Year ARM	5.74	6.14	CUs by 0.40
30-Year Fixed	6.86	6.83	Bks by 0.03

SOURCE: DataTrac. All data current as of 07/27/2006. Based on 19,105 institutions. Note: Average rates are listed; individual rates will vary. (See Datatrac Research Standards)



# >> The Marketplace

## Survey: CU Staff Value Mission Over Money

In order to attract and keep qualified staff, credit unions to need instill a sense of loyalty, according to a new survey from the CUNA.

The 2006 Complete Credit Union Staff Salary Survey said loyalty is one of the key components to employee retention. That ties into a value quotient—do

employees feel valued and do they value what the credit union does?

The survey found credit union employees generally liked what they did, particularly helping members and providing service. However, there also was a sense that they could be making more money somewhere else. The conclusion: credit union staff often value their mission over money—if they understand that mission. “A strong case can be made that credit unions should market the credit union to their staff before marketing it to members,” says the report.

“In order for credit unions to recruit and retain top talent, they also may want to consider becoming more flexible in hours

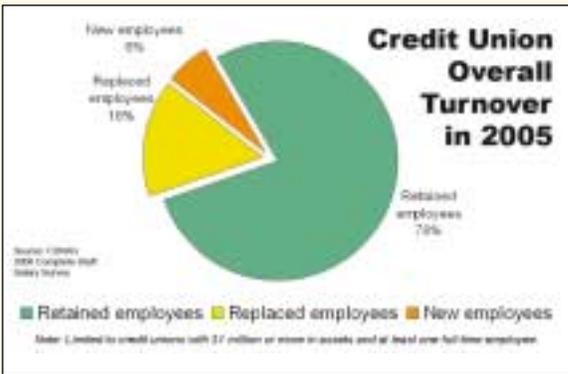
and compensation,” said Beth Soltis, CUNA senior research analyst.

Credit unions reported a retention rate of 78%, down from 84% the year prior, according to the report. Although there is no shortage of people to work, the number of potential employees with the matching skill sets is forcing credit unions to use a wider range of resources.

The survey provides base salaries, incentives, bonuses, total cash compensation and salary ranges for 89 full-time and eight part-time positions at credit unions with \$1 million or more in assets. It also covers job descriptions, bank comparisons and peer comparisons.

Visit CUNA’s website for more information. 

**CUNA Research Reports**  
 <http://advice.cuna.org>



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

137 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  
Editorial: (202) 508-6767 • Editorial Fax: (202) 638-7716 • [newswatch@cuna.coop](mailto:newswatch@cuna.coop)  
Address Changes: CUNA ER&S, P.O. Box 431, Madison, WI 53701-0431; or call (608) 232-8045  
To get free instant e-mail delivery instead of regular mail, log on to [www.cuna.org](http://www.cuna.org) and click Permission E-mail Service. Create your profile and check the box for Newsletter - NewsWatch.  
© Copyright 2006 Credit Union National Association, Inc. ISSN 0899-5597

FIRST CLASS TIME SENSITIVE MATERIAL

JULY 31, 2006



A news service of the Credit Union System, sponsored by your League, Credit Union National Association

PRESORT  
FIRST CLASS MAIL  
U.S. POSTAGE  
PAID  
MADISON, WI  
PERMIT NO. 1949