CREDIT UNION
NewsWatch
CUNA
Credit Union National Association
LEGISLATION, REGULATION, AND INNOVATION FROM THE CREDIT UNION NATIONAL ASSOCIATION MAY 8, 2006

Pruned Relief Bill Advances

Before the start last week's markup of the Senate's version of the broad-based financial services regulatory relief bill, Banking Committee Chairman Richard Shelby (R-Ala.), left, told CUNA President/CEO Dan Mica he knows credit unions wanted more, but that the panel was "going to chip away at this a piece at a time." (CUNA photo)

The Senate Banking Committee last week approved a much-pared down version of financial institution regulatory relief—a package that is leaving many lobbyists geared up to tackle what they consider the big issues of regulatory burdens during the next session of Congress.

The bill, expected to make it through Congress and be signed into law this year, offered just six provisions of particular interest to credit unions. Missing from bill—and from a broader House-approved package, as well—are both prompt corrective action (PCA) and member business lending (MBL) reform. Only the CU Regulatory Improvements Act (CURIA, H.R. 2317) includes modernizations for both PCA and MBL rules.

Those provisions are worth fighting for and CUNA continues its strong advocacy for the changes and urges credit unions to do the same. There were indications after the Senate panel's vote that even many lawmakers don't consider the regulatory relief issue closed.

CUNA President/CEO Dan Mica said immediately after the markup, "Comments made to me by both the chairman and the ranking member of the Banking Committee indicate clearly that credit unions

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Dorety to Testify on CU Conversion Bill

Tom Dorety, president/CEO of Suncoast Schools FCU, Tampa, Fla., will testify on CUNA's behalf at a May 11 House Financial Services Committee hearing on The CU Charter Choice Act (H.R. 3206). CUNA opposes the measure and maintains there is no need to adjust the NCUA's authority in conversion matters.

The bill, introduced last year by Rep. Patrick McHenry (R-N.C.), proposes to strip NCUA of some of its authority over credit union-to-bank conversions.

Other expected witnesses include American Bankers Association Chairman Harris Simmons, chairman/CEO, Zions Bancorp., Salt Lake City; Marc Schaefer, president/CEO, Truliant FCU, Winston Salem, N.C., on behalf of NAFCU; NCUA Chairman JoAnn Johnson; and Laurie Stewart, president/CEO of the former credit union now known as Sound Community Bank. She will testify on behalf of America's Community Bankers.

CUNA maintains that the bill's proposals are ill-considered and a danger to the interests of consumers who are credit union members.

CUNA President/CEO Dan Mica says the legislation would "imprudently erode regulatory oversight so that management and

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Pruned Relief Bill Advances

and their need for further easing the regulatory burden on credit unions is on the radar screen of the Senate, and likely the Congress."

In addition to the credit-union directed provisions in the Senate's Financial Institutions Regulatory Relief Act of 2006, the bill carries a myriad of technical changes to language in the Federal Credit Union Act. The changes of key interest to credit unions include:

After the unanimous vote, Senate Banking Committee Ranking Member Paul Sarbanes (D-Md.), left, discussed credit union provisions of the bill with CUNA Legislative Affairs Vice President Dean Sagar. (CUNA photo)

- A revised definition of net worth that would protect merging credit unions under a pending accounting change proposed by the Financial Accounting Standards Board;
- Authority for federal credit unions to cash checks and provide money-transfer services to anyone in their field of membership;
- An increase to 15 years from 12 years in the limit on federal credit union personal and business loan maturities;
- Authority for federal credit unions to negotiate for nominal amounts land rents on military installations; and,
- Providing authority, but not a requirement, for the Fed to pay interest on monetary reserves, and to reduce or eliminate monetary reserve requirements on transaction accounts.

It has been reported that Chairman Michael Oxley (R-Ohio) of the House Financial Services Committee may decide to forego the conference committee process to work out differences between a House-passed bill and the Senate's approach by accepting the Senate language.

Regulatory Relief Bill
www.cuna.org/gov_affairs

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Dorety to Testify on CU Conversion Bill

directors, who have everything to gain, could more effortlessly slip their hands into the wallets of credit unions' consumer-member/owners-who have everything to lose."

"This is all about money and unjust enrichment," Mica added. "Clearly, this is no example of an 'ownership society' that President Bush emphasizes, in which ownership interests are taken away without just compensation. In an environment in which billionaire CEOs are being sentenced to long prison stays for defrauding their company's investors, now is not the time to dismantle regulatory oversight of the transformation of credit unions."

Tom Dorety

Mica added that CUNA's policy on conversions makes it abundantly clear conversion is a decision that must be driven by a credit union's members, based on what is best for the members.

CUNA Principles on CU-to-Bank Conversions
www.cuna.org/initiatives/conversion_principles.html

Lanier Joins Governmental Affairs Team

Larry R. Lanier, a long-time advocate of issues at the state level, will join the CUNA staff May 22 as vice president, state government affairs.

Lanier will succeed Colleen Kelly in the position. The vice president of state government affairs works closely with state leagues to identify national trends and determine effective strategies to ensure passage of favorable credit union laws at the state legislatures.

Lanier's most recent state government affairs career has been in the health care arena, with key positions the American Academy of Dermatology, the American Academy of Ophthalmology and the Florida Medical Association, as well as consultant experience in state regulatory affairs.

Larry Lanier

"Larry's long resume in advocacy programs gives CUNA a wealth of experience to draw from in working with our partners in the Leagues in ensuring favorable legislation at the state level," said CUNA Senior Vice President of Legislative Affairs John Magill.

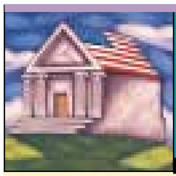
State Governmental Affairs
www.cuna.org/gov_affairs

CURIA Co-Sponsors Count

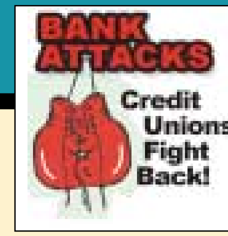
120

As of 5/5/06

The newest CURIA co-sponsor is U.S. Rep. Duncan Hunter (R-Calif.)



>>Governmental Affairs



FDIC: Banks' Rubber Stamp?

It appears the Federal Deposit Insurance Corp. (FDIC) under former Chairman Don Powell may have been more concerned with reducing costs for the banks it regulates than with its responsibilities in overseeing the safety and soundness of consumers' savings.

According to the FDIC inspector general, the agency maneuvered around a trigger that would have forced all banks to pay premiums last year. The action was called Powell's "parting gift to banks" by some observers at the time. Powell left the agency Nov. 15 to become chief coordinator for rebuilding the Gulf Coast area.

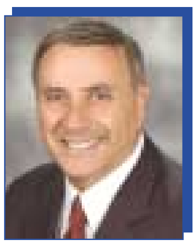
CUNA President/CEO Dan Mica said the inspector general's report showed the agency's reluctance, at least under Powell, to do anything that might upset the banks it oversees.

"The bankers like to paint NCUA as a rubber stamp for credit unions, but now we have proof—if more were needed—that the FDIC is a rubber stamp for banks, "Mica said, adding that the situation showed "a classic case of an agency that has been 'captured' by those it is supposed to regulate."

"It is troubling that the FDIC—the overseer of billions in consumers' savings—has been apparently more concerned about reducing costs for the banks it regulates, than responding in the interests of safety and soundness," Mica said. 🏛

BANK ATTACKS: CUs Fight Back!
www.cuna.org/initiatives/bank_attack

Mica Again Named Among 'Top Lobbyists'


Dan Mica

For the third year in a row, CUNA President/CEO Dan Mica has been named a "top association lobbyist' by a prominent Capitol Hill publication.

"Mica and his group are players on the Hill. Any legislative move to upset credit unions triggers an immediate reaction from CUNA members," wrote *The Hill* in its "The Best on K Street" article.

The Hill is a Washington-based newspaper that covers Congress, lobbying and the Capitol Hill community, and circulates broadly among congressional offices and lobbying organizations.

According to the newspaper, it develops its list based on conversations with members of Congress, key aides, and other lobbyists.

Mica said of the recognition, "I'm humbly honored to be named one of the 'top association lobbyists.' In my nearly 10 years of advocating credit unions, I have experienced a great deal, learned much, and had some successes."

He added, "Among some things in which I take a measure of pride is exactly what *The Hill* refers to: Our ever-improving ability to motivate our great movement to voice its views, typically in the interests of their consumer members. And, being called 'players on the Hill' isn't half bad, either."

There are more than 25,000 registered lobbyists in Washington. 🏛

NCUA Audit Rule Unnecessary and Costly

CUNA strongly supports accuracy and transparency in credit union financial statements and regulatory reports, but maintains that any new regulation must be backed by a thorough cost-benefits analysis.

The trade group says a recent NCUA regulatory inquiry about whether to require internal control attestations under supervisory committee audit rules has failed to make a case that any new information would be generated by what CUNA anticipates would be a costly change.

CUNA made its comments in a letter to the NCUA regarding the agency's advance notice of proposed rulemaking (ANPR) concerning Part 715, Supervisory Committee Audits.

"We are not aware of, and NCUA has not cited, any material incidents at credit unions necessitating such a change in its regulation," CUNA's letter said, adding, "As cooperatives, credit unions already have a significant level of regulatory oversight that is not routine in non-public companies that are required to obtain attestations."

CUNA noted that a recent Government Accountability Office (GAO) study had suggested that the NCUA might impose an attestation rule, but the group's letter added that there is no statutory directive requiring that kind of change. 🏛

CUNA Comment Letter
www.cuna.org/reg_advocacy/comment_letters/comment_letters06.html

The Daily Starting Point

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MONDAY, JUNE 12 • 1:45 - 3:00 PM

1 Serving Members of Modest Means: Challenges, Demands, and Rewards
2 Emerging Lending Trends: Part I – Auto Loans
3 Meeting Members Needs Through Technology
4 The Framework of a Business Continuity Plan
5 Closing the Leadership Gap: Strengthening Your Management Bench
6 Exceptional Boards: A Look Into the Board of the Future

MONDAY, JUNE 12 • 3:15 - 4:30 PM

7 Best Practices in Serving Members of Modest Means: A CU Panel Discussion
8 Emerging Lending Trends: Part II – Traditional Lending
9 Trends in Branch Expansion
10 Best Practices in Disaster Recovery: A CU Panel Discussion
11 The Emerging Faces of Fraud: Part I
12 Preparing for Your Next Exam: What Are the Examiners Looking For?

TUESDAY, JUNE 13 • 9:00 - 10:15 AM

13 Lending in a Sub-Prime Environment
14 The Board's Role in Serving Members of Modest Means
15 Branch Expansions: Challenges, Demands, and Rewards
16 Securing Your Members' Information: An In-Depth Look at ID Theft
17 The Hidden Reasons Why Employees Disengage
18 Legislative and Regulatory Issues Affecting CUs

TUESDAY, JUNE 13 • 10:30 - 11:45 AM

19 Best Practices in Board Governance: A CU Panel Discussion
20 Seven Industry Innovations: An i3 Report
21 Best Practices in Business Lending: A CU Panel Discussion
22 Exceptional Boards: Board Competency and Assessments
23 Becoming a Community Charter: Challenges, Demands and Rewards
24 How to Appeal to Your Members in Their Prime Lending Years (ages 25-41)

TUESDAY, JUNE 13 • 1:15 - 2:30 PM

25 Emerging Non-Traditional Product Offerings
26 Latest Trends in Payments Systems
27 Serving America's Next Generation of CU Members (under 24)
28 The Economy and Its Impact on CUs
29 Debit and Credit Card Fraud Prevention
30 Discovering and Serving the Immigrant Population

WEDNESDAY, JUNE 14 • 8:45 - 10:00 AM

31 CU Philosophy is Good Business: Selling the Members as Owners Difference
32 Best Practices in Serving Young Adults: A CU Panel Discussion
33 Creating a Sales and Service Culture
34 The Latest Fraud Prevention Techniques: Part II
35 Exceptional Boards: How to Strengthen Your Governance Team

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>>Regulatory Affairs

Compliance: Exemptions for 10% IRA Penalties

CUNA'S COMPLIANCE CHALLENGE

Credit unions should encourage financial planning for all members, but it can be a tough sell to get anyone to put funds away for retirement years in instruments like Individual Retirement Accounts (IRAs) when they worry about conflicting demands on their money.

Understandably, if an emergency arises, savers don't want to be hit with the 10% penalty taken for disbursements that are made before the accountholder reaches the age of 591/2.

CUNA's compliance team reminds credit unions that there are important exceptions to the penalty rule. Under Internal Revenue Code (IRC) Section 72, such distributions avoid the penalty if they are:

- For the educational expenses of the IRA owner, his or her spouse, children or grandchildren;
- For "qualified higher education expenses" such as tuition, fees, books, supplies, equipment and in some cases room and board;
- Used to pay tuition at an "eligible educational institution" i.e. any accredited public, nonprofit or proprietary postsecondary institution; or
- Used to pay such things as unreimbursed medical expenses.

In fact the CUNA experts say penalties may be waived when distributions are used for first-time home buying costs; health insurance costs for unemployed individuals; substantially equal periodic payments; IRS tax levies; conversions to Roth IRAs and certain disability cases.

For more answers to more issues like these, visit CUNA's website to take the Compliance Challenge.

Compliance Challenge
www.cuna.org/compliance

NCUA: Preferred Rates and Finance Charges

NCUA Associate General Counsel Sheila Albin issued an opinion letter on a subject that comes up regularly, although not frequently, in credit union requests for guidance: Can a paid credit union employee who serves as a volunteer official receive a preferential loan rate offered to employees?

"No, a credit union cannot offer preferential loans rates to any of its officials," the letter said, adding that the term "official" includes a member of the board of directors, credit committee, or supervisory committee.

Albin said the rule is intended to limit insider dealing and would not be effective if officials, who were also employees, could receive preferential loan rates as a part of their employee compensation.

In an unrelated letter also released last week, the NCUA clarified its response regarding the classification of fees on skip-payment plans. The new advisory states that if a credit union charges a fee each time a member uses the plan, then the fee is a finance charge.

NCUA
www.ncua.gov

CUs Want Rehearing of Missouri FOM Case

In Missouri, credit unions are petitioning for a rehearing of a case in which Cole County Circuit Court Judge Richard Callahan eliminated part of the state's field-of-membership rules. He ruled out all geographic expansions, ranging from ZIP codes to counties and municipalities.

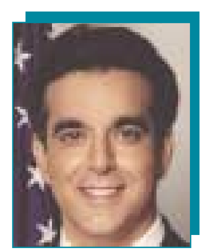
In addition to the rehearing request, the Missouri CU Commission has filed a motion to amend the court's decision. Judge Callahan has until July 24 to announce a decision about amending his ruling. After that, parties in the case will have 10 days to file an appeal to the Western District Court of Appeals in Kansas City.

Also, the Missouri CU Association has opposed application for attorney fees filed by the plaintiff bankers. MCUA President/CEO Rosie Holub said the Missouri Bankers Association made the decision to file the lawsuit and should be responsible for legal costs associated with its actions.

She added that MCUA is "evaluating all legal and legislative options to provide state-chartered credit unions a fair, viable and equitable means for expansion."

In a separate case, bankers in Pennsylvania last week filed an appeal brief with the state's Supreme Court against a lower court's ruling in favor of two credit unions' field-of-membership (FOM) expansions.

CUNA Salutes SBA's Barreto, Welcomes Preston



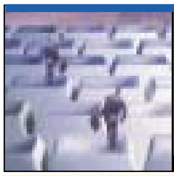
Hector Barreto

CUNA extends its appreciation to Hector Barreto for his consistent support of credit unions as U.S. Small Business Administrator and wishes him the best in his new position as national chairman of The Latino Coalition, a prominent Hispanic advocacy organization based in Washington.

The White House announced it will nominate Steven Preston to become head of the SBA. Preston is currently executive vice president and former CFO of The ServiceMaster Company in Chicago. Prior to that, Preston was senior vice president and treasurer of First Data Corporation, and a senior vice president in investment banking at Lehman Brothers.

CUNA President/CEO Dan Mica said the association looks forward to discussing credit unions' interest in small-business lending with Preston upon his confirmation to the SBA position.

Member Business Services
www.cuna.org/initiatives/business_seg



>>Special Report

CUNA Income, Reserves Up in 2005

Greater credit union participation in the 2005 activities of CUNA and CUNA Strategic Services (CSS) boosted consolidated operating income to $1.5 million—up from $811,000 in 2004 and $180,000 in 2003, according to CUNA Treasurer Tom Dorety, president/CEO of Suncoast Schools FCU, Tampa, Fla.

Total 2005 net income pushed CUNA's year-end 2005 reserves to just under $13 million—up from $11.4 million at the end of 2004 and $9.8 million at the end of 2003.

During the last three years, these reserves have grown more than $3 million. Total 2005 net operating revenues topped $51 million, up from $49 million in 2004. Operating expenses in 2005 were $49.5 million. Appropriate cost controls kept operating expenses in check, increasing only 2.8% in 2005, compared to an 8% increase in 2004.

CUNA earns revenue from two sources—dues from member credit unions and fees from the sale of products and services. Dues in 2005 accounted for 39% of total revenues, which covered 98% of the association's dues-supported expenses.

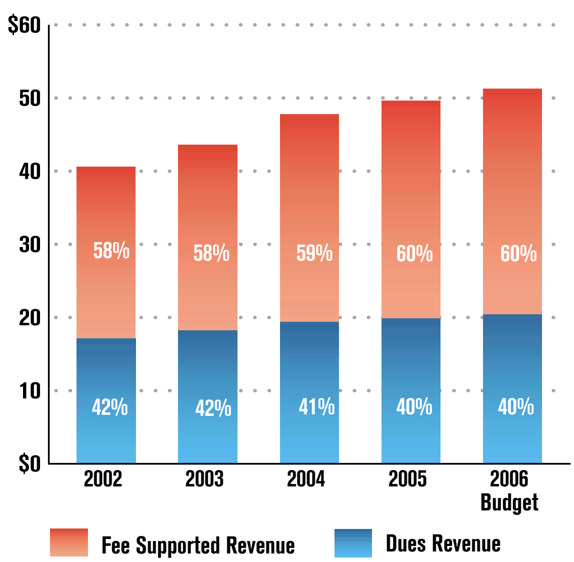
"Looking forward, CUNA continues to increase the net margins of its traditional product lines—such as learning events and certification programs," said Dorety. "At the same time, the association is investing in new services to meet the evolving needs of increasingly complex credit unions."

The 2005 CUNA Annual Report will be included in the June edition of *Credit Union Magazine.* Affiliated credit unions can download complete and detailed consolidated 2005 CUNA and CSS financial results from the website. Or call 800-356-9655, ext. 4031.

2005 CUNA Financial Statements (affiliated CUs only)
www.cuna.org/cuna

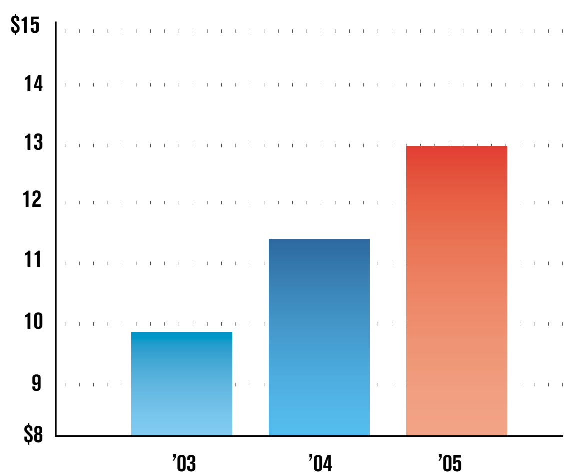
CUNA & CSS Consolidated Net Revenues*

(in millions) **Excluding reimbursement from affiliates.*

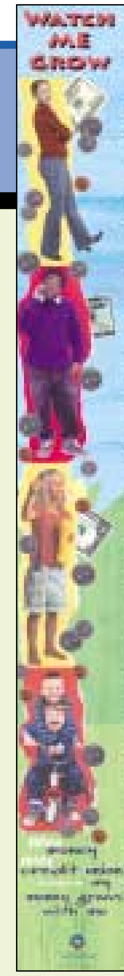


CUNA & CSS Consolidated Operating Reserves

(in millions)



>>Serving the Community



Record Millions $aved in CU Challenge

During the third annual National Youth Saving Challenge, participating credit unions collected a whopping $9.6 million in deposits by their young members—more than twice last year's $4.6 million record.

"This doubling of total dollars saved by kids this year over last during the Youth Saving Challenge to nearly $10 million is phenomenal," said CUNA President/CEO Dan Mica.

Compared to 2004, the number of participating credit unions increased 25%, nearly doubling the number of kids making deposits. More than 7,500 new youth accounts were opened.

"This program has clearly caught the eye of credit unions and their youthful members," Mica said. "Congratulations to the credit unions and to the kids who opened accounts and saved so diligently—they have started down the road to financial health and freedom."

This year 66,269 young members learned the lessons of saving at 346 participating credit unions.

Last year, 274 participating credit unions tallied $4.5 million in deposits from 35,071 members and 4,451 new member accounts.

CUNA also sponsored a drawing for 10 prizes of $100 each for credit unions, which were selected at random to award the prize to a young member of its choice.

"My Money, My Credit Union—Where I Belong" was the theme for the recently concluded fifth year of National Credit Union Youth Week, April 23-29. The theme was chosen to help young members understand the credit union difference, explaining that as members of a not-for-profit cooperative, they earn better rates on saving and loan products, pay lower fees, and receive personalized service.

Youth Initiatives
www.cuna.org/initiatives/youth

FIRST CLASS TIME SENSITIVE MATERIAL

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Editorial: (202) 508-6767 • Editorial Fax: (202) 638-7716 • newswatch@cuna.coop
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