



## No NCUSIF Dividend

NCUA Chief Financial Officer Dennis Winans during last week's monthly agency board meeting reported the National CU Share Insurance Fund most likely would not pay a dividend again this year. For more on the meeting, SEE PAGE 3. (CUNA photo)

## CUNA Eyes Data Collection Pilot

CUNA will be carefully monitoring NCUA's actions and analysis during a recently announced data collection pilot program.

"Because this is a pilot program, we anticipate that there will be areas that will need to be tweaked or otherwise revised as the program moves forward," said CUNA President/CEO Dan Mica. "CUNA intends to be a participant in this process, and ensure that concerns of credit unions about issues that crop up be answered and addressed point-by-point."

The NCUA pilot is in response to specific requests by Congress and the General Accountability Office (GAO) to measure service to credit union members, as well as senior credit union management compensation and benefits. The agency will gather data from 481 randomly selected federal credit unions during a routine examination process. Selected credit unions >>  See page 3

## Utah FOM Lawsuit Dormant Until Spring?

If the judge consents, the NCUA and opposing banking interests have agreed that nothing will happen in a Utah lawsuit involving field-of-membership (FOM) issues until the agency approves a final FOM policy.

That could mean the case will be dormant well into the Spring. Although the NCUA could act sooner, Mary Dunn, associate general counsel for CUNA, has said it would be unlikely for the agency to approve a final rule before May or June due to the expected volume of comments, as well as the importance of the issue.

In a separate FOM case, the U.S. District Court for the Middle District of Pennsylvania granted a joint motion by CUNA and others to intervene in another bankers vs. NCUA lawsuit. The other parties to the CUNA motion were the National Association of FCUs, the Pennsylvania CU Association, and three credit unions specifically named in the suit.

After granting the request to intervene, the court also moved back a scheduling conference date to March 28 from Feb. 16. The delay was requested by the bankers and CUNA did not oppose the changed date.

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

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# >> Legislative Affairs

## Deposit Insurance Reform: What Passed?

President George W. Bush this month signed into law deposit insurance reforms which could by year-end raise coverage for retirement accounts to \$250,000, and give the NCUA and Federal Deposit Insurance Corp. (FDIC) authority to adjust coverage levels of all accounts to keep pace with inflation, starting in 2010.

During the legislative process, CUNA worked to ensure credit union share insurance received equal treatment with the bank and thrift insurance funds, and thanked Senate Banking Committee Chairman Richard Shelby (R-Ala.) and House Financial Services Committee Chairman Michael Oxley (R-Ohio) for their support in maintaining credit union parity.

"We look forward to working with the NCUA in implementing the bill," said CUNA President/CEO Dan Mica said.

For most accounts, the law will mean current insurance maximum of \$100,000 will remain the same. Beginning in 2010, and each subsequent five-year period thereafter, NCUA and FDIC will jointly consider if an inflation adjustment is appropriate, and in what amount, to increase that insurance maximum.

The National CU Share Insurance Fund (NCUSIF) coverage on certain retirement accounts, such as individual retirement accounts (IRAs) and Keogh accounts, will increase from \$100,000 to \$250,000 per account immediately

upon NCUA promulgating regulations to implement these statutory changes. These accounts will also be subject to the inflation adjustment.

NCUA said it will revise its "official sign," which indicates a credit union's shares are federally-insured, by including, among possible other things, a statement that federally-insured share accounts are backed by the full faith and credit of the U.S. Government.

NCUA last week said it intends to promulgate implementing regulations as quickly as possible, and anticipates issuing a Letter to Credit Unions soon to provide more details.

**eGuide: Share Insurance**  
<http://www.cuna.org/compliance>

## CURIA Co-Sponsors Count

**108**  
As of 2/17/06

For a complete list of co-sponsor names, visit CUNA's website at <http://capwiz.com/cuna/issues/bills>

## ▶ PCA, MBL Urged for Senate Bill

As Sen. Mike Crapo (R-Idaho) continues to design a Senate draft for financial institution regulatory relief legislation, CUNA sent a letter urging two key credit union provisions be included: prompt corrective action (PCA) reform and increased flexibility to lend to members for small business ventures.



*CUNA lobbyists Linda Haer (left) and Katie Herberger after last week's House Judiciary Committee approval of the Financial Services Regulatory Relief Act (H.R. 3505). The bill now awaits action by the full House. (CUNA photo)*

CUNA recommended any legislation include a "more practical" cap of credit union assets devoted to business loans of 20%, up from 12.25%. CUNA also reinforced its support for including NCUA's recommendation to reform PCA provisions in the Federal CU Act.

The CUNA letter, signed by President/CEO Dan Mica, made two additional suggestions to Crapo regarding relieving the regulatory burden of credit unions and other financial

institutions.

First, CUNA suggested eliminating the annual privacy notice requirement for financials that do not share personal information or have not changed their policy. Second, CUNA urged that the number of permissible monthly transfers from savings accounts, a number

restricted under the Monetary Control Act of 1980, be expanded, or perhaps even eliminated.

Regarding the restriction on consumers on monthly transfers, CUNA's Mica noted, "It is impossible to logically explain the 'Regulation D' restrictions to consumers in this electronic age," and questioned if the Federal Reserve today really uses reserves for carrying out monetary policy.

**Legislative Issues 2006**  
[http://www.cuna.org/gov\\_affairs](http://www.cuna.org/gov_affairs)



# >> Regulatory Affairs

## NCUSIF Dividends Unlikely

NCUA staff reported during the agency's Feb. 16 monthly board meeting the National CU Share Insurance Fund's (NCUSIF) equity ratio, the amount in the fund in relation to the amount of total federally insured shares, at Dec. 31, 2005 is projected to be 1.27%, indicating that a dividend based on the Year 2005 fund equity level is highly unlikely.

A dividend can only be paid to federally insured credit unions when at the end of the calendar year the equity level exceeds the fund's normal operating level, which is currently set at 1.3%. NCUA Chief Financial Officer Dennis Winans projected a year-end 2006 ratio of 1.29%.

Among the year-end 2005 highlights:

- ▶ Reserves (provision for CU losses): \$72.9 million;
- ▶ Projected insured shares: \$519 billion;
- ▶ Net income: \$74.2 million (24% better than budget)
- ▶ Contributed capital from CUs: \$184.7 million
- ▶ CU failures: 15 (10 liquidated and five merged with assistance);
- ▶ Insurance losses: \$21 million.

In addition, Winans reported for the first time in at least 10 years, the percentage CAMEL Code 4/5 shares to total insured shares reached 1.11%. He assured the Board that the NCUSIF reserves are sufficient.

As a result of last year's Gulf Coast hurricanes, Winans estimated 10 or 11 credit unions will be merged or liquidated, but that they were "mostly well-capitalized."

In other meeting action, the NCUA board voted unanimously to issue an advanced notice of proposed rulemaking seeking comments on four principal issues concerning Part 715, Supervisory Committee Audits. Visit CUNA's website for more information. 🏠



NCUA Board Member Gigi Hyland (left) and CUNA Associate General Counsel Mary Dunn following the agency's Feb. 16 monthly board meeting. (CUNA photo)

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

▶ from page 1

## Data Pilot

will be contacted by an examiner prior to any on-site visit.

The NCUA said it plans to begin collecting preliminary data from federal credit unions in late February 2006.

NCUA Chairman JoAnn Johnson said it was important that the collection methods are well-designed, efficient and not burdensome to the credit unions.

The question of collecting and analyzing data to show service to modest means members is a complicated one, according to CUNA Chief Economist Bill Hampel.

"It is much broader than merely collecting information on income levels," he explained. "More in-depth, complex analysis will be necessary of the data in the future. We will be urging NCUA to consider a number of additional factors as it proceeds with this project in analyzing the information it collects." 🏠

🏠 **Daily News Updates**  
<http://www.cuna.org/newsnow>

## ▶ CUs May Not Limit External Auditors' Liability

The NCUA, along with federal bank and thrifts regulators as part of the Federal Financial Institutions Examination Council (FFIEC), issued a final advisory that bans financial services providers from agreeing to limit the liability of external auditors who conduct an institution's financial statements audits.

The advisory intends to address concerns that an external auditor's objectivity, impartiality and performance may be weakened if liability is diluted. CUNA agreed with those concerns and has stated that limiting outside auditor liability reduces the ability of regulators and the public to rely on an audit. CUNA supported the advisory when it was proposed last Spring, but encouraged the FFIEC to amend the provisions regarding the effective date of the advisory.

sions regarding the effective date of the advisory.

"If limitation of liability provisions contained in engagement letters for the current year cannot be renegotiated in good faith, then the institution should be able to retain the agreement until next year, and amend the contractual provisions for calendar year 2006 and beyond," the trade group said.

The final advisory will only apply prospectively to audit engagement letters executed on or after February 2006, and applies regardless of the size of the financial institution, whether the financial institution is public or not, and whether the external audit is required or voluntary.

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# Community Charter

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— and it **CPD**Online should be

the right one. CUNA offers more than 160 online, interactive courses through **CPD**Online — each tailored to staff career paths and the competency assessment needs of your credit union.

## ▶ Reach out to Hispanic members

CUNA not only teaches your staff to understand and speak workplace Spanish through an eSchool, we also provide products and services that they need most, along with ready-to-use Spanish promotional materials.

## ▶ Connect with members through interactive programs

Give your members a reason to stay...and potential members reasons to join with online

tools. Fun, youth-oriented programs like **Googolplex**<sup>™</sup>;



the interactive teen and young adult courses in the **Guides to Independence**<sup>™</sup>; and the coaching exercises of **Anytime Adviser**<sup>™</sup> for anyone making tough financial decisions, are all part of connecting and providing members with credit union-focused answers to their financial questions.

## ▶ Spread the word about your small business services

Use CUNA handbooks, stuffers, training events, and *CUNA's Member Business Services*.



# >> Notes Bearing Interest

## Magazine Outlines CU Benefits to Members

A special first-quarter 2006 edition of CUNA's *Home & Family Finance* magazine is devoted entirely to explaining the credit union advantage—including membership and money-saving benefits—to its readers.

The "Members As Owners" issue hopes to help members truly understand the credit union advantage. Contents include:

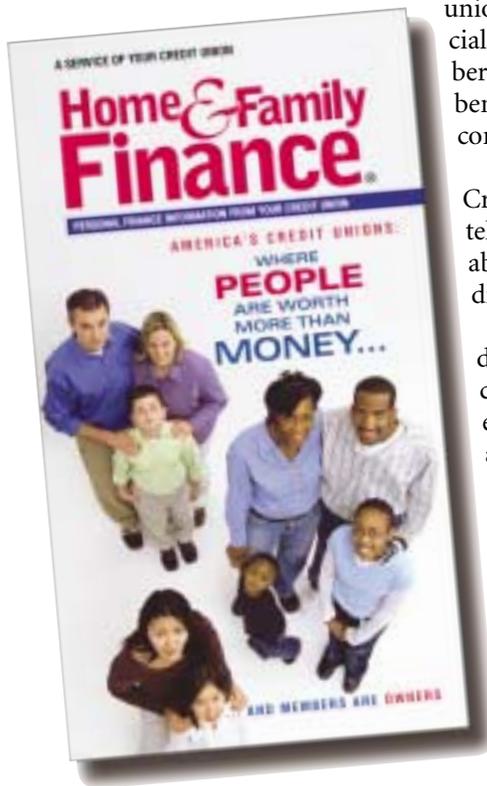
**Your Credit Union. The More You Use It, The More You Save.** The math is conclusive—use your credit union for all it's worth and you'll be way ahead on fees, dividends and loan rates.

**From Credit Histories to Hurricanes, Credit Unions Help Members Cope With Change.** The credit union "people helping people" philosophy rises to the challenge, be it small or great.

**Credit Unions and Banks: There Is a Difference.** Banker assertions to contrary, there are real differences between credit unions and other financial institutions. Member-owners are the big beneficiaries, but all consumers benefit.

**Applause, Applause.** Credit union members tell their own stories about the credit union difference.

"If your members don't understand the credit union difference, they won't be able to defend you, they won't understand the tax exemption, and they'll think a charter change doesn't matter," says Jim Hanson, vice president of CUNA's center for personal finance. 🏠



 **Member Education**  
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## Two Shots at Placing a Hold?

What are the options of credit union management when they learn—a little late—that a hold should have been placed on deposited funds?

Here's the situation: A member deposits a check from a third party bank into his/her share draft account and no holds are placed at the time. Later, someone at the credit union learns from a reliable source—maybe an employee at the bank where the check is drawn—that the check will be returned NSF.

Can the credit union now place a hold on the funds?

Kathy Thompson, CUNA's senior vice president of regulatory compliance, says yes, there are certain exceptions to a general rule that a hold notice must be at the time of a deposit.

"Regulation CC permits a hold to be placed on deposited funds after the date of deposit if the credit union has reason to doubt its ability to collect the deposited check," Thompson writes in a February *Compliance Challenge*. The credit union must then supply a written notice to the member. 🏠

 **Compliance Challenge**  
<http://www.cuna.org/compliance>

## ▶ Disclosure Date Too Soon, CUNA Says

CUNA supports a NCUA interim final rule to amend disclosure policy for "courtesy overdraft" privilege plans—a step taken in concert with bank regulators—because it would help credit union members and other consumers by strengthening overdraft disclosures.

However, the trade group said the NCUA should not go ahead with its planned July 1, 2006 compliance date.

In a comment letter to the NCUA, Jeff Bloch, CUNA senior assistant general counsel, noted that under the Truth in Savings Act, NCUA is required to issue rules that are substantially similar to those issued by the Fed Reserve Board, and the Fed rules carry the July compliance date. But the Fed, Bloch argued, issued its rule earlier thereby providing institutions with approximately one year to comply.

"[W]e request that the NCUA review this issue to determine if some flexibility is possible for credit unions to disclose this information in a less burdensome manner or to work with the Fed to provide flexibility for the entire industry," Bloch wrote.

 **NCUA's Interim Final Rule for Overdraft Privilege Plans**  
[http://www.cuna.org/reg\\_advocacy/reg\\_call/rcc\\_121305.html](http://www.cuna.org/reg_advocacy/reg_call/rcc_121305.html)



# >> Special Report

## Study: Members Don't Share in Conversion Benefits

Members should think twice about allowing their credit unions to convert to mutual thrifts or commercial banks because they are unlikely to share in any possible financial windfall such a change could bring, according to University of Wisconsin-Whitewater economics professors who just completed a study on the outcomes of these conversions.

An article in the Feb. 16 issue of *Wisconsin State Journal* reported the following findings in the survey of 175 financial institutions nationwide:

▶ Traditional credit unions have more customer-friendly rates on both loans and deposit options than banks and recently converted credit unions;

▶ The transition to mutual thrift—under which an institution remains non-profit, but has fewer legal restrictions on business activities and more centralized ownership—is a pre-

dictable prelude to the mutual becoming a bank that goes public and is bought by a mega-bank; and

▶ A charter conversion provides benefits to the newly formed banks, but the study saw no indication that new revenue streams benefit customers.

The transition away from the more consumer-friendly climate is “almost instantaneous,” study co-author Dr. Russell Kashian, a professor of urban and regional economics, told the Wisconsin daily morning paper.

“And who suffers? The people who suffer in this instance are the depositors,” he said.

Kashian’s co-author is Dr. Jeff Heinrich, an assistant economics professor. ☰

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

## NewsWatch

### Quick Quiz

### Quick!

Which competitors do bankers welcome?



A. Credit unions



B. Wal-Mart



C. Real estate brokers

The answer is: C. Real estate brokers

The bankers cry foul about credit union competition. The truth is, with just 6% of the market and higher regulatory restrictions, credit unions have not hindered banks’ consecutive years of record profits.

Bankers also cry foul about an attempt by Wal-Mart to start a bank in Utah. “As a general matter, commercial firms should not own banks,” the American Bankers Association (ABA) told the FDIC in opposing the retail giant’s bid.

At the same time, bankers are lobbying Congress to allow banks to enter the real estate business. The bankers claim that “no business should be immune from competition.”

“With housing prices at an all-time high—costing homebuyers and sellers tens of thousands of dollars with each real estate transaction—there is no better time to allow greater competition in the marketplace,” the ABA said during a House hearing in June. This is not unlike bank fees being kept in check by

the presence of credit unions in the marketplace.

Bankers speak with two tongues on the issue of competition: They ask Congress to protect them from competition while at the same claiming “competition is good for consumers.”

Bankers’ greed shows they want more than BOTH ways. Bankers want it ALL.

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



# >> Serving the Community

## CUs Embrace Youth Saving Challenge

With this year's National Youth Saving Challenge still two months away, more than 80 credit unions already have signed up for the event.

The third annual challenge is held in conjunction with National Credit Union Youth Week April 23-29. This year's theme is *My Money, My Credit Union—Where I Belong*.

The challenge encourages young members to open new accounts and make savings deposits throughout the week. Participating credit unions register for free on the CUNA website and set savings goals.

Then they tally the total amount deposited, the number of new accounts opened, and the total number of deposits made by young members during the week, and report those results to CUNA.

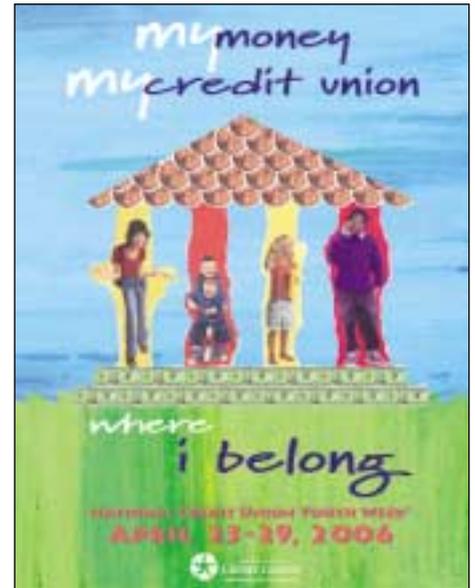
CUNA tracks the figures on a national level.

Last year's challenge brought in \$4.62 million—more than triple 2004's deposits of \$1.39 million—from 280 reporting credit unions.

Deposits were received from 35,882 young members, with 4,543 new accounts opened.

Based on last year's reports, the 280 credit unions saw an average of 129 young members deposit \$127 each. Of those members, 16 were new account holders.

During National Credit Union Youth Week, credit unions focus on young people's financial needs and provide financial literacy education. The event acts as a focal point for teaching the benefits of saving and goal setting.



Visit CUNA's website for more information and to register. 🏠

**National CU Youth Week**  
[http://www.cuna.org/initiatives/youth/youth\\_week.html](http://www.cuna.org/initiatives/youth/youth_week.html)

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