

*National CU Share Insurance Fund (NCUSIF) dividends only can 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%. Based on NCUA projections released at last week's board meeting, a dividend appears unlikely again this year. For other news from the meeting, SEE PAGE 6. (NCUA graphic)*

## House Introduces Broad Reg Relief Plan

House lawmakers introduced a broad regulatory relief bill for financial institutions last week that falls short, for credit unions, of the improvements and modernizations contained in the CU Regulatory Improvements Act (CURIA, H.R. 2317).

CUNA supports the House plan, but will continue its push for CURIA, which contains important provisions for risk-based capital systems and for increasing the cap on member business loans.

The House Financial Services Committee bill, introduced by Members Jeb Hensarling (R-Texas) and Dennis Moore (D-Kan.) July 28, is similar to legislation overwhelmingly approved last year by >>

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## CUNA Files Brief in Conversion Suit

CUNA says the NCUA is the only regulator focused on protecting consumer ownership of the equity in credit unions during charter conversions and the agency's judgment on the issue should not be questioned.

CUNA, along with the National Association of FCUs, filed what is known as a "friend of the court" brief asking a federal judge to allow the trade groups to participate in a recent lawsuit. That suit, filed by Plano, Texas-based Community CU, challenges an NCUA ruling to invalidate the credit union's membership vote on converting to mutual savings bank charter.

The CUNA brief, which must be accepted by the U.S. District Court for the Eastern District of Texas, seeks to explain the differences between credit unions and banks—and what happens to member equity when a conversion takes place. Aug. 2 is the court's deadline for filing responses.

"Some critics of credit unions are using this case to attack the judgment of our federal regulator," said CUNA General Counsel Eric Richard. "We need to help the court understand that NCUA is a worthy, independent regulator of credit unions."

Richard said CUNA recognizes that credit unions should >>

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Hispanic website popular among credit unions.



# >> Legislative Affairs

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## House Introduces Broad Reg Relief Plan

the House. Among at least 13 relief proposals for credit unions, the committee bill includes a net worth provision that would allow credit unions to continue pooling their capital after mergers.

CUNA President/CEO Dan Mica noted that credit unions continue to be the most heavily regulated of all financial institutions and applauded the bill for its focus on reducing a number of those burdens. He feels the bill's similarity to last year's measure will ensure a broad consensus of support among House members for passage in this Congress.

"We will work toward that goal as we also continue to build support for the important modernizations contained in CURIA," said Mica.

The Financial Services Regulatory Relief Act of 2005, as the House committee bill is called, carries the following benefits for credit unions:

- ▶ Privately insured credit unions to become members of a Federal Home Loan Bank;

- ▶ Leases of land on federal facilities for credit unions;
- ▶ Investments in securities by federal credit unions;
- ▶ An increase in general 12-year limitation of term of federal credit union loans to 15 years;
- ▶ An increase in 1% investment limit in credit union service organizations;
- ▶ Member business loan exclusion for loans to non-profit religious organizations;
- ▶ Check cashing and money transfer services offered within the field of membership;
- ▶ Voluntary mergers involving multiple common bond credit unions;
- ▶ Conversions involving common bond credit unions;
- ▶ Credit union governance;
- ▶ Providing the NCUA with greater flexibility in responding to market conditions;
- ▶ An exemption from pre-merger notification requirement of the Clayton Act; and



"We will seek to include CURIA's member business lending and prompt corrective action reform provisions into the broader regulatory relief legislation if possible."

— Dan Mica

- ▶ Treatment of credit unions as depository institutions under securities laws.

This bill also would streamline the filing process for currency transaction and suspicious activity reports as required by the BSA and eliminate some privacy disclosure requirements.

When Congress returns from its August recess, the Senate is expected to unveil its version of a regulatory relief measure. 🏠

**Regulatory Relief**  
[http://www.cuna.org/gov\\_affairs](http://www.cuna.org/gov_affairs)

## Congress Tackles Tough Data Security Issue

CUNA supports last week's vote by the Senate Commerce Committee to approve a data security bill, but Dan Mica, the group's president/CEO, wrote to Committee Chairman Ted Stevens (R-Alaska) saying any such bill needs to include the following requirement: that major credit card companies notify financial institutions about a breach, saying which merchant is responsible, which accounts are affected, and what personal information was compromised.

CUNA also supports a requirement that a breaching party reimburse consumers or financial institutions for any losses incurred.

These provisions were not included in the Commerce Committee bill. But that measure is just one of more than a dozen circulating Congress right now.

The Commerce Committee bill does require "covered entities" to have a security program for sensitive personal information that they collect, transfer, or discard in any way. It also requires them to notify the affected consumers and the FTC—but stopped short of requiring a report to financial institutions.

Credit unions will find they are exempt from some provisions of the bill if they are in compliance with Gramm-Leach-Bliley and the Fair Credit Reporting Act.

**ID Theft Resources**  
<http://www.cuna.org/initiatives/idtheft.html>

## CURIA Co-Sponsors Count



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



# >> Governmental Affairs

► From page 1

have an option to convert, but maintains that the credit union charter currently provides the best vehicle for serving the financial needs of consumers. Conversion should be a measure of last resort, according to the trade group.

CUNA advocates greater charter enhancements for credit unions and strictly opposes the unjust enrichment of insiders through the pirating of members' ownership equity.

CUNA also urges credit unions that are considering conversions to make their decisions based solely on the best interests of their members. And if they go ahead with conversion plans to make sure they use full, plain language disclosures to ensure a truly democratic process.

In its official policy statement on conversions, CUNA stands firmly behind NCUA and state regulators in the full use of their current authority to ensure that members understand the conversion process and that the fiduciary duties of credit union boards are enforced.

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

## Appropriation Earmarks \$45 Million for Development

The Senate Appropriations Committee earlier this month earmarked \$45 million for the Treasury Department's Community Development Financial Institutions (CDFI) Program—a program that says its vision is “an America in which all people have access to affordable credit, capital and financial services,” according to its website.

CUNA welcomes the funding, but believes the \$45 million level is too low. The group would much prefer to see the program restored to a minimum of \$80 million and could support an even higher ceiling.

During its consideration of next year's spending bill, Senate Appropriations also approved \$950,000 for the Community Development Revolving Loan Fund and continued a \$1.5 billion cap for the Central Liquidity Facility (CLF), which can act as a back-up liquidity provider for credit unions. The CLF cap has remained constant since 2001.

Late last month, the House approved similar legislation, but included \$55 million for CDFI. The measure now could end up in a House-Senate conference to work out differences in funding levels, among other discrepancies. 🏠

📄 **CDFI, CDRLF, CLF**  
[http://www.cuna.org/gov\\_affairs/index.html](http://www.cuna.org/gov_affairs/index.html)

## Keeping the CU Message Hot



*CUNA Legislative Affairs Manager Linda Gualtieri Haer briefs Indiana credit union representatives last week about current federal legislative issues. The briefing at Credit Union House on Capitol Hill was part of the league's Hike the Hill schedule. (CUNA Photo)*

Credit union reps were on Capitol Hill right up to the final moments before Congress' August break. They kept the fire under the credit union message as federal lawmakers wrestle with such things as data security breaches, Supreme Court nominations, and funding bills.

The Indiana CU League Hiked the Hill just days before lawmakers headed to home districts for the month. The big topics: the need for regulatory relief, especially through a vehicle like CURIA (H.R. 2317), and for a modern operating environment so credit unions can provide members with the best and cheapest services possible.

Hike the Hill campaigns will really heat up in September, when reps from 18 states will create an information and contact surge. A total of 46 states are expected to send representatives to Hike the Hill events before year end. 🏠

## MBL: A State-by-State Guide

Now when credit union representatives meet with lawmakers about the need for increased member business loan (MBL) authority, they have a great new tool to help make their case—courtesy of the economics and statistics department at CUNA. The department compiled a handy, state-by-state overview of MBL activity, available on the CUNA website.

This useful overview provides a business lending profile for each state with information on the number of credit unions with outstanding business loans, the dollar amount of those loans, and credit unions' market share, among other things. Also, all figures are compared to banks in the state.

The information is a great thing to pack in a briefcase when preparing to make a case in support of the CU Regulatory Improvements Act (CURIA, H.R. 2317), which proposes an increase to 20% from 12.25% in MBL lending.

📄 **State-by-State MBL Guide**  
[http://www.cuna.org/gov\\_affairs/legislative/issues/2005/curia\\_compare.html](http://www.cuna.org/gov_affairs/legislative/issues/2005/curia_compare.html)



# CUNA Future Forum

Looking for a conference that has some substance... something that's more than just entertaining...something that really zings? Register for CUNA Future Forum...it's something else.

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## HEADLINERS

Going for the Gold  
**MIKE ERUZIONE**  
*Captain of the 1980 U.S. Olympic Hockey Team*  
His compelling presentation focuses on teamwork, leadership, and defeating insurmountable obstacles. He'll inspire you to never give up on achieving your goals.  
It's Your Ship

**MIKE ABRASHOFF**  
*Best-selling author and former commander of the U.S.S. Benfold*  
The story of how the U.S.S. Benfold was transformed into the best ship in the Navy will ignite your enthusiasm to make a difference at work.

Business Lessons from The Apprentice's Straight Shooter  
**CAROLYN KEPCHER**  
*Executive vice president of The Trump Organization*  
If you've ever watched The Apprentice, you've seen Carolyn's business sense in action. She'll share what it takes to be successful both inside and outside the boardroom.

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# >> Regulatory Affairs

## Lower RegFlex Qualifying Minimum Proposed

The NCUA proposed an adjustment to RegFlex rules this month that could be good news for 482 credit unions. That's how many additional well-capitalized credit unions would fall under the favorable regulatory flexibility under an NCUA plan to lower the qualifying net worth ratio to 7% from 9%.

The proposal would negate any relative risk exposure by recommending that credit unions qualifying for RegFlex by maintaining 7% net worth do so for six consecutive quarters—substantially extending the current one-quarter minimum.

The proposal would also knock out a requirement that the NCUA notify credit

unions that automatically qualify for RegFlex. The agency proposed the change July 21 and will accept comments until Sept. 27.

Chairman JoAnn Johnson at the time of the vote noted her agency is actively engaged with Congress on capital improvements requiring statutory changes, but this action was one the agency could take without legislative change. The regulatory approach to improved capital rules looked just that much more important after a big reg relief bill was introduced by the House Financial Services Committee which excluded language for an NCUA-backed risk-based capital system for

credit unions.

In other action, the board unanimously voted to issue proposed changes aimed at strengthening the financial position of low-income designated credit unions.

It would permit them to redeem secondary capital within five years of maturity to prevent maturing secondary capital from diluting net worth when it remains booked as an asset. The action will help low-income credit unions steer clear of related prompt corrective action (PCA) requirements, according to NCUA. ▲



## ▶ IRS Cut-Off for Deferred Compensation Too Soon

CUNA and CUNA Mutual Group sent a joint letter asking the Internal Revenue Service (IRS) to extend through the end of the year the time period within which federal credit unions may establish a 457 deferred compensation plan and add new employees.

The IRS in mid-July issued an unexpected notice (Notice 2005-58) that federal credit unions interested in establishing such a plan have until Aug. 15 to do so. Calling the August date "arbitrary," CUNA and CUNA Mutual are asking the IRS to extend the period during which the cooperatives can adopt the deferred compensation plans to Dec. 31.

Setting the cut-off date less than a month away from the date of the announcement runs counter to assurances given a year ago by the IRS that federal credit unions should not hesitate to adopt a 457 plan, said the letter.

Last week's IRS notice did not resolve the issue of whether federal credit unions will ultimately be allowed to continue establishing 457(b) plans, but it did make clear that if there is a negative ruling there will be appropriate transition rules to avoid adverse tax consequences for participants.

Visit CUNA's website for more information.

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

## Concerns Raised Over Exam Resources

Seven credit unions failed in the first six months of 2005, and NCUSIF reserves totaled \$69.7 million, with an additional \$513,000 added during June to address specific problem credit unions, according to NCUA's mid-year budget report.

There were 281 problem, CAMEL code 4 and 5 credit unions at mid-year 2005 holding 1.04% of total insured shares. NCUA Board member Debbie Matz raised a number of concerns about the agency's budget, which included:

▶ Thirty-five staff vacancies, and a 7,500-hour deficit in NCUA's exam-

ination program.

▶ When the vacancy level exceeds 2% of full-time employees (FTEs)—or 19 vacancies—it is difficult to catch up.

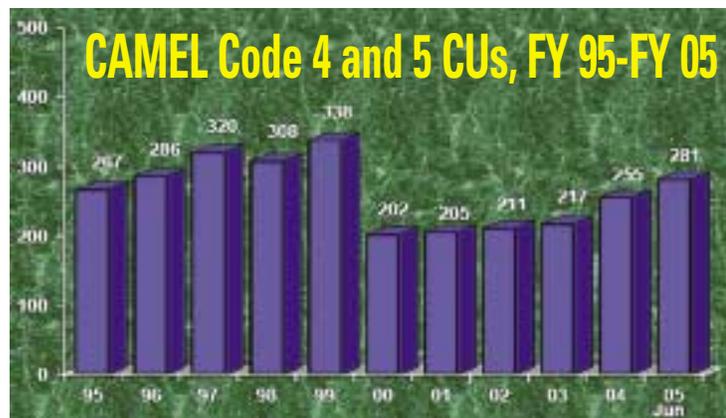
▶ Vacancies are having a significant impact on NCUA operations.

▶ The number of CAMEL 4 and 5 credit unions is continuing to rise, even as the number of total credit unions continues to fall.

▶ The percentage of insured shares in all troubled credit unions now exceeds 1% of all insured shares.

CUNA's Examination and Supervision Subcommittee will look into

and meet with NCUA about these concerns, said CUNA's Associate General Counsel Mary Dunn. ▲



(NCUA graphic)



# >> Serving the Community

## Hispanic Site Popular Among CUs

More than 1,000 page views are made each month at CUNA's Hispanic Resource Center. That indicates considerable interest by credit unions in reaching out to this growing consumer segment, says Danielle Chatfield, chair of CUNA's Hispanic Resource Center Advisory Group.

"CUNA's *Environmental Scan* has identified the Hispanic market as one of the key consumer segments for membership growth," said Chatfield. "That's why it is so important for credit unions who are already serving this market to share their experiences and policies with credit unions looking to reach out to Hispanics."

Chatfield said the group hopes "the center will provide information and materials that will make serving this market easier for other credit unions. Credit unions have a long history of cooperating and sharing, and the resource center is designed to facilitate that experience."

The Resource Center is divided into seven areas: news updates, a file library,

resource links, a listserv, product offerings, the final report of CUNA's Hispanic Task Force, and frequently asked questions.

To date, the most-visited sections are the news updates and file library. The website provides resources such as Internal Revenue Service taxpayer I.D. forms, matricula card information, a step-by-step guide to serving the Hispanic market, Spanish language materials, and research.

The database-driven website is designed to allow credit unions to post their information to the site themselves, Chatfield noted. She encouraged credit unions to sign up for the listserv and

share information such as resources that may prove beneficial to other credit unions seeking to serve better the Hispanic market. ■

**Hispanic Resource Center**  
<http://www.cuna.org/initiatives/hispanic>

### Hispanic Population Growth By State 1980-2000



Source: Pew Hispanic Center

Published in CUNA's 2005-2006 Credit Union Environmental Scan, stock #26657 at [advice.cuna.org](http://advice.cuna.org)



### ▶ Did You Know?

Expanding access to credit union remittance services could help immigrants across the United States keep more of their hard-earned dollars when sending money to family members they left behind.

Federal legislation supported by CUNA—including CURIA, H.R. 2317—would permit credit unions to provide remittance, check cashing, and money order services to all eligible members, which includes non-members who live within the credit union's field of membership.

CUNA's website has more information about how credit unions can support these efforts.

**Legislative Issues: Remittances**  
[http://www.cuna.org/gov\\_affairs/legislative/issues/2005/](http://www.cuna.org/gov_affairs/legislative/issues/2005/)

## Spanish Classes Offered for CU Staff

*Spanish for CU eSchool, Level II* kicks off eight weekly Thursday afternoon classes on Aug. 18 and concludes on Oct. 6.

The classes are designed for tellers, loan officers, member service reps and managers. They cover sentence structure, articles and adjectives, pronouns and verbs, present and perfect tense, interrogatives, object pronouns and vocabulary.

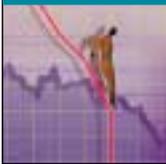
CUNA recently added a pretest so participants can determine which level of the Spanish course to attend. Also, registrants receive a free compact disk for continuing Spanish-language education.

An eSchool is an interactive classroom session with live, real-time instruction from industry experts via the Internet and a telephone conference call. Students also can interact with the instructor and other participants via online chats and live discussion.

For more information, visit CUNA's website or call 800-356-9655, ext. 4249. ■

**Spanish eSchool**  
<http://training.cuna.org>

Las cooperativas de ahorro y crédito: muy distintas—muy útiles.  
(Credit Unions: very different—very useful.)

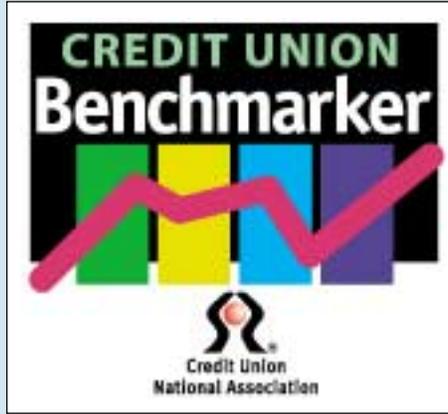


# >> The Marketplace

## New Benchmarking Measures CUs

A new benchmarking approach from CUNA allows simultaneous multiple variable comparisons between peer credit unions to measure performance in areas including membership growth, employee compensation, branch effectiveness, efficiency, capital use, and more.

Credit Union Benchmarker uses a benchmarking technique to generate a numerical benchmark for a credit union's overall business plan, based on a credit union's resources and services that it provides to its members, according to CUNA. Unlike traditional benchmarking products, CU Benchmarker has the capabilities to compare multiple user-selected variables at the same time, allowing for a precise reflection of the credit union's true high- and low-per-



formance peer group.

The reports use information obtained from NCUA's 5300 Call Report data as its basis, and allows for comparison by variables such as number of loans, loan

rates, number of deposit accounts, operating expenses, membership growth, services, dividends, equity, and more.

In the cases of larger credit unions, a scaling feature is utilized to allow for a larger peer comparison group, which is measured by constant returns of scale. Additionally, reports evaluate possible merger scenarios, provide a listing of outperforming credit unions, and produce charts and graphs to use in board and management presentations.

CU Benchmarker was developed by Hal Fried, professor of economics at Union College in Schenectady, N.Y., and other industry professionals.

For more information, visit CUNA's website or call 800-356-9655, ext. 4317. 📧

**CU Benchmarker**  
[http://advice.cuna.org/cu\\_benchmarker.html](http://advice.cuna.org/cu_benchmarker.html)

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