



Senate Panel Urged to Reform PCA

CUNA witness Chris Loseth (middle) and CUNA Legislative Affairs Vice President Gary Kohn (left) chat with Sen. Mike Crapo (R-Idaho) after last week's Senate Banking Committee hearing. Loseth told the committee reforms that enhance credit union operations, "will put money back in the pockets of Americans." (CUNA photo)

A credit union CEO and NCUA Chairman JoAnn Johnson appeared during a June 21 Senate Banking Committee hearing to explain how regulatory relief would improve service to members while maintaining credit unions' safety and soundness.

CUNA witness Chris Loseth, president/CEO of Potlatch No. 1 FCU, Lewiston, Idaho, told the committee that regulatory relief sought by credit unions would go far to help the movement enhance service to 86 million members.

During his testimony, Loseth focused on three points he said were of prime importance to credit unions. "Perhaps

the most critical issue on the horizon for credit unions is the need for reforming the prompt corrective action (PCA) regulations governing credit unions," said Loseth.

He told the Senate committee that because of their conservative management style, credit unions seek to be "well" capitalized, with a significant cushion above the required 7% level required by federal regulations.

"CUNA believes that the best way to reform PCA would be to transform the system into one that is more explicitly based on risk management," Loseth said at the hearing

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Conversion Principles Adopted

Announcing new principles on credit union-to-bank conversions, CUNA opposed the unjust enrichment of insiders through conversions and pledged to be the leading public advocate for the cooperative structure of credit unions.

The new policy on conversions promotes greater charter enhancements for credit unions and underscores members' rights to control their credit union. The principles, intended to guide CUNA and credit unions on the issue of charter conversions, were adopted by the CUNA Board of Directors at its regular meeting June 16 in Madison, Wis.

The 2005 guidelines maintained CUNA's earlier position, which recognized the fiduciary responsibility of directors and managers to present objective and honest information to members, as well as reasonable business alternatives to conversions such as merger and liquidation.

However, the policies adopted add an emphasis regarding CUNA's conviction that the net worth of a credit union belongs to its members and there should be no "unjust enrichment" to directors or senior management upon later conversion to a bank.

The board's directive sets CUNA to the following tasks:

- ▶ Establish a public comment period prior to distribution of conversion ballots

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>> Legislative Affairs

Witness Urges Parity if Personal Accounts Happen

David O. Brock, president/CEO, Community Educators CU in Florida, told federal lawmakers Thursday that credit unions should be included if proposed Social Security reforms per-



"Credit unions have a long history of serving as trusted financial advisors and in providing their 86 million members with financial education materials," said CUNA witness David O. Brock during a House hearing on Thursday. (CUNA photo)

mit financial institutions to offer personal retirement accounts.

Brock represented CUNA at a House Financial Institutions and Consumer Credit Subcommittee hearing on social security reform. It was the subcommittee's third session in a series

on changes to social security laws.

He said CUNA has taken no formal position on whether any plan to fix Social Security should include private accounts. However, if legislative changes allow workers to direct part of their payroll taxes into individual accounts, he said it makes sense to include all financial institutions as one option for participants.

Brock said it is difficult to forecast the potential effect of allowing consumers to deposit Social Security funds in financial institution savings accounts. But, he added that a projection based on an increase of 10% of current individual retirement account (IRA) balances might serve as a conservative estimate of increase of savings through a CD option.

"In this case, financial institutions would experience a \$27 billion increase in savings and credit unions would garner an estimated total of roughly \$5 billion, based on their current 18% share of the depository institution IRA market," the Community CEO said. 🏠

CURIA Co-Sponsors Number 62

Rep. Kendrick Meek (D-Fla.) is the latest federal lawmaker to attach his name as co-sponsor to the CU Regulatory Improvements Act of 2005 (CURIA, H.R. 2317), bringing the total to 62.

"We are confident that the number of co-sponsors will significantly exceed last year's total," said CUNA Legislative Affairs Vice President Gary Kohn. Co-sponsors for a credit union regulatory reform measure reached 68 in 2004.

CURIA was introduced in the House May 12 by U.S. Reps. Ed Royce (R-Calif.) and Paul Kanjorski (D-Pa.). Two key provisions of the bill, supported by CUNA, would implement a risk-based capital approach and raise the current threshold on credit unions' member-business lending.

Use the resource links to learn more and to view the complete list of co-sponsors.

CURIA, H.R. 2317
 http://www.cuna.org/initiatives/member/curia_video.html

Senate Panel Urged to Reform PCA

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headed by Sen. Mike Crapo (R-Idaho).

He added that credit unions with low net worth ratios, those well below what is required to be adequately capitalized, are the appropriate targets of PCA, and reforming PCA rules to reflect risk would preserve and strengthen the National CU Share Insurance Fund.

During her testimony, Johnson repeated her agency's support of statutory reforms that would, among other things, give NCUA authority to create a meaningful risk-based PCA system that would no longer punishes low-risk credit unions, and allow credit unions to provide check-cashing and money-transfer services to anyone eligible to become a member.

These provisions endorsed by CUNA are contained within the CU Regulatory Improvements Act (CURIA, H.R. 2317), which has been introduced in the House and carries 62 co-sponsors. 🏠

CURIA Co-Sponsors Count



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

>> Special Report

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Conversion Principles Adopted

to members;

- ▶ Enhance disclosures to members so they fully understand the impact of the conversion on each member;
- ▶ Assure the integrity of the conversion voting process, including disclosure around the use of credit union funds;
- ▶ Pursue federal and state charter enhancement for credit unions; and

- ▶ Seek ways to eliminate unjust enrichment in conversions.

CUNA Chairman Dick Ensweiler said, "The CUNA board has put forward a set of principles that make 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." Ensweiler is also president/CEO of the Texas CU League.



"Conversion is a decision that must be driven by a credit union's members, based on what is best for the members."

— CUNA Chairman Dick Ensweiler

"The board's overarching belief," Ensweiler said of the CUNA principles, "is that the credit union model serves consumers best. We shouldn't close the door on conversions, but we should do everything in our power to ensure it's a door members feel they never need to walk through." 🏠

Misconceptions Cloud Conversion Issue, Says Mica

CUNA President/CEO Dan Mica expressed concerns to all members of the Senate Banking, Housing and Urban Affairs Committee and the House Financial Services Committee that they might be receiving incomplete or misleading information about credit union conversions to mutual savings bank charters.

The issue of credit union conversions erupted during a June 9 hearing on financial institution regulatory reform conducted by the House Subcommittee on Financial Institutions and Consumer Credit. During a question and answer period, panel members grilled witness NCUA Chairman JoAnn Johnson about credit union conversions to mutual savings banks.

Among the points Mica emphasized to lawmakers:

- ▶ Mutual thrifts are not just credit unions by another name. When a not-for-profit credit union converts to a for-profit bank, the character of the institution materially changes.
- ▶ Evidence of the credit union difference appeared in a recent Forrester Research report showing credit unions rated considerably higher than banks and many other



"Mutual thrifts are not just credit unions by another name."

— Dan Mica

for-profit financial providers in consumers' opinions of which type of institution "does what's best for me, not just its own bottom line."

- ▶ The NCUA ensures the interests of member-owners are protected in the conversion process. The Office of Thrift Supervision's (OTS) rules on conversions do not protect the fiduciary interests of credit union members in the ownership of their institutions and their capital.
- ▶ As of year-end 2004, OTS regulated 886 institutions, down from about 4,000 in 1980, and it is fair to note that converted credit unions help support the need for a separate thrift regulator.
- ▶ NCUA's disclosure requirements are designed to be meaningful to the member, not burdensome to the credit union. 🏠

NCUA Won't Certify Conversion Vote

The NCUA said it would not certify voting results which approved a proposal to convert the \$1.4 billion asset Community CU, Plano, Texas, to a mutual institution.

The agency said the credit union failed to comply with disclosure regulations and therefore invalidated the current voting process.

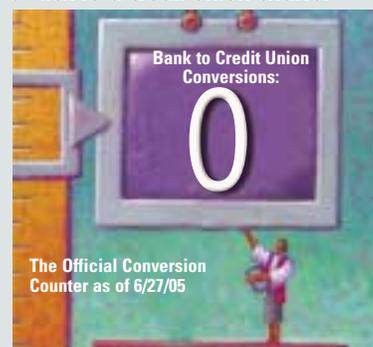
During a June 21 membership meeting, 71% of the voters supported the conversion. That represented about 36,000 votes cast—about 21% of the credit union's members.

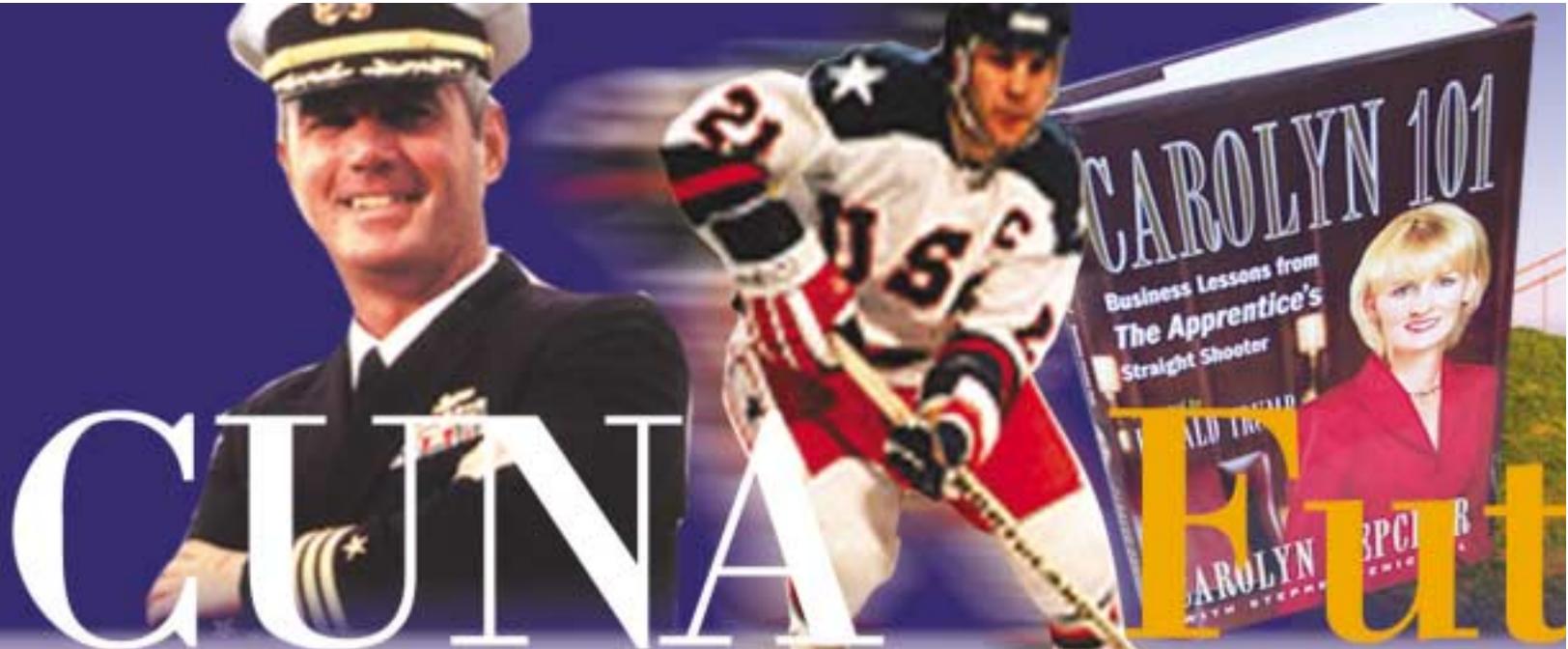
However, Community CU President/CEO Gary Base said the credit union has a state charter and ultimately is regulated by the Texas CU Commission. He said state regulators have no problems with the conversion and he expects the conversion to be approved.

Fort Worth-based OmniAmerican CU also is moving forward with its conversion process with elections set for July 11. 🏠

▶ UPDATE: Conversions

If bankers truly believe credit unions have such a sweet deal, then CUNA invites them to switch to a credit union charter.





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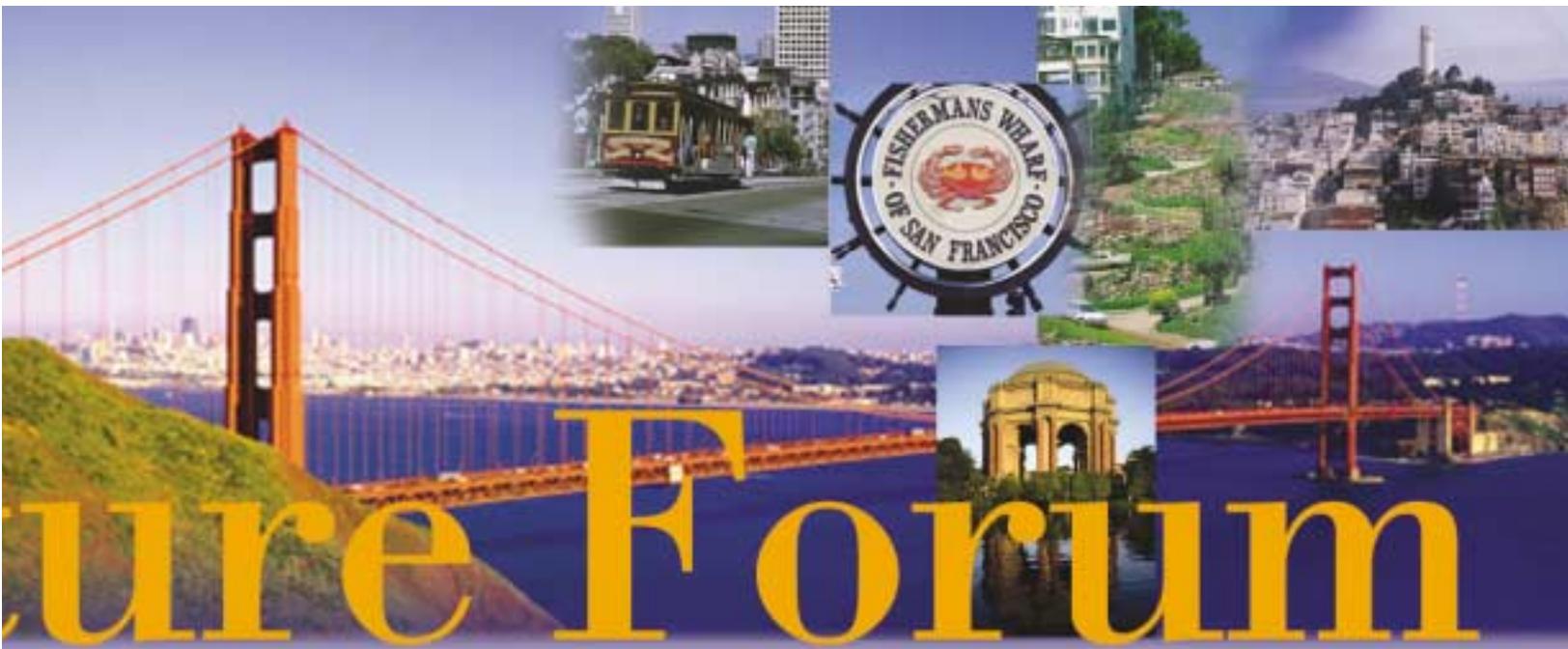
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>> Regulatory Affairs

CU's Alerted About Indirect Subprime Auto Lending

NCUA examiners will be closely assessing whether credit unions have adequate controls in place when engaging in indirect subprime auto lending through third parties, according to an 11-page alert the agency issued to federally insured credit unions on June 13.

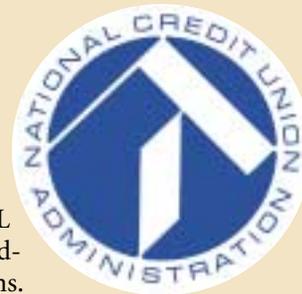
The agency issued Risk Alert No. 05-01 in response to what it called a "sharp increase" in the number of credit unions involved in these programs. NCUA's alert recommends credit unions:

- ▶ Regularly analyze the program's impact on net worth;
- ▶ Properly evaluate and oversee any third-party vendor's subprime underwriting criteria;
- ▶ Limit any third-party vendor's authority to alter loan terms;
- ▶ Test the accuracy of any third-party vendor's reports; and

▶ If appropriate, include an exit clause in any third-party vendor's servicing agreement.

"Failure to implement effective controls and monitoring systems will result in frequent supervision contacts and may result in a CAMEL downgrade and other appropriate administrative actions," NCUA cautions.

CUNA does not view this policy as a warning against all subprime or indirect lending, and will be working with leagues and the agency to help credit unions properly evaluate their programs, according to CUNA Associate General Counsel Mary Dunn. ⬆



NCUA Risk Alert No. 05-01
<http://www.ncua.gov/letters/RiskAlert.html>

House Passes FASB Fix

Legislation that would preserve the net worth of merging credit unions for prompt corrective action (PCA) purposes was approved June 13 by the House of Representatives in a voice vote.

The Net Worth Amendment for CUs Act (H.R. 1042), sponsored by financial institutions subcommittee Chairman Spencer Bachus (R-Ala.), clarifies the definition of net worth in the Federal Credit Union Act.



House Financial Institutions Subcommittee Chairman Spencer Bachus (R-Ala.) during April's hearing on credit union net worth and the FASB issue. (CUNA photo)

Under the legislation, merging credit unions could continue to use the "pooling" method of accounting in a merger, rather than the "purchase" method. The "pooling"

method results in the simple combination of balance sheets for the merging institutions; the "purchase" method requires a differentiation between an acquiring and acquired institution's equity.

The Financial Accounting Standards Board (FASB) has adopted merger rules for credit unions and other financials, in particular mandating the use of the "purchase" method, after Jan. 1, 2006 (revised earlier this year to Jan. 1, 2007). ⬆

FASB Mergers Project
http://www.cuna.org/reg_advocacy

▶ CUNA Wants Changes in NCUA MBL Regs

CUNA advocates several changes to a proposed federal regulation governing member business loans (MBL).

In a comment letter to the NCUA, CUNA asked the agency to remove elements from its MBL regulations that are not expressly required by statute, such as loan-to-value ratios, aggregate construction and development loan limits, and minimum borrower equity requirements.

"While the single largest impediment to a successful MBL program is the statutory cap on total MBLs, removing regulatory requirements that are not directed (by statute) could give credit unions important flexibility to engage in MBL programs," noted CUNA's letter.

CUNA also urged the agency to reconsider its proposed definition of construction and development loans, saying the rule as written would be "problematic" for credit unions. The proposed language would require credit unions to know a borrower's intent regarding use of a property, said CUNA.

CUNA supported the following provisions in the NCUA's proposed plans:

- ▶ Allow more guaranteed loan programs to qualify for more flexible regulatory treatment as SBA loans are permitted;
- ▶ Amend the definition of net worth in the MBL rule to make it consistent with prompt corrective action regulations; and
- ▶ Clarify the minimum capital requirements corporate credit unions need to make certain unsecured MBLs.

Visit CUNA's website to review the complete comment letter.

CUNA Comment Letters
http://www.cuna.org/reg_advocacy



>> Notes Bearing Interest

CU Ad Hits Washington, D.C., Publications

Why Do 86 Million Americans Love Their Credit Union? That is the banner headline of an ad that is running this month in publications geared toward Washington's legislative and regulatory populations.

The ad is intended to illustrate a need for credit unions to be involved in small business lending, a need that some small businesses say is not being met by banks. It is the result of a joint effort between CUNA and the National Association of FCUs (NAFCU).

The ad appears in the following publications: *The Hill*, *Congress Daily*, *Congressional Quarterly Today*, *National Journal*, *Congressional Quarterly Weekly*, and *Congressional Quarterly On Line*. 🏠

Why Do 86 Million Americans Love Their Credit Union?

Here's one member's reason....

When I came out of college, I had a dream to start my own successful business. Unfortunately, banks wouldn't help me because I didn't fit their credit criteria. But my credit union helped right away!

My credit union helped me buy a property located in a prime area. They helped me get out of debt and have a new start. They have been a great source of credit for me. They have helped me with my credit and helped me get a loan for my business. I have been able to get a loan for my business. They have helped me with my credit and helped me get a loan for my business.

Delvin Miller, Jr.
CEO, American Credit Union

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For more information, contact 202-628-6296.

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

CUs Best Banks in Key LMI areas, Congress Told

In three key areas, credit unions outperformed banks in lending to people of low or moderate incomes in 2003, CUNA President/CEO Dan Mica told members of the Senate Banking Committee and House Financial Services Committee.

Mica said data presented by the National Community Reinvestment Coalition (NCRC), based on Home Mortgage Disclosure Act (HMDA) information, shows "truly encouraging gains" credit unions have made over the past few years in lending to lower income individuals.

The NCRC used the HMDA in a report citing that credit unions do not perform as well as banks in this area and should fall under Community Reinvestment Act provisions.

Mica told the members of the congressional committees that the latest available HMDA data from the Federal Reserve reveals the following:

- ▶ In 2003, credit unions made a greater proportion of their loans to LMI borrowers (24.2%) than did banking institutions (23.2%).
- ▶ In 2003, an LMI borrower was far more likely to have his or her loan application approved at a credit union (75%) than at a banking institution (47%).
- ▶ The growth of loans to LMI and minority borrowers at credit unions far exceeded the growth of such lending at banking institutions during the two-year period ending in 2003.

"The NCRC does a disservice to lower-income and minority borrowers by reporting denial disparity ratios. Lower income borrowers are roughly 60% more likely to be approved for a loan at a credit union than at a bank," Mica told the lawmakers. 🏠

▶ Special Election Set for CUNA Board Seat

CUNA will conduct a special election to fill a new vacancy in a District 2, Class A seat on the CUNA Board. Nominations will be taken until July 18, with the election running from July 20 to Aug. 19.

Jim Oliva, District 2, Class A CUNA Director, offered his resignation from the CUNA board after taking a position with a Class B credit union. This means he is no longer eligible to fill the Class A seat term, which expires in 2006. His resignation is effective June 27.

Credit unions in the District 2, Class A may nominate a candidate on or before July 18. The election will be by written ballot from July 20 to Aug. 19.

District 2 covers Delaware, District of Columbia, Indiana, Kentucky, Maryland, Ohio, Virginia and West Virginia. Credit unions affiliated with CUNA and with less than 16,000 natural person members as of Dec. 31, 2004, can vote.

To nominate a candidate or find more information, visit CUNA's website or email thanson@cuna.coop. **Nominate or get more information** <http://www.cuna.org/cuna/index.html>



>> Serving the Community

'Members Make It Happen' is ICU Day Theme

"Credit Unions: Members Make It Happen" was selected as the official theme for this year's International Credit Union (ICU) Day, scheduled for Thursday, Oct. 20.

The credit union movement voted on the theme, via an online poll on the World Council of CUs' website. The theme was created to demonstrate the vital role that members play in the existence of credit unions.

CUNA will have web pages soon for ICU Day with this year's artwork and educational and promotional materials for ICU Day. During mid-July, affiliated credit unions will receive a full color poster that includes the theme and graphics, plus free planning resources.

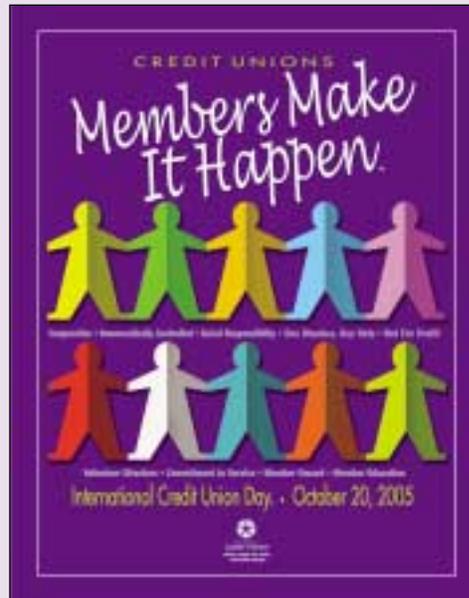
"The very first credit union came

into existence solely because its organizing members wanted to pool their money and be allowed to democratically control their financial futures," said Dan Mica, CUNA president/CEO.

"Members have always been the lifeblood of every credit union, and without the more than 123 million members worldwide, credit unions would cease to exist."

In that spirit, Mica reminded credit unions that there still is time to register for the World Council's 2005 World CU Conference in Rome, Italy. The event happens July 24-27. See the website for more information.

World Council of CUs
<http://www.woccu.org>



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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
Address Changes:
CUNA E&S, P.O. Box 431, Madison, WI 53701-0431; or call (608) 232-8045
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