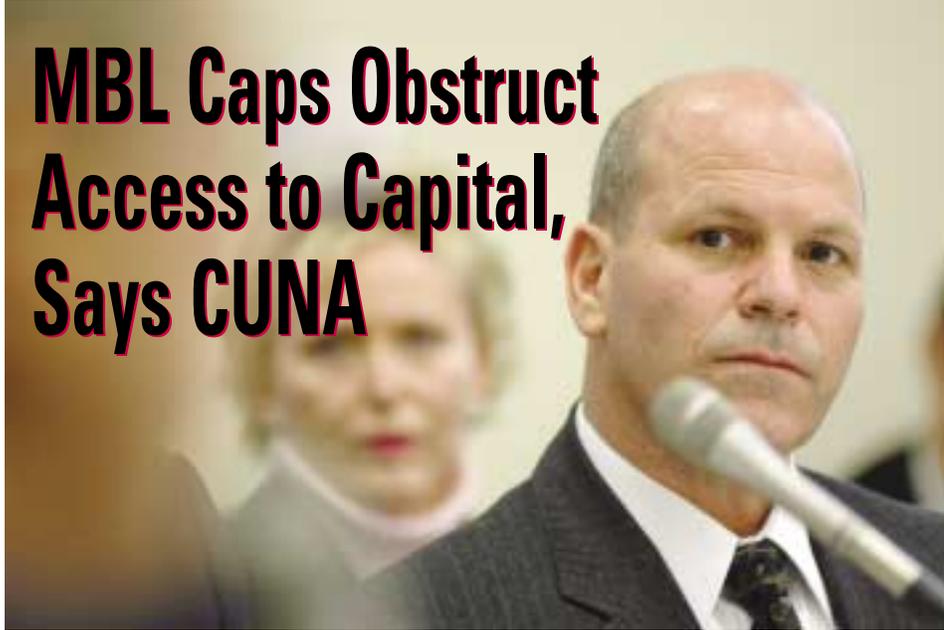


MBL Caps Obstruct Access to Capital, Says CUNA



Mike Hearne, president/CEO of LaFayette FCU, Kensington, Md., participates in a House roundtable hearing on small business regulatory relief. He said American consumers would reap additional savings that credit unions would pass along if unnecessary and costly regulatory burdens were reduced. (CUNA photo)

Credit unions need more relief from established limits on member business loan (MBL) activity so the capital requirements of small businesses can be fulfilled, Mike Hearne, president/CEO of LaFayette FCU, Kensington, Md., told a House Regulatory Reform and Oversight Subcommittee roundtable hearing about regulatory burdens facing U.S. small businesses.

The CUNA witness told the March 17 panel the CU Membership Access Act (CUMAA) limits MBLs to 12.25% of assets for practically all federally insured credit unions. "This severely restricts

small business access to credit outside the banking industry at a time when small firms are finding increasing difficulty in accessing credit within the banking industry," said Hearne.

He said the basic problems with the current MBL limits are:

- ▶ The limits are arbitrary and unnecessarily restrictive;
- ▶ The 12.25% limit discourages entry into the MBL business;
- ▶ The limits are not based on safety and soundness considerations; and

>> ▶ See page 7

Bankruptcy Reform Expected on House Floor

The House is expected to take up the CUNA-endorsed Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (S. 256) the week it returns from its spring recess, April 4.

The bill passed through the Senate March 10 without major amendments. The House Judiciary Committee approved the Senate-passed measure with no changes.

CUNA supports the bill because it provides for:

- ▶ Protecting consumers' right to voluntarily reaffirm their debts with their credit unions;
- ▶ Pushing those who have the means to repay some or all of their debt into Chapter 13 debt repayment plans, rather than allowing them to cancel their debts through Chapter 7; and
- ▶ Mandatory financial education.

"This legislation strikes a careful balance between consumers who are in genuine need of relief under bankruptcy laws, and creditors—such as credit unions—who too often see individuals that have the means to repay merely walk away from their debts," said CUNA President/CEO Dan Mica. "In the case of credit unions, that leaves the members of the cooperatively owned institutions paying the bill."

Bankruptcy Abuse Reform
http://www.cuna.org/gov_affairs/legislative/issues/2005/bankruptcy.html

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7 | GAO Study on Credit Reports

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>> Legislation Tracker

Top Legislative Initiatives CUNA Is Currently Monitoring

BILL/ISSUE	SUMMARY	STATUS
Preserving CUs' tax status	CUNA and the leagues are diligently working to preserve CUs' historic tax status of credit unions at the federal and state levels.	Ongoing advocacy
CU Regulatory Improvements Act	Provides for expanded member business lending opportunities (up to 20%) and reforms NCUA's prompt corrective action system.	Bill to be introduced
H.R. 1042, Net Worth Amendment for CUs Act	Addresses unintended consequence that could raise concern about CU merger accounting; provides for "pooling" accounting method.	Subcommittee hearing set for April 13
Regulatory relief	CUs remain most highly regulated and restricted of all insured financial institutions. Title III of the Regulatory Relief Act of the 108th Congress sought to undo burdensome requirements.	Bill to be introduced
H.R. 749, Expanded Access to Financial Services Act	Permits credit unions to provide money orders, wire transfer services and check cashing to all persons within their fields of membership.	Awaiting House floor action
S. 256, Bankruptcy Abuse Reform	The bill would create a "means test" for repaying debt, allow voluntary reaffirmation of debt with CUs, and require financial education.	Passed the Senate; House action expected week of April 4
Pension and savings reforms, including Social Security	CUNA is supporting legislative initiatives that will increase the savings rate. While CUNA has no position on whether there should be private accounts, it will be involved in Social Security discussions insofar as they may involve financial institutions offering them.	Congressional action pending
Community Development Financial Institution (CDFI) funding and location	The Bush Administration proposed cutting funding for the CDFI program and moving it under the Commerce Department as a block grant program. CUNA supports increased funding and opposes shift to the Commerce Dept.	Budget committees are considering traditional funding
Deposit insurance reform	A House measure seeks to increase deposit insurance to \$130,000 and index the bank, thrift and credit union insurance funds thereafter, among other things.	Subcommittee hearing was held March 17
Predatory lending	Predatory lending measures are on the congressional agenda. CUNA has specific requirements so as not to negatively affect subprime lending, as well as to protect consumers.	No hearings yet, although bills have been introduced.
S. 190, Housing government-sponsored enterprises reform	House and Senate banking leaders are considering creating a new regulator for Fannie Mae and Freddie Mac, and other reforms.	House bill and Senate hearing on an existing bill expected in April.

House Addresses CU Access, Accounting Issues

The House Financial Services Committee approved on March 16 the Expanded Access to Financial Services Act of 2005 (H.R. 749). The bill strongly supported by CUNA would permit credit unions to provide money orders, wire transfer services and check cashing to all persons within their fields of membership.

CUNA recognizes that credit unions are perfectly positioned to deliver wire transfer services in an effort to combat predatory practices, according to CUNA Legislative Affairs Vice

President Gary Kohn.

On a separate issue, House Financial Services Financial Institutions Subcommittee Chair Spencer Bachus (R-Ala.) scheduled an April 13 hearing on the Net Worth Amendment for CUs Act (H.R. 1042) to make a statutory change in the accounting of credit union mergers. Witnesses will be representatives from NCUA and the Financial Accounting Standards Board (FASB).

CUNA President/CEO Dan Mica commended the quick action and support of

the bill to address an issue that must be resolved by the beginning of next year, when FASB's accounting rule takes effect.

FASB proposed changing merger accounting rules from a "pooling" to a "purchase" method. Under the purchase method, a surviving credit union couldn't count a merged credit union's net worth toward its own, which could lower its net-worth classification under prompt corrective action. 🏠

Issues 2005
 http://www.cuna.org/gov_affairs

CURIA: Questions & Answers

Part I of III



Sandy Lingerfelt
President/CEO
Clinchfield FCU
Erwin, Tenn.

>> \$51 million in assets

>> 6, 100 members

The last major changes to the Federal CU Act occurred in 1998, with the passage of the CU Membership Access Act (H.R. 1151). The past seven years have provided an opportunity for credit unions to identify unnecessary and outdated provisions and recommend common sense improvements. Congress is expected this spring to introduce the CU Regulatory Improvements Act—known by its acronym, CURIA.

Of particular interest for credit unions is raising the cap on member business lending, and implementing a risk-based capital approach. Visit CUNA's website for additional details about the proposed bill.

In this first of a three-part series, *NewsWatch* spoke with CUNA Board Member Sandy Lingerfelt about how she anticipates CURIA could impact service to her members and how she plans to actively push for the bill.

>> Part II: CURIA Q&A with Patrick Jury, vice president of the Iowa CU League

>> Part III: CURIA Q&A with Gary Kohn, CUNA vice president of legislative affairs; and Richard Gose, CUNA vice president of political affairs

Q: How will your members benefit from CURIA?

A: As it stands now, prompt corrective action (PCA) considers my credit union to be “well-capitalized” with a net worth ratio at just under 10%. Credit unions historically have had the lowest default/delinquency rates in virtually all categories of loans and have maintained average net worth ratios well in excess of those held by banks. Proposed reforms would recognize that my net worth ratio is well above what is considered “well capitalized.” This means I can continue to operate my credit union in the best interest of my members instead of having to build up capital.

Also, by having the expanded ability to provide more member business loans, we can have a bigger role in the future of our members. And, of course, the more involved we are with members the more likely they will bring family members in to join. As our credit union grows, we will need to expand our services to include member business loans. I see our movement as “growing” into this service for the everyday consumer that has a small business as the banks are “growing” out of providing it.

Q: Some credit unions may find that CURIA won't benefit them right now. If so, why should those credit unions still support CURIA?

A: For the first time ever we, the credit union movement, are taking a proactive stance and not a reactive one! All credit unions can be behind the bill, even if they aren't interested in a couple of provisions. One day they might be. CURIA is about credit unions—not banks—defining our future. Instead of our members having to wait for services they need, we can provide them as needed.

Q: How will you get your members excited about this pending bill?

A: By explaining that it is their future! The stronger credit unions are, the more we can do for our members. Members love the fact that they are “member/owners.” They appreciate the opportunity to make a difference by writing a letter or contacting their legislator about pending legislation.

Q: What other methods will your credit union employ to support the bill?

A: All employees will be given “talking points” about the bill. We will have posters throughout the credit union and information available at every teller station for members to take and read. We have advisors at each of our 46 select employee groups (SEGs) who will post materials on company bulletin boards. Also, I write a “letter to our members” in our quarterly newsletter and will address the issue in it.

Q: Any other grassroots tips and trick you can recommend?

A: I think all CEOs should be educating staff and board members now about what is in the bill and the importance of it. Also, take advantage of opportunities to talk one on one with legislators.

Also, we take our “show on the road” and try to visit each and every one of our SEGs every two years. Most employers give us time to talk to the members as a group. During that time, I always explain the credit union difference and encourage members to have an active voice in their credit union.

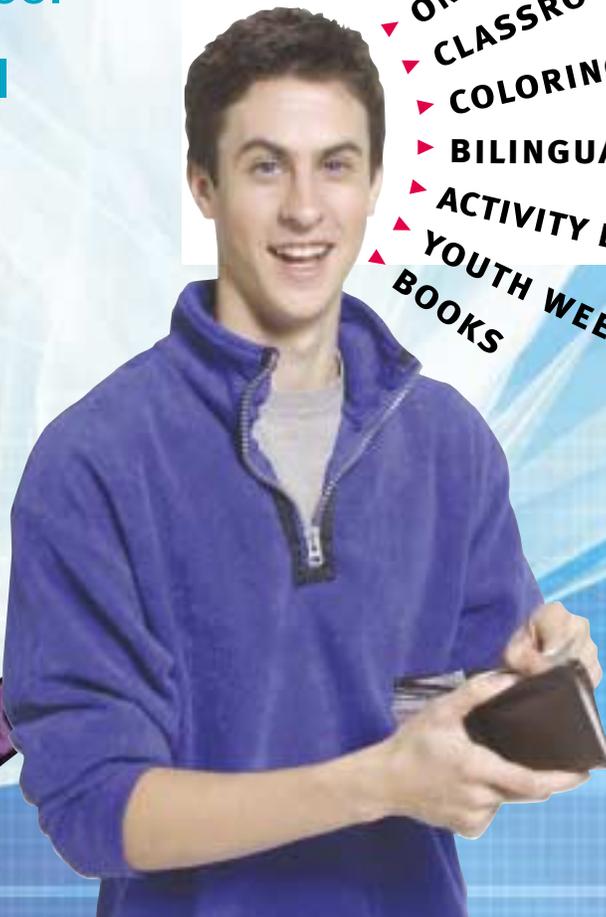
Legislative Issues 2005
 http://www.cuna.org/gov_affairs

Grassroots
 http://www.cuna.org/gov_affairs/grassroots

Build Your **C**omprehensive **Y**outh Program in a **S N A P**

- ▶ Elementary School
- ▶ Middle School
- ▶ High School

- ▶ ONLINE MAGAZINES
- ▶ CLASSROOM MATERIALS
- ▶ COLORING & COMIC BOOKS
- ▶ BILINGUAL MATERIALS
- ▶ ACTIVITY BOOKS
- ▶ YOUTH WEEK BOOKS



Lead Youth to Lifetime Membership

The average age of adult credit union members is 47, past their prime borrowing years.

So what's the best way to increase your credit union's business, while increasing your membership?

Reach out to your youth members! Today's youth are brand-loyal and tend to stick with the things that are most important to

them. Grab the attention of youth, and you're likely to keep it.

Give them the tools to use money and credit wisely, and they'll turn to your credit union as a trusted source for financial services. Whether you're starting from scratch or already have kids' and teens' programs in place, CUNA has a variety of proven tools to reach and teach your young members.

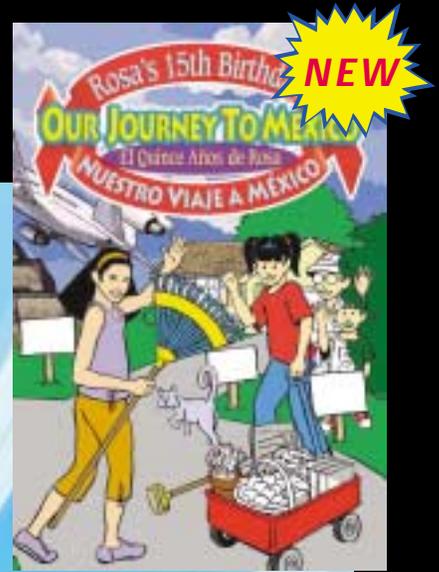




Reach Reach out

For your youngest members, coloring and activity books like *Rosa's 15th Birthday: Our Journey to Mexico* engage their interest by incorporating savings lessons into fun learning activities.

Middle-school aged children in your community will enjoy *Googolplex™@school*, an in-school program sponsored by your credit union, featuring a live, entertaining theatrical production by The National Theatre for Children.



ELEMENTARY SCHOOL

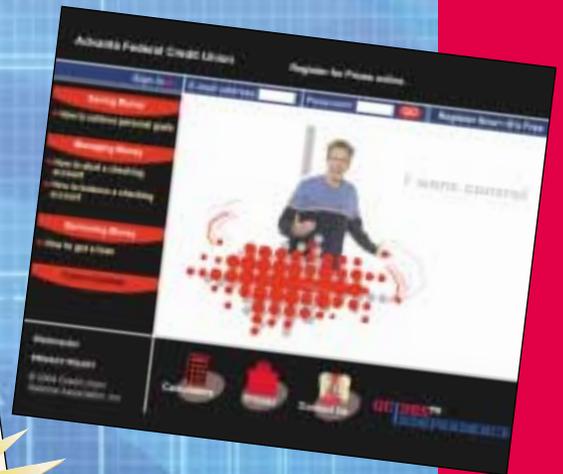


Reach teens and young adult members through the *Guides to Independence*—interactive online guides that give them access to courses such as managing a checking account, budgeting for expenses, and getting a loan. Also, you can download a **FREE** NEFE program from our Web site.

For more information about these and other products to enhance or build a youth program, visit www.cuna.org and click on Youth Education under CUNA Initiatives, or call 800-356-8010, press 3.



MIDDLE SCHOOL



HIGH SCHOOL

**DOWNLOAD A FREE
NEFE High School
Planning Program!**



>> Regulatory Affairs

NCUA Simplifies CUSO Auditing

The NCUA board during its March 17 meeting proposed amending its credit union service organization (CUSO) regulation to allow a wholly owned CUSO to avoid the requirement to obtain a separate financial statement audit from a certified public accountant (CPA), as long as the CUSO's statement is included in the consolidated financial statement of the parent federal credit union.

NCUA's current rule states that prior to investing in or lending to a CUSO, a federal credit union must obtain a written commitment from the CUSO that the CUSO will secure an annual opinion audit of its financial statements from a CPA in accordance with generally accept-



ed accounting principles (GAAP).

While GAAP would also allow a credit union that is the majority owner of a CUSO to procure a consolidated audit, NCUA is limiting the proposed amendment to wholly owned CUSOs to help ensure that full disclosure of potential risks is available to prospective minority investors in the CUSO.

Many small and mid-sized credit unions rely on CUSOs to provide services they could not offer through their credit unions. Nearly 5,600 credit unions—more than 60% of all credit unions—have at least a minority stake in a CUSO. There are 588 wholly owned CUSOs. ☛

NCUA Board meeting summaries
http://www.cuna.org/reg_advocacy

CU Issues Brought to Fed Consumer Panel

During the Federal Reserve's Consumer Advisory Council (CAC) meeting March 13, Faith Anderson, of American Airlines FCU, Fort Worth, Texas, addressed credit union issues related to Regulation E, the Home Mortgage Disclosure Act (HMDA), financial literacy and the Truth in Lending Act.

Prior to the Fed meeting, Anderson discussed the issues with CUNA, which nominated her to the CAC last year.

Anderson reiterated CUNA's opposition for payroll cards being covered under Reg E. Concerning HMDA, she said financial literacy and the Financial Literacy and Education Commission created under the FACT Act can go a long way to helping educate consumers so that they can get the best loans that they qualify for without resorting to predatory lenders.

In addition, credit unions support simplifying disclosures—especially with regard to credit card fees—relating to the Truth in Lending Act, noted Anderson, vice president of legal and compliance and general counsel.

CAC advises the Federal Reserve Board on its responsibilities under the Consumer Credit Protection Act and other consumer-related matters. Its members are chosen to represent the interests of consumers, communities and the financial services industry. ☛

Is 'Uniformed Services' Program In Compliance?

Is your credit union in compliance with the new December 2004 requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994?

All employers now are required to provide employees with information concerning their rights, benefits and obligations, which protect the civilian employment rights and benefits of veterans and members of Reserve components. The law also extended the period for continuation of health care coverage.

The U.S. Department of Labor has developed a model notice that credit unions can post to fulfill this requirement "where employers customarily place notices for employees."

Check out the March 2005 issue of *Compliance Challenge* for more information. ☛

Compliance Challenge
http://www.cuna.org/compliance/member/comp_challenge/comp_challenge.html

▶ New MBL Program To Help CUs

The NCUA board has approved a third-party provider investment pilot program to enhance member business loan (MBL) opportunities for America's credit unions.

The board approved the pilot program developed by CUNA Mutual Group's CU System Funds—a private investment fund—which will purchase loans from credit unions and sell shares in the fund as investments to interested credit unions. The approval will permit

credit unions to purchase shares in CUNA Mutual Group's MBL funds.

"CUNA Mutual's pilot program is an innovative approach to improve liquidity for MBLs and allow credit unions to better serve their MBL needs," said NCUA Chairman JoAnn Johnson.

NCUA Board Member Debbie Matz pointed out, "[W]e have established clear regulatory boundaries for this pilot program that will limit the risk exposure for investors, require a mean-

ingful participation stake for sellers and set high standards for third-party providers."

The aggregate \$1 billion program will allow credit unions to invest in shares of a series of funds holding a portfolio of credit union originated MBL participations.

Member Business Services
http://www.cuna.org/initiatives/business_seg/index.htm



>> Notes Bearing Interest

Report: Consumers Could Use More Financial Ed

The Government Accountability Office (GAO) found that consumers understood the basics of credit reporting and the dispute process, but could benefit from “targeted educational efforts,” according to the agency’s March 2005 report.

On the positive side, the report found that 60% of consumers have looked at their reports, 30% have obtained their scores and approximately 18% of consumers have disputed inaccurate information on their reports.

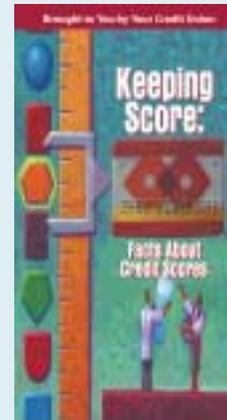
However, consumers generally did not know that their reports could impact insurance rates or potential employment, did not know carrying high balances on all cards

could negatively affect their credit rating or that they could contact the Federal Trade Commission (FTC) if they weren’t satisfied with the dispute process.

The report found that consumers who had experience with credit—such as auto or home loans—were more knowledgeable about the credit reporting system.

The GAO recommended the Treasury and FTC take steps to improve consumers’ understanding of their rights and remedies under the FACT Act, targeting groups that would most benefit. ■

CUNA Financial Literacy Initiatives
<http://www.cuna.org/initiatives/youth>



“Keeping Score”
http://buy.cuna.org/static/new_stuffers_spec2.html#23557-WEB

▶ From page 1

MBL Caps Obstruct Access to Capital, Says CUNA

▶ The MBL definitions create disincentives that hurt small business.

Hearne explained that the current \$50,000 threshold for defining an MBL is too low. He pointed out that it creates a disincentive for credit unions to make loans to smaller businesses because they have to set up a formal MBL program in compliance with all the requirements of Section 723 of NCUA regulations.

“The \$50,000 threshold was initially established in 1993 and hasn’t been adjusted since,” he said. “In fact, the NCUA was poised to adopt a \$100,000 threshold by regulation in 1998 until CUMAA incorporated the \$50,000 regulatory definition into statute.”

Hearne also urged Congress to ensure the Small Business Administration’s 7(a) program was sufficiently funded.

Rep. Todd Akin (R-Mo.) chaired the hearing. House Small Business Committee Ranking Member Nydia M. Velázquez (D-N.Y.) and Rep. Sue Kelly (R-N.Y.) also participated.

Member Business Resources
http://www.cuna.org/initiatives/business_seg

▶ Member Seminars Made Easy

Topics such as “first-time homebuying” and “identity theft” that are pressing on the minds of credit union members are addressed in a time-saving tool for planning and executing member education seminars.

CU Seminars in a Box kits save credit union educators much of the time it would normally take to organize a member presentation by researching the most pressing financial issues facing consumers today and creating professional presentation kits from the findings.

Each topic was then developed into a reusable kit containing a PowerPoint presentation on CD-ROM with corresponding speaker sheets; a step-by-step planning checklist; take home information for members including worksheets, statement stuffers, and handbooks; sign-up sheets and evaluation forms; and promotional materials such as poster and flyer graphics and a sample newsletter article.

Among the topics:

- ▶ Build a Basic Budget: The Five-Step Spending Plan
- ▶ Identity Theft: Who’s Got Your Number?
- ▶ Take Charge: Wise Use of Credit Cards
- ▶ First-Time Homebuyer Education
- ▶ Value of a Dollar: Teaching Your Pre-School Aged Child
- ▶ Buying Your First Car
- ▶ Basic Investing
- ▶ Planning & Saving for Retirement
- ▶ Organize Your Financial Records

For more information or to order, visit CUNA’s website, or call 800-356-8010 and press 3.

CU Seminars in a Box
http://buy.cuna.org/static/seminars_in_a_box.html



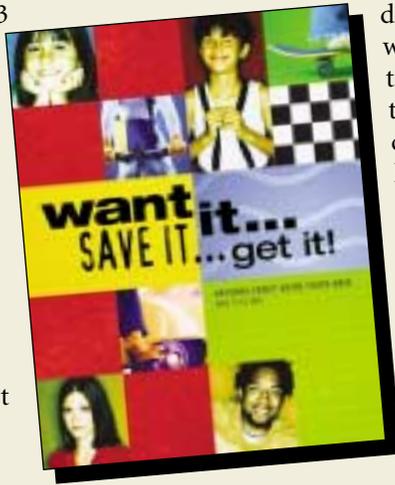
>> Serving the Community

CUs Aim to See Youths Deposit \$2 Million

Credit unions are on track to shatter the \$1.4 million youth deposit record set in 2004 during the first-ever *National Youth Saving Challenge*, which coincides with the *National CU Youth Week*. This year's event will take place Apr. 17-23 and is themed "Want it...Save it...Get it!"

The *National Youth Saving Challenge* encourages young credit union members to open savings accounts and make one or more deposits during the week. Participating credit unions tally the total amount of deposits, the number of new accounts opened, and the total number of deposits made by young members during the week and report their results to CUNA to determine figures on a national level.

To date, 215 credit unions are currently registered to participate this year. Collectively, these credit unions aim to safely care for over \$2 million from more than 38,000 total youth member deposits



during the week. Additionally, participating credit unions hope to open accounts for 5,700 new youth members.

The 2004 inaugural year of the saving chal-

lenge exceeded expectations. Nearly 16,000 young members at 143 credit unions—including more than 1,850 new accounts—deposited nearly \$1.4 million in their saving accounts.

Participating affiliated credit unions can register on CUNA's website for free. The site also contains educational and promotional materials for Youth Week along with free planning resources for credit unions.

For more information or to participate, visit CUNA's website, or call Philip Heckman, CUNA's director of youth programs, at 800-356-9655, ext. 4088. 📧

National Youth Saving Challenge
http://www.cuna.org/initiatives/youth/saving_challenge.html

http://www.cuna.org/initiatives/youth/saving_challenge.html



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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
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Address Changes: CUNA ER&S, P.O. Box 431, Madison, WI 53701-0431; or call (608) 232-8045
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FIRST CLASS TIME SENSITIVE MATERIAL

MARCH 28, 2005



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

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