



# CREDIT UNION NewsWatch



LEGISLATION, REGULATION, AND INNOVATION FROM THE CREDIT UNION NATIONAL ASSOCIATION

MAY 10, 2004



## 'Bankers' Threat Is Real'

In a videotaped message distributed for league annual meetings, CUNA President/CEO Dan Mica explains the bankers' efforts at eliminating credit unions from the financial marketplace. (CUNA photo)

system in this country. In fact, they're trying to take a page from our book and beat us at the grassroots level. We can't let that happen. Credit unions and the leagues need to step up their efforts over the next six months right up to the elections to ensure the movement's tax exemption.

**Q: What evidence is there that the bankers are organized?**

**A:** The March issue of *Texas Banking*, which is published by the Texas Bankers Association, outlines the banking industry's strategy for attacking credit unions. Bankers are conducting a major educational campaign in the states and in Washington. The American

Bankers Association (ABA) has launched "Operation Credit Union" that includes letters from depository institutions to Congress asking for support on taxing credit unions. The chairman of the House Ways and Means Committee has called for hearings on taxing credit unions. The bankers are also using their advertisement that says 'If it quacks like a duck...' to get their message across to their customers. The ABA has put taxing credit unions above fighting terrorism and banker ethics on its super-priority list and has studied their messages through focus groups as well. It's

▶ See page 3

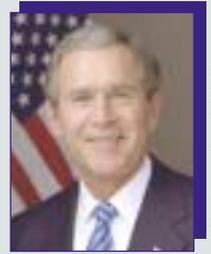
With bankers attempting to build consensus on Capitol Hill and in the states for taxing credit unions, CUNA President/CEO Dan Mica answers questions relating a new sense of urgency for credit unions to fight back against bankers' attacks on the movement.

**Q: How likely is it that Congress will repeal the credit union tax exemption?**

**A:** With the banking industry's new strategy to attack the credit union movement's tax exemption, which includes new educational efforts on Capitol Hill, the bankers are at it again trying to hurt the white hats in the financial services

## Bush Supports CU Tax Status

President George W. Bush told CUNA President/CEO Dan Mica that he supports the tax exemption for credit unions because of their structure as "service-oriented, member-owned financial cooperatives." Both major party candidates now have endorsed credit unions' tax status.



White House photo by Eric Draper

In a letter to Mica dated April 30, Bush wrote, "I support strongly the tax-exempt status of credit unions, and will continue to highlight the important contributions that credit unions make to our financial system."

Bush said America's credit unions have played an important role in the success of his administration's "pro-growth" policies. "By increasing lending opportunities to small business, families, and workers, credit unions are contributing to our economic recovery and increasing opportunities in our communities."

In March, Democratic presidential hopeful U.S. Sen. John Kerry (Mass.) said he would "oppose any efforts to change the existing tax-exempt status of credit unions."

Mica commended Bush for his continued support of the credit union tax-exempt status. He cautioned, however, that the Bush and Kerry endorsements are not expected to deter the bankers from attacking credit unions. ☝

### Inside

#### 2 | Possible June Hearing On CURIA

Legislation would ease capital and business lending restrictions on credit unions.

#### 3 | Special Report

Assessing the bankers' growing threat against credit unions.

#### 4 | BANK ATTACKS: CUs Fight Back!

New Web initiative consolidates resources into one place.

#### 7 | A New NCUA Board Chairman

President Bush taps Johnson to replace Dollar.



# >> Legislative Affairs

## Possible June Hearing On CURIA

The House Financial Services Financial Institutions and Consumer Credit Subcommittee anticipates holding a hearing in early June on legislation that would ease credit union capital and business lending restrictions.

This legislation, the CU Regulatory Improvements Act (CURIA, H.R. 3579), currently has 44 House co-sponsors and more are expected this week.

“Building support for legislation to expand credit unions’ regulatory environment is a top priority for CUNA,” said

Gary Kohn, CUNA’s vice president of legislative affairs and senior legislative counsel. “We look forward to hearings on this important legislation.”

Among its provisions, CURIA would increase the limit on credit union member business loans to 20% of assets, up from 12.25% of assets, and reform the prompt corrective action system to take into account more accurate risk assessments. 🏠

**CUNA Grassroots Action Center**  
[http://www.cuna.org/gov\\_affairs/index.html](http://www.cuna.org/gov_affairs/index.html)

## Senate Stalled On Bankruptcy Reform

Senators attempting to attach non-germane amendments to legislation moving in the chamber has slowed down the process and effectively stalled action on bankruptcy reform at the present time.

The Bankruptcy Abuse Reform and Consumer Protection Act (H.R. 975) passed the House on March 19, 2003. It has not yet passed the Senate.

CUNA’s top three priorities in bankruptcy abuse reform legislation are:

- ▶ Protecting the ability of credit union members to voluntarily reaffirm their debts with their credit unions;

- ▶ Inclusion of a meaningful “means test;” and
- ▶ Inclusion of mandatory financial education provisions.

Credit unions are strong supporters of bankruptcy reform legislation. Credit unions have suffered record levels of bankruptcies for several years and have observed that too many members walk away from their debts, although many have an ability to pay back some or all of their debts. 🏠

**CUNA Governmental Affairs**  
[http://www.cuna.org/gov\\_affairs/index.html](http://www.cuna.org/gov_affairs/index.html)

## Cooperatives Honor Rep. Maloney

U.S. Rep. Carolyn Maloney (D-N.Y.), a senior member of the House Financial Services Committee and original co-sponsor of the CU Regulatory Improvements Act (CURIA, H.R. 3579), received a National Cooperative Business Association (NCBA) Honored Cooperator Award for her support of cooperative business.



*From left, U.S. Rep. Carolyn Maloney (D-N.Y.) and CUNA Vice President of Legislative Affairs Gary Kohn. (NCBA photo)*

New York State CU League Governmental Affairs Director Amy Kramer and CUNA Legislative Affairs Vice

President Gary Kohn were among a mix of state and national cooperative organizations, led by NCBA, which presented the award to Maloney. CUNA President/CEO Dan Mica noted Maloney has been “a good friend of credit unions, one who truly understands what makes us unique as member-owned, not-for-profit cooperatives.”

Maloney thanked the groups and emphasized the importance of cooperatives and credit unions in the marketplace. She recalled one instance when banks closed branches in her district’s neighborhoods. “Credit unions stayed and helped the people,” said Maloney. “I will never forget that. They fill an important niche.”

The award was presented as part of NCBA’s 2004 Cooperative Conference in Washington, D.C. CUNA participated in the conference and provided an information booth in the Cannon House Office Building. 🏠

## By the Way

▶ Start your day with the freshest news that affects your members, your credit union and your job. It’s CUNA News Now emailed to you each morning and it’s FREE. **Sign Up Online** <http://www.cuna.org/newsnow>

▶ CUNA will co-chair the Small Business Administration’s (SBA) Expo ‘04 to be held May 19-21 at the Orange County Convention Center in Orlando, Fla. The three-day event, formerly known as the National Entrepreneurial Conference and Expo, features a series of business matchmaking sessions, as well as small business exhibits, awards meetings honoring state small businesses and outstanding contributors for disaster relief, among others, and business sessions. The SBA and CUNA have been working together since last year to broaden the pool of available resources for emerging small businesses.

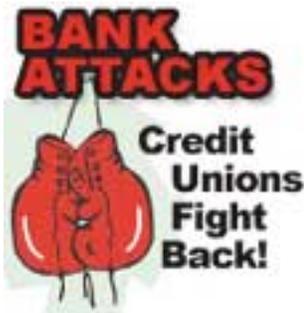






## New Resource Helps CUs Respond

CUNA activated a new Web initiative that consolidates into one place resources that can be used to counter bank attacks on credit unions' tax status.



Built in cooperation with state credit union leagues, the new password-protected section of the CUNA website is called, "BANK ATTACKS: Credit Unions Fight Back!" It can be accessed through CUNA's homepage by clicking on the image of the red boxing gloves.

"This one-stop shop lets credit unions get their hands on information and tools to fight back against the bankers," said CUNA President/CEO Dan Mica. "This is part of a larger strategy not only to repel bank attacks, but to advance credit unions' agenda of service to members."



The site was developed in response to a centrally organized

attack by banking trade associations in Washington, D.C., and throughout the states, according to Mark Wolff, CUNA senior vice president of communications. The bankers' effort, dubbed "Operation Credit Union," calls on both the federal and many state governments to raise taxes on credit unions.

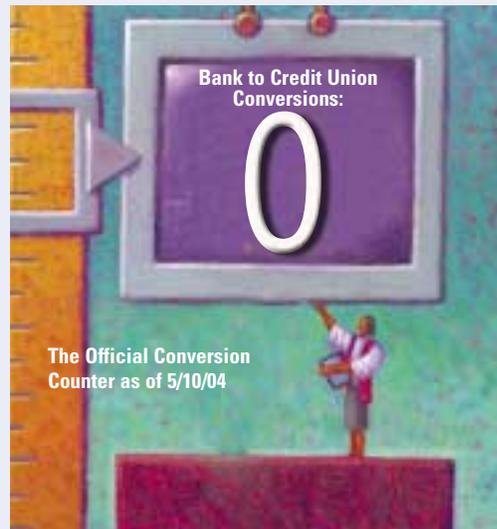
CUNA's continuously updated online resource allows credit unions to learn about recent banker activities and messages, write to members of Congress, provide feedback to CUNA and the leagues, contact local media, and access downloadable ads, explained Wolff. ■

**BANK ATTACKS: Credit Unions Fight Back!**  
[http://www.cuna.org/member/bank\\_attacks.html](http://www.cuna.org/member/bank_attacks.html)

## CUNA's Assistance Program for Banks Converting to Credit Unions

Bankers insist credit unions are competing on a playing field increasingly tilted toward their advantage. However, to date, no bank is known to have switched to a credit union. Why? Let's give bankers the benefit of the doubt: Maybe bankers simply never have been shown how to convert.

In that spirit, CUNA offers a new program to guide banks to the structure of not-for-profit financial cooperatives. Bankers can simply complete the form below and fax it to CUNA, which will provide information about becoming a credit union, as well as what state and federal agencies can help.



The Official Conversion Counter as of 5/10/04

And to track the droves of banks we're certain will take advantage of the program, each edition of *NewsWatch* will report the number of banks trading their charter for that of a credit union. What's more, *NewsWatch* proudly will publish the formerly-known-as-banks' names so other credit unions can welcome them into the movement!

**YES! I'd like more information about converting my bank to a credit union!**

I believe credit unions have a sweet deal by competing for customers on a playing field increasingly tilted toward their advantage. In switching from a bank, I understand my newly formed credit union:

- Must shift focus of operations from maximizing shareholder profits to meeting member needs.
- Must open its board of directors to democratic elections in which each depositor receives one vote. The majority of those directors would serve as volunteers (unpaid).
- Can only raise capital through retaining a portion of the income stream.
- Must limit commercial loans to 12.25% of total assets.
- Must start calling customers "members," and treating them as co-owners.
- CEO would have to take a substantial pay cut, and miss out on stock options.

Please send additional materials, as well as state and national contact information, to:

Bank name: \_\_\_\_\_ Contact name: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Bank charter # \_\_\_\_\_ Fax completed form to CUNA at: 202-638-7716

# Countering Bankers' 'Misleading' CU Ads

CUNA is developing advertisements in response to a new America's Community Bankers' (ACB) ad that is critical of credit unions' tax status.

The new CUNA ads will focus on the structure of credit unions, how it differs from banks, and why the movement's tax-exempt status remains appropriate, according to CUNA's Richard Gose, vice president of political affairs. It will be available to credit union leagues.

The bankers' ad says the average

working American family will pay \$4,038 in taxes in 2003. The credit union industry will pay \$0. It features a picture of a family of four in front of a modest red house surrounded by trees.

"The [bank] ad doesn't talk about the money people save because credit unions put money back into the hands of their members."

—Richard Gose,  
CUNA Vice President of Political Affairs

It says, "Those credit unions that want to serve a broader customer base should also serve their communities by paying taxes."

Gose called the ads misleading. "The ad doesn't talk about the money people save because credit unions put money back into the hands of their members through lower fees and

In 2003 working American families will pay on average of \$4,038 in taxes. The credit union industry will pay \$0



lower interest rates, instead of into the hands of a few shareholders," Gose pointed out.

The ACB ads have appeared at least in New Mexico, Minnesota, Illinois and Washington, D.C., said Gose. ■

**BANK ATTACKS: Credit Unions Fight Back!**  
[http://www.cuna.org/member/bank\\_attacks.html](http://www.cuna.org/member/bank_attacks.html)

## ▶ A \$6.3 Billion Benefit to Members

Credit union members benefit from higher levels of service and participation in the governance of their financial cooperatives. But members also benefit financially to the tune of about \$6.3 billion a year—that's \$76 per member or \$149 per year per member household, according to data from the Federal Reserve, BAI and CUNA.

That's the sum of the additional fees and loan interest, and lower savings return that credit union members would have paid and earned had they conducted all their business with banks instead of credit unions in 2002. Those numbers break down this way:

- Lower fees = \$2.0 billion
- Lower interest paid on loans = \$2.3 billion
- Higher earnings on shares and

deposits = \$2.0 billion

While bankers complain that credit unions don't pay federal income taxes, they conveniently ignore the fact that credit union members pay income taxes on the additional dividends that they earn on their higher-earning credit union savings accounts, according to CUNA Chief Economist Bill Hampel. "The additional federal income taxes credit union members paid in 2002 on their higher dividends and interest from credit unions amounted to about \$480 million."

"Even those that don't belong to a credit union benefit from the existence of credit unions."

—Bill Hampel, CUNA Chief Economist

Hampel also pointed out that even those that don't belong to a credit union benefit from the existence of credit unions. "Attractive pricing from credit unions pressures other financial institutions to provide attractive rates and services."

**Economics and Statistics**  
<http://www.cuna.org/econ/index.html>

## What CUs Can Do To Fight Back

- ▶ Write to lawmakers about preserving the credit union tax exemption.
- ▶ Visit members of Congress at home and in Washington on a Hike the Hill.
- ▶ Let CUNA or the league know who was contacted.
- ▶ Make sure that the credit union has completed Project Zip Code to identify members and legislators who represent them.
- ▶ Encourage the credit union to complete Project Differentiation to develop a statement about how the credit union is different from other financial institutions.
- ▶ Volunteer to become a key contact for the league and credit union.
- ▶ Write a letter to the editor of the local paper about the credit union difference and tax exemption. ■



# BRILLIANT. BOLD. CREATIVE. AND WAY OUT THERE.

Put on your sunglasses...adjust your attitude...and take off for Hawaii.  
Come to CUNA's Future Forum 2004! It's more than an ordinary credit union gathering.  
It's a voicing of ideas, a venue for discussion, and a platform for exploration.  
From a discussion of authentic leadership, to the power of organizational story-telling,  
CUNA's Future Forum 2004 is brilliant, bold, and creative. *And it's all waiting out there.*



## A BRILLIANT START TO YOUR LEARNING EXPERIENCE

Arrive in Hawaii early to attend these thought-provoking sessions.

### *Experience This!*

- **Juli Lynch** will present a high energy, interactive session on the beach. Meet and greet your fellow participants in this exciting, pre-opening event.

## PRECONFERENCE WORKSHOPS

- Lessons in Leadership from the Links
- Maximizing Your Creative Genius
- A Disaster Preparedness Simulation
- Xtreme Team



## BOLD KEYNOTE SPEAKERS INSPIRE INNOVATION

- **The Leader's New Clothes** – **Gary Heil**, author of *"The Leader's New Clothes,"* describes a CEO's journey to become an authentic leader.
- **From Inspiration to Innovation** – **Andy Stefanovich**, CEO of PLAY, uses creativity to develop solutions in branding and leadership.
- **CU Sound-Off** – **Kate O'Beirne and Bill Press**, two Washington insiders, offer lively updates on national politics.
- **The Power of Storytelling** – **Kevin Carroll**, "Katalyst" for Nike, uses stories to foster creativity, individual learning, and change.
- **Credit Union Real Stories Live!** – **Patrick Adams**, EVP, St. Louis Community CU, brings to life the "people helping people" philosophy.



## CREATIVE BREAKOUT SESSIONS AND MORE

- **Servant Leadership:** Creating the High Engagement Workplace
- **Catch Me if You Can:** Is Your Identity Safe?
- **Inventing Tomorrow:** Innovation in the Credit Union Industry
- **The Board Governance Process**
- **Does Asset Size Really Matter?**
- **Emerging Trends in Financial Services**

## REGISTER NOW!

Receive a free Credit Union Environmental Scan Report, valued at \$65, if you register by August 1, 2004.



**Preconference Sessions** • October 23-24, 2004

**Conference** • October 24-27, 2004

**Hilton Hawaiian Village** • Honolulu, HI



**FOR INFORMATION:**  
E-MAIL: [futureforum@cuna.com](mailto:futureforum@cuna.com) OR CALL: 800-356-9655, ext. 5700

**REGISTER ONLINE:**  
[training.cuna.org](http://training.cuna.org)



# >> Regulatory Affairs

## Johnson Tapped To Chair NCUA Board

President George W. Bush designated NCUA Board Vice Chair JoAnn Johnson to replace Dennis Dollar as the agency's board chairman, effective May 3.



JoAnn Johnson

Johnson, a former Iowa State Senator, has served on the NCUA Board since 2002. Under her leadership, Johnson said

the agency will "maintain safety and soundness as its number one priority." Other areas of focus will include pursuing risk-based capital for credit unions, financial education, and maintaining a risk-focused approach to regulation.

"JoAnn Johnson has distinguished herself as an active, involved vice chairman of the NCUA Board, proving herself a quick study of credit unions, their issues and the value of reasonable regu-

lation for them," noted CUNA President/CEO Dan Mica. "We look forward to working with Ms. Johnson in the future as she assumes the chairmanship."

There is still no indication when President Bush will nominate a candidate to fill Dollar's board seat. Until then, the agency will operate with a two-person board consisting of Johnson and Debbie Matz. ☪

## CU Message, Legislation Discussed On Capitol Hill

CUNA's Federal CU Subcommittee met with key staff from the House Financial Services Committee on April 26 to discuss additional ways to ensure that the credit union message is being well received on Capitol Hill. The credit union representatives also discussed with congressional staff the importance of the CU Regulatory Improvements Act (CURIA, H.R. 3579).

Prior to its meeting with lawmakers, the subcommittee discussed a number of issues affecting federal credit unions. Key among those were the current attacks by bank lobbyists on credit unions' tax status; the NCUA's regulatory review that is currently underway; and regulatory require-

ments associated with charter conversions.

The subcommittee also met CUNA staff to prepare a comparison of the most recent favorable state credit union law changes with the Federal CU Act and to provide a report on conversions. The federal credit union group, which reports to CUNA's Governmental Affairs Committee, is chaired by Chris Jillson, president/CEO, Sandia Laboratory FCU, Albuquerque, N.M.

The subcommittee met with NCUA Board Chairman JoAnn Johnson and Board Member Debbie Matz to discuss regulatory matters. ☪

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

## ▶ Seeking CU Comment...

These issues are open for comment by the general public. Credit unions are asked to submit a copy of their comments to CUNA:

### **Procedures for Handling Critical Infrastructure Information**

Agency: Dept. of Homeland Security  
Due date: May 20

### **Student Credit Unions Made Eligible for Community Development Loans**

Agency: NCUA  
Due date: May 21

### **FACT Act Medical Information Rule**

Agency: NCUA  
Due date: May 28

### **Disposal of Consumer Information**

Agency: Federal Trade Commission  
Due date: June 15

### **Definition of ID Theft, Report, Proof of Identity, and Duration of Active Duty Alert**

Agency: Federal Trade Commission  
Due date: June 15

### **Changes to Calculation of Fixed Assets & Fixed Asset Waivers**

Agency: NCUA  
Due date: June 21

 **Regulatory Comment Calls**  
[http://www.cuna.org/reg\\_advocacy/index.html](http://www.cuna.org/reg_advocacy/index.html)

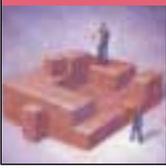
## CU Rep Appointed to Fed's TIAC

CUNA-nominated Eldon Arnold of Citizens Equity First CU, Peoria, Ill., is replacing Kirk Kordelski of Bethpage FCU, Bethpage, N.Y., on the Thrift Institutions Advisory Council (TIAC), which provides information to the Federal Reserve Board of Governors on special needs and problems of thrift institutions.

Unlike the Federal Advisory Council and the Consumer Advisory Council, TIAC is not a statutory body, but it performs a parallel function in providing first-hand advice from representatives of institutions that have an important relationship with the Federal Reserve.

TIAC meets with the Board in Washington, D.C., three times a year. The twelve members are representatives from savings and loan institutions, mutual savings banks, and credit unions. Members are appointed by the Board of Governors and generally serve for two years.

The body advises the Fed on issues that affect credit unions. The other credit union representative on TIAC is Olan Jones of Eastman CU, Kingsport, Tenn. ☪



# >> System Solutions

## Behind the Deal Is A Difference

Members may realize they get superior service and better rates at their credit union, but do they know the reason why they get a better deal than at a bank?

Help them understand that credit unions are not-for-profit financial cooperatives—as members, they're the owners. And that any effort by the bankers to tax their credit union will only end up costing them.

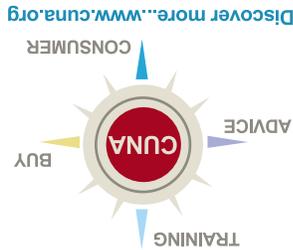
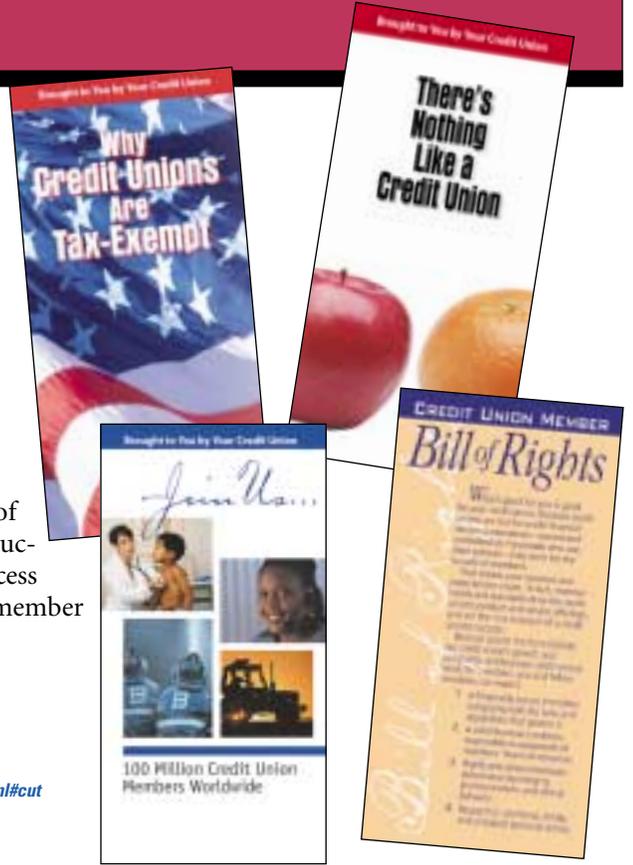
CUNA offers statement stuffers and customizable newsletter copy, which marketers can use to help explain credit unions' uniqueness. Among the titles:

- ▶ “Why Credit Unions Are Tax Exempt” (stock #21497-NW)
- ▶ “There’s Nothing Like a Credit Union” (#20158-NW)

- ▶ “Join Us!” (#23211-NW)
- ▶ “Why You Should Belong to a Credit Union” (#21321-NW)
- ▶ “Credit Union Bill of Rights” (#21820-NW)

CUNA's *Copy & Art Express* offers a variety of complete newsletter articles on the topic of credit union philosophy and structure. For more information, access CUNA's website or call CUNA member service at 800-356-8010, press 3. ☒

 **Copy & Art Express**  
[http://express.cuna.org/promo\\_index.html#cut](http://express.cuna.org/promo_index.html#cut)



RETURN SERVICE REQUESTED



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](mailto:newswatch@cuna.coop)  
 Address Changes: CUNA ER&S, P.O. Box 431, Madison, WI 53701-0431; or call (608) 232-8045  
 To get free instant e-mail delivery instead of regular mail, log on to [www.cuna.org](http://www.cuna.org) and click Permission E-mail Service. Create your profile and check the box for Newsletter - NewsWatch.  
 © Copyright 2004 Credit Union National Association, Inc. ISSN 0899-5597

PRESORT  
 FIRST CLASS MAIL  
 U.S. POSTAGE  
 PAID  
 MADISON, WI  
 PERMIT NO. 1949

FIRST CLASS TIME SENSITIVE MATERIAL

MAY 10, 2004



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