

MARCH 8, 2004

CREDIT UNION

# NEWS Watch



Legislation, Regulation, and Innovation from the Credit Union National Association

## Administration Opposes CU Taxation

Secretary of the Treasury John Snow received rousing applause at CUNA's Governmental Affairs Conference after proclaiming, "We oppose this talk of taxation of you and your industry."

"You're in the business to do good, not in business to do business," Snow told credit union attendees of the Feb. 23 general

session in Washington, D.C. "I understand that you're for service, not for profit."

You always get less of anything you tax, Snow remarked, adding, "We don't want to get less of what you do."

(Continued on page 3)

Treasury Secretary John Snow (CUNA photo)



## Greenspan Speaks to CUs, World Listens

Federal Reserve Board of Governors Chairman Alan Greenspan's Feb. 23 comments in his first-ever speech to a credit union audience



CUNA President/CEO Dan Mica, left, confers with Federal Reserve Board Chairman Alan Greenspan moments before the chairman addressed attendees of CUNA's Governmental Affairs Conference. (CUNA photo)

drew a standing-room-only crowd at CUNA's 2004 Governmental Affairs Conference in Washington, D.C. Stories about the event traveled as far as Australia and China.

In his address, Greenspan

noted that credit unions traditionally have "specialized in personal and automobile loans," but in the past decade have taken an increased role in providing first- and second-lien mortgages. Because of that, "credit unions have a natural interest in the financial health of America's households," he said.

According to Pat Keefe, CUNA vice president of communications and media outreach, the story traveled throughout the U.S., appearing in *The Wall Street Journal*, *The New York Times*, *Chicago Tribune*, *USA Today*, *Bloomberg's*, *Reuters*, and *Los Angeles Times*. It also appeared in a number of foreign and smaller U.S. newspapers.

In addition to Greenspan's comments about household debts, coverage of Secretary of Treasury John Snow's speech also was widely reported. ♦

## Thomas Targets Tax Status of Not-For-Profits

House Ways and Means Committee Chairman Bill Thomas (R-Calif.) cited credit unions among the groups whose tax-preferred status should be examined to "determine if the 'societal good' that they provide warrants their special treatment," according to a report in *Congress Daily* (March 2). (Continued on page 6)

## HIGH lights

Page 5 GOP senators urge bankruptcy reform.

Page 6 Banks reap record profits despite CUs.

Page 7 Loans eclipse savings in 2003, says NCUA.



## Quotes from GAC



Sen. Shelby

*"Credit unions are an extremely important component of the financial services community. I strongly support the mission that's embedded in your credo of 'not for profit, not for charity, but for service.' That's a great credo. In an industry where the competitive landscape changes quickly, you must be able to adapt and tailor services to meet the demands of your members."*

—Senate Banking Committee Chairman Richard Shelby (R-Ala.)



Rep. Kanjorski

*"This is an election year—and also a presidential election year. Come June, nothing of substance will pass through Congress. Any bill to move through Congress must have bipartisan support."*

—House Banking Committee Member Paul Kanjorski (D-Pa.)



Rep. Royce

*"We're going to do everything we can to get [the CU Regulatory Improvements Act (CURIA-H.R. 3579)] through this year. The modernization of the risk-based capital standard is most important in this legislation. Work with me to ensure we have bipartisan support on CURIA."*

—House Financial Services Committee Member Ed Royce (R-Calif.)



Rep. Manzullo

*"The health of credit unions is in direct proportion to the health of American manufacturing. Times are good for credit unions, but that can change as more jobs from all sectors of society shift overseas."*

—House Financial Services Committee Member and Small Business Committee Chairman Donald Manzullo (R-Ill.)



Paul Mercer

*"Unity is the single most important goal for credit unions because the bankers' strategy against credit unions is to divide and conquer. Anywhere the banks emerge with force, we'll emerge with equal force."*

—American Association of CU Leagues Chairman and President/CEO of the Ohio CU League Paul Mercer



Chris Matthews

*"In the end, the American people want to know two things: That the country is moving in the right direction—especially in the way of the economy and world affairs—and they want to know their president cares about them. What matters most to voters is getting their taxes cut, because they don't trust big government making decisions for them."*

—MSNBC *Hardball* Host Chris Matthews

## Commitment to Members Keeps CUs Strong

**"I**t's not the fact that credit unions have gotten bigger. It's all about our structure. We are not-for-profits," said CUNA Board Chairman Dick Ensweiler in a speech during the CUNA Governmental Affairs Conference Feb. 24.

The bankers haven't changed their argument in 50 years, Ensweiler said. "Banks seem to live in some bizarre parallel universe—a world where a consumer is better off with higher rates, lower customer service and fewer choices."

Ensweiler likened the difference between banks and credit unions to the difference between "Kroger and a neighborhood co-op...a 24-hour fitness center and YMCA." He used hospitals to drive the point home.

"It would be as if a nonprofit hospital could do only certain kinds of surgeries, making patients go to a for-profit hospital for other operations."

"There's a reason we're nonprofits," Ensweiler said. "We determined that we would charter that way. We made that choice. Whatever our members need, that's what we provide." ♦



**Fifty stars.  
One future.**



Dick Ensweiler

### GAC by the Numbers

- Attendees: 3060
- Invited guests and staff: 209
- Vendors: 500
- Amount raised in the CULAC raffle: \$45,500
- GAC Campaign School students: 53
- Number of members identified through Project Zip Code: 50 million
- Number of attendees representing a credit union that is participating in Project Zip Code: 60%
- Number of attendees representing a credit union that had completed its Statement of Commitment for Project Differentiation: 40%



Dan Mica

## Mica: Stand Proud

CUNA President/CEO Dan Mica told attendees of the CUNA Governmental Affairs Conference Feb. 23 to stand proud as they wear the white hats of the financial services industry.

For the 19th consecutive year, he said, credit unions were No. 1 in meeting consumer service expectations, according to the 2003 *American Banker/Gallup Consumer Survey*.

Mica said lawmakers recognize their credit union constituents are speaking from their hearts when they visit with them in their state and national offices. These lawmakers don't see the same sincerity coming from representatives of other financial services industries. "We're trusted," Mica said.

Credit unions have \$615 billion in assets and growing, more than 84 million members, and a very strong political presence in Washington, D.C., for the first time in the movement's history.

"We're now considered a group to be dealt with," he asserted. "Get involved in any way you can this election year."

"Be proud. Keep talking about how you help your members," said Mica. "And ask Congress to tell the bankers to knock it off and stop trying to hurt credit unions." ♦

## Administration Opposes CU Taxation

(Continued from page 1)

When he's asked how the U.S. is getting through its recent tough economic times, Snow replies that "it's because of people like you with your resourcefulness and energy," acknowledging credit unions' financial help to communities and businesses.

Snow also thanked credit unions for their financial education initiatives, noting that the Treasury Department's new Financial Literacy and Education Commission will draw on credit unions and their colleagues for advice and guidance.

"Unless people have some sense of the importance of saving and living within their means, they'll be a wreck financially," Snow said. ♦

## Quotes from GAC

*"You need to measure and show your progress. I say this as a close friend to credit unions. You need to show how you're serving people of modest means. Access to the financial mainstream is a key first step in economic citizenship. Ten million Americans have no financial institution accounts."*

—Senate Banking Committee Ranking Member Paul Sarbanes (D-Md.)



Sen. Sarbanes

*"Credit unions shouldn't be burdened by unnecessary regulations. Outdated regulations are costly for all of the financial services industry. That's why it's time to implement regulatory relief."*

—House Banking Committee Chairman Michael Oxley (R-Ohio)



Rep. Oxley

*"Congress is not in the business of worrying about financial institutions. We're worried about consumers. Always state your position in terms that make it plain your goal is to help consumers. Your facilitation of international remittances is a major consumer service and contributes to lawmakers' favorable view of credit unions."*

—House Financial Services Committee Ranking Member Barney Frank (D-Mass.)



Rep. Frank

*"I anticipate the House Financial Services Committee will hold hearings on the CU Regulatory Improvements Act (CURIA-H.R. 3579) this spring. I expect movement on the pending Financial Services Regulatory Relief Act of 2003 within the month. I'm tremendously impressed with credit union efforts to serve their communities. You should be proud of what you've done."*

—House Financial Services Committee Member and Chair of the Subcommittee on Financial Institutions and Consumer Credit Spencer Bachus (R-Ala.)



Rep. Bachus

*"But [credit unions] needed an organization. And people from 20 states and the District of Columbia wound up in Estes Park, Colo., in August 1934 to organize CUNA—the Credit Union National Association. It would mean training, a political voice, publications, assistance and expertise."*

—U.S. Sen. George Norris, portrayed by Nebraska State Sen. David Landis



Sen. David Landis

For more from the 2004 CUNA Governmental Affairs Conference, start on CUNA's home page at [www.cuna.org](http://www.cuna.org), click on any headline, then the GAC Daily News icon.





## SBA Seeks CUNA Input on Funding

**A**t the invitation of the Senate Committee on Small Business and Entrepreneurship, CUNA and other representatives of the financial services industry met Feb. 25 to review the Small Business Administration's (SBA) proposal to fund its 7(a) loan program.

The proposal would allow the agency to increase lending authority by more than 30%, remove the current lending cap of \$750,000 and allow loans up to \$2 million. In addition, the entire 7(a) program would move to a lower guar-

anty rate of 50% during the period of several years.

Grace Mayo, president/CEO of Telesis Community CU, Chatsworth, Calif., and a member of CUNA's Business and SEG Services committee, represented CUNA. She suggested that perhaps there was a way to increase funding for the 7(a) program through the congressional appropriations process.

CUNA's Mary Dunn, senior vice president of regulatory advocacy, and Gary Kohn, vice president of legislative affairs also attended.

U.S. Sen. Olympia Snowe (R-Maine) chairs the Senate Committee on Small Business and Entrepreneurship. She has voiced concern over the proposed Fiscal Year 2005 budget for the SBA, which would cut overall SBA funding by about 15%, while requiring the 7(a) Guaranteed Loan Program to become self-funding. ♦



Grace Mayo

For More,  
CLICK HERE  
Regulatory Affairs  
www.cuna.org

## NCUA at the GAC

### Dollar: CUs are Sound:



Dollar

During his "second-annual farewell address" at the CUNA Governmental Affairs Conference (GAC) on Feb. 23, NCUA Board Chairman Dennis Dollar praised credit unions' continued safety and soundness, encouraged credit unions to work toward gaining a risk-based system for determining

net worth, and expressed concerns about the future of demutualization in the credit union movement.

The most important feature credit unions can offer members, Dollar said, is continued safety and soundness. He lauded federal credit unions for their 9.56% increase in net worth over the past year, net-income growth, strong loan-to-share ratios (currently 71.19%), and high credit quality (0.77% delinquency ratio)—despite low investment yields, tough economic factors and substantial deposit growth.

"Thank you for your diligence in risk management."

### Johnson: Step Up Financial Education

NCUA Vice Chair JoAnn Johnson on Feb. 24 challenged GAC attendees to step up their financial education efforts.

Look at your educational advocacy, Johnson said. "Ensure you have plans in place to further the knowledge of your members. Allow them to make informed choices of the financial products and services that are right for them."

Credit unions provide consumer education and guidance in addition to financial products. Today, millions of Americans are outside the financial mainstream. "Promoting the financial education of our underserved strengthens our society as a whole," Johnson said.

### Matz: Look to Best Practices

The best practices of the nation's credit unions will be featured on a new website NCUA Board member Debbie Matz unveiled at the GAC Feb. 24.

On the one-year anniversary of her Partnering and Leadership Successes (PALS) initiative, Matz announced that a PALS Best Practices website would allow credit unions to share their innovative programs that attract new members.

"PALS best practices have inspired credit union leaders to offer innovative programs they may not have considered before—programs that have proven effective in reaching the people who need credit unions the most," Matz said. ♦



Johnson



Matz



# Senators Urge Action on Bankruptcy Reform

**T**hirty-one Republican senators favoring passage of bankruptcy abuse reform legislation sent a letter to Majority Leader Bill Frist (R-Tenn.) Feb. 25 urging “the expedited consideration of H.R. 975, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2003.” CUNA urged senators to sign and send the letter.

“While we understand the challenges you face with the legislative calendar, we would encourage you to make every effort to bring H.R. 975 to the floor as soon as possible,” the letter states. “This long overdue and much needed legislation has passed the House and Senate repeatedly, with large bipartisan majorities. Accordingly, the opposition to the bill by a small minority of senators should not prevent the Senate from moving forward.”

Meanwhile, the Administrative Office of the U.S. Courts on the same day reported that for the 12-

## **Business and Non-business Filings CY 1999-2003**

Year	Business	Non-business	TOTAL
2003	35,037	1,625,208	1,660,245
2002	38,540	1,539,111	1,577,651
2001	40,099	1,452,030	1,492,129
2000	35,472	1,217,972	1,253,444
1999	37,884	1,281,581	1,319,465

*Source: Administrative Office of the U.S. Courts*

month period ending Dec. 31, there were 1,625,208 non-business bankruptcies filed. That’s up 86,097 from the previous year. At the end of 1999, for that calendar year, there were 1,281,581 non-business bankruptcy filings. ♦

For More,  
CLICK HERE  
Governmental Affairs  
[www.cuna.org](http://www.cuna.org)

## CUNA Board Addresses Conversions

At its meeting held during the CUNA Governmental Affairs Conference, the CUNA Board of Directors adopted a resolution related to credit unions converting to mutual bank ownership structure. It contained six provisions:

1. The credit union charter presents the best vehicle for serving the financial needs of consumers;
2. Credit unions considering changing ownership structure to a bank or thrift charter should decide solely on the basis of what is best for the members of the credit union—not for the management or directors;
3. The credit union system should identify and recommend ways to keep the credit union’s net worth in the hands of its members;
4. Credit unions should provide plain language, full disclosure of all relevant information—including the pros and cons—of a change in the ownership and governance of the credit unions;
5. CUNA supports legislative, regulatory, and legal measures that will ensure credit union senior management and directors are not unjustly enriched, and that appropriate penalties will be imposed for non-compliance with disclosure and other requirements designed to protect the interests of the members; and
6. CUNA is rededicated to the improvement of the credit union charter. ♦

## CURIA Attracts More Co-Sponsors

Eight more House members have become co-sponsors of the CUNA-backed CU Regulatory Improvements Act (CURIA—H.R. 3579), bringing the total number of co-sponsors to 23.

Among its provisions, CURIA increases the limit on credit union member business loans (MBLs) from 12.25% of assets to 20% of assets and reforms the prompt corrective action system to take into account more accurate risk assessments.

CURIA was introduced Nov. 21 by Reps. Ed Royce (R-Calif.) and Paul Kanjorski (D-Pa.). The other original co-sponsors of the bill were Reps. Steve LaTourette (R-Ohio) and Carolyn Maloney (D-N.Y.). All four are senior members of the House Financial Services Committee. The new co-sponsors include:

- Rep. Kevin Brady (R-Texas)
- Rep. Tim Holden (D-Pa.)
- Rep. Ken Lucas (D-Ky.)
- Rep. Robert Matsui (D-Calif.)
- Rep. Juanita Millender-McDonald (D-Calif.)
- Rep. John McHugh (R-N.Y.)
- Rep. Richard Neal (D-Mass.)
- Rep. Adam Schiff (D-Calif.)

CUNA President/CEO Dan Mica in a Feb. 16 letter urged all House Members to support CURIA. ♦

For More,  
CLICK HERE  
News Now  
[www.cuna.org](http://www.cuna.org)



# Banks Reap Record Profits Despite CUs

The fourth consecutive quarter of record bank profits reveals the obvious disconnect in bankers' anti-credit union rhetoric, said CUNA after the Federal Deposit Insurance Corp. (FDIC) reported banks earned a record \$31.1 billion in the fourth quarter of 2003.

This is the fourth time in a row that earnings set a new high. The fourth quarter results also bring the industry's earnings for the full year to a record \$120.6 billion for the 9,182 commercial banks and savings institutions insured by FDIC.

"Banks again have posted record returns on assets (ROA) and equity (ROE), but still they say credit unions are a competitive threat," observed CUNA's John McKechnie, senior vice president of governmental affairs.

The FDIC said earnings during the fourth quarter surpassed the total for the previous quarter by \$755 million (2.5%) and were \$5.7 billion (22.3%) more than in the fourth quarter of 2002. The \$120.6 billion earn-

ings for the year easily surpassed the previous record of \$105.1 billion set in 2002.

FDIC said ROA averaged 1.38% for the full year, easily surpassing the previous all-time high of 1.30% in 2002. ♦



## Mica: Bankers' Tax Push Faces 'Uphill Battle'

A new American Bankers Association (ABA) grassroots campaign calling on Congress to add more taxes on credit unions faces an uphill battle, said CUNA President/CEO Dan Mica.

He was responding to the ABA's "Operation CU," which was launched this month. It asks bankers to commit to regularly writing and visiting members of Congress and "to educate bank employees, directors, customers and government representatives about the inequitable tax treatment of large credit unions," reported the ABA website.

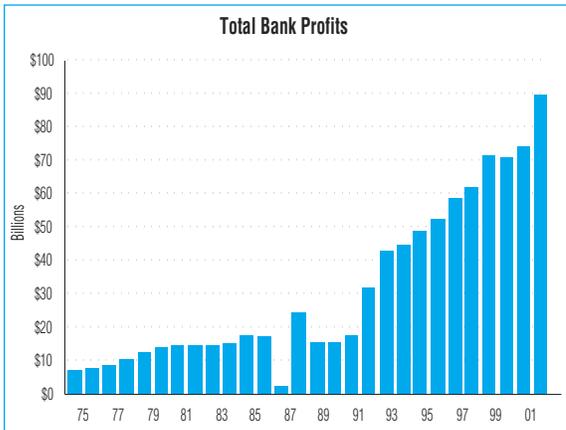
But Mica remained skeptical of the bankers' impact. He pointed out that a recent national survey conducted by CUNA shows that 73% of credit union members are much more likely to side with their credit union over a bank if a disagreement over legislation breaks out in Congress between banks and credit unions.

He also noted that CUNA's Project Zip Code "has counted 50 million credit union members across the nation—a number that can and will be tapped to show legislators in their districts the impact of credit union members." ♦



*"Where's the beef? Apparently the bankers are hungry for even more profits!"*

—John McKechnie, CUNA SVP of governmental affairs



## Thomas Targets Tax Status of Not-For-Profits



Rep. Thomas

(Continued from page 1)

In a March 2 speech Thomas said, "many organizations had strayed from the original purposes for which they were given preferential tax treatment, citing not-for-profit hospitals and credit unions as businesses that have come to resemble their for-profit peers."

CUNA's McKechnie, noted that Thomas' apparent interest in the credit union tax status is at odds with

the Bush Administration's stand against levying more taxes on credit unions: Secretary of the Treasury John Snow proclaimed at the CUNA Governmental Affairs Conference, "We oppose this talk of taxation of you and your industry."

CUNA had heard rumblings of Thomas' position and has held quiet discussions with members of the committee prior to the chairman's public comments. "We have explained the basis for credit unions' tax treatment and will continue to argue against the need for any hearing," said McKechnie.

No hearings are scheduled, but CUNA would continue to explain how the credit union tax exemption remains just as relevant for today as it has ever been, he added. ♦



The

# Marketplace

## Loans Eclipse Savings in 2003, Says NCUA

Federally insured credit unions expanded their loan portfolios in 2003 outpacing strong share and asset growth for the first time in three years, according to preliminary NCUA call report data submitted by the nation's 9,369 federally insured credit unions.

Following the normal annual lending cycle, 2003 began slowly with 2.16% loan growth in the first quarter and then surged in the last half of the year. Mortgage and auto loans continue to represent the largest loan categories, and tracking the economic market, home mortgage lending continues to yield the most significant increases.

Reflecting the lending market's low interest rates, first mortgage loans grew 16.6% to \$117.48 billion, and used auto loans grew 11.5% to \$80.49 billion. New auto loans increased 4.3% reaching \$63.08 billion by year-end, and other types of real estate loans grew 7.8% to \$50.06 billion.

Unsecured credit card loans grew a slight 0.8% to \$21.74 billion, and other types of unsecured loans declined 1.6% to \$20.80 billion.

Showing significant growth, member business loans increased 47.7%, up from \$6.67 to \$8.87 billion in 2003. As loan demand accelerated, investment growth, while still robust, grew at the much slower pace of 14% following two years of 25% plus expansion. ♦

For More,  
CLICK HERE  
Economics & Statistics  
www.cuna.org

### By the Way...

• This year marks the 50th anniversary of the longest running continuing-education program of its kind in the credit union movement—the CUNA Management School in Madison, Wis. Since its inception in 1954, CUNA Management School has turned out more than 3,400 graduates. The school works in collaboration with the Graduate School of Business at the University of Wisconsin-Madison.

• On the *CBS News: The Saturday Early Show*, financial analyst and author Brooke Stephens discussed the auto shopping process with co-host Russ Mitchell and how to get the best deal. Stephens told Mitchell: "The thing is banks are not the best place. Credit unions are better. And if you can do it online, financing is even cheaper. [Credit unions] are not into profits. They're into making fair loans to members. You have to be a member of the credit union first, though."

• More than 8,000 people are expected to participate in the 32nd running of the "CU Cherry Blossom Ten Mile Run." It happens April 4 in Washington, D.C. Proceeds benefit the Children's Miracle Network. ♦



## Debating the Difference...

From left, Ken Ferguson, chairman of the American Bankers Association and chairman of NbanC, Altus Okla.; Dean Anason American Banker Washington Bureau chief; and Jim Blaine, CEO of State Employees CU, Raleigh, N.C., chat backstage following a debate about banks and credit unions during the CUNA Governmental Affairs Conference. Among the debate jabs, Ferguson said bankers aren't against all credit unions—just the "new breed" trying to be all things to all people. Blaine, in turn, thanked Ferguson for the "new breed" comment, and responded, "We think we are the future, and you are the past." The debate was moderated by Anason. (CUNA photo)



## CU's Can Customize Policies

Guidance in writing and implementing compliance policies is offered in a new book, "CU Model Policies: Framework for Compliance." It features customizable policies credit unions can download, modify, and save for their own use. It includes in-depth policy explanations, policy updates, and new policies in topics such as e-commerce, disaster recovery, and member business loans.

For more information or to order, visit CUNA's website or call CUNA Member Service at 800-356-8010, press 3, and ask for stock #25627-NW. ♦

For More, CLICK HERE Training www.cuna.org



## Compliance Challenge: Question

**Q:** Since our credit union already provides IRA services, should we now offer the new health savings accounts under the new Medicare law?

**A:** CUNA says that for the time being, credit unions should wait to offer health savings accounts. These accounts will be a good idea for credit unions because of the many tax benefits they offer to certain members, but more information is needed before credit unions can be prepared to offer them. CUNA is seeking further guidance from the Treasury Department and Internal Revenue Service.

These savings accounts are tax-exempt accounts established for the purpose of paying qualified medical expenses and are available to anyone covered by a high-deductible (\$1000+ for individuals or \$2,000 for families) health plan. Contributions will be tax-deductible and excluded as earnings in calculating gross income.

A full explanation is available in the *Compliance Challenge*. ♦

For More, CLICK HERE Compliance www.cuna.org



FIRST CLASS TIME SENSITIVE MATERIAL

RETURN SERVICE REQUESTED



© Copyright 2004 Credit Union National Association, Inc. ISSN 0889-5597

Published 23 times per year by Credit Union National Association, Inc., 601 Pennsylvania Ave. NW, Washington, DC 20004  
A news service of the Credit Union System, sponsored by your League, CUNA & Affiliates  
Editorial: (202) 508-6766 • Editorial Fax: (202) 638-7716  
Address Changes: CUNA ERS, 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 and click Permission E-mail Service. Create your profile and check the box for Newsletter - NewsWatch.  
Credit Union National Association



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