

APRIL 28, 2003

CREDIT UNION

NEWS Watch



Legislation, Regulation, and Innovation from CUNA & Affiliates

Credit Unions Gain Flexibility on Benefits, Branches & Ads

NCUA has approved 3 final rules to facilitate employee benefits, overseas branching, and advertising of deposit insurance.



The agency also projects that federally insured deposits will grow about 10% this year, and credit unions' insurance equity will be fairly stable.

(Continued on Page 6)



What Fair Credit Hearings Mean to You

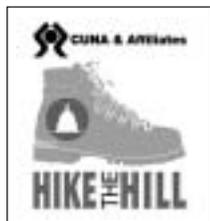
In the next 2 weeks, the House and Senate will hold hearings on the Fair Credit Reporting Act (FCRA).

What lawmakers do -- or don't do -- as a result of those hearings could dramatically change the way credit unions and other institutions make loans.

(Continued on Page 2)

Time to Hike the Hill

This week, credit unions and their state leagues begin returning to Washington to meet with their federal lawmakers.



Under CUNA's "Hike the Hill" program, credit union constituents will have a presence in Washington each week Congress remains in session.

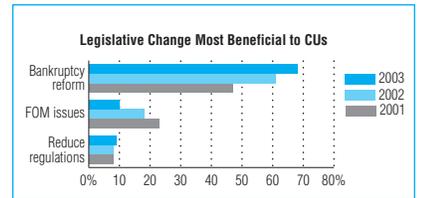
And this year, their messages will be more focused than ever.

(Continued on Page 7)

HIGHlights

Page 3

Credit unions want bankruptcy reform more than ever



CUNA supports pensions & savings bill



Pages 4-5

More than a conference: Sept. 29 - Oct. 2 in Reno, Nevada



For More, CLICK HERE Training www.cuna.org

Page 7

Compliance help for Soldiers & Sailors

WOCCU Australia discount extended to May 15

Page 8

Online advice



For More, CLICK HERE Advice www.cuna.org



What Fair Credit Hearings Mean to You

(Continued from Page 1)

FCRA codifies ways that credit information is gathered and shared. It prevents states from adopting separate rules on credit reporting procedures.

Its federal preemptions have established uniform national standards -- allowing credit unions and other institutions to cost-efficiently obtain credit reports that help consumers receive timely credit decisions.

However, these preemptions expire on January 1, 2004.

The House and Senate will hold hearings (May 8 & May 15) to consider whether to extend FCRA, and how.

Preemptions Up for Extension

- Permit financial institutions to pre-screen credit applicants.
- Protect financial institutions' ability to share information with affiliates about their transactions or experiences with consumers.
- Define how creditors provide information to consumer reporting agencies.
- Standardize the content of credit reports.
- Require institutions to give consumers notice about adverse action based on a credit report.
- Establish procedures that reporting agencies must follow if consumers dispute a credit report's accuracy.
- Protect consumers' rights relating to their credit reports.

Senate Banking Committee Member Tim Johnson (D-S.D.) has introduced legislation (S. 660) to extend these provisions permanently.



Tim Johnson

"This would greatly benefit consumers," says CUNA President & CEO Dan Mica.

Consumer Benefits of FCRA

• Lower Costs

Transaction and compliance costs are lower. At credit unions, these lower costs are passed on to member/owners.

• Quicker Decisions

Applicants' credit information is processed and exchanged more quickly. Consumers can get responses in minutes or hours, not days.

• Convenient Internet Transactions

Smaller lenders such as credit unions can be as efficient as larger lenders in processing loan transactions over the Internet.

• Coordinated Criminal Tracking

Uniform national standards facilitate fraud detection and strengthen cooperation with government and law enforcement on national security issues including terrorist tracking.

What If FCRA Is *Not* Extended?

Starting January 1, 2004, different states and localities could enact different credit reporting definitions, procedures, restrictions and penalties -- making it almost impossible for uniform credit reports and credit scoring models.

Loan decisions would be more time-consuming. For example: Instead of instant approval on car loans, the credit screening process could take several days.

Transaction and compliance costs would rise.

Bottom line: Less credit would be available to consumers -- at higher prices. ♦

The Privacy Debate

Some lawmakers have indicated they want to use the FCRA hearings to impose stricter financial privacy laws. Key terms in the debate:

"Opt Out"

The Gramm-Leach-Bliley Act of 1999 allows consumers to "opt out" and prevent institutions from sharing their personal information with certain non-affiliated third parties. House Financial Services Committee Member Pat Tiberi (R-Ohio) has introduced legislation (H.R. 1766) to establish federal preemptions for GLB privacy provisions as well as extending the FCRA preemptions.

Legitimate Sharing

The "joint marketing agreement" exception to GLB allows institutions to share information needed by non-affiliated third parties who perform services for them. Since credit unions don't have affiliates, they need to share information with third parties who provide member services such as check printing, credit card processing, and other services that banks typically provide through affiliates.

"Opt In"

Some federal and state lawmakers want to ban information sharing unless consumers "opt in." That would mean without explicit permission from each consumer, institutions would no longer be able to share their information and provide services based on that information.

Identity Theft

According to the Federal Trade Commission, identity theft is the most common privacy complaint from consumers in all 50 states. Victims have their names, Social Security and other identifiable numbers stolen. The FTC, Treasury, and many lawmakers recognize that identity theft is caused by criminals, not financial institutions. ♦



CUs Continue to Urge Bankruptcy Reform

Credit unions continue to urge meaningful bankruptcy abuse reform.

Two members of CUNA's Governmental Affairs team took informal polls after talking with credit unions at recent state league events. John McKechnie, CUNA's Senior VP of Governmental Affairs, and Gary Kohn, CUNA's VP of Legislative Affairs & Senior Legislative Counsel, presented choices:

- 1) Continue pushing for bankruptcy abuse reform — understanding that it's not perfect, but an improvement over current law; or,
- 2) Focus more legislative resources on other issues.

By a count of 350-1, credit unions in South Carolina urged bankruptcy abuse reform. Likewise, credit unions in Wisconsin voted 75-3. In Tennessee and in a regional meeting of 5 leagues, the votes were unanimous.

CUNA Political Affairs VP Richard Gose, who traveled to several other states, said scores of credit unions approached him to remind that bankruptcy abuse reform is still a top priority.

CUNA strongly supports the Pension Preservation and Savings Expansion Act of 2003 (H.R. 1776) on behalf of credit unions.



Rob Portman



Ben Cardin

In a letter to lead sponsors Rob Portman (R-Ohio) and Ben

Cardin (D-Md.), CUNA President & CEO Dan Mica urged lawmakers to make 3 key provisions effective in tax year 2003:

- 1) Increase annual tax-deductible IRA contribution limits to \$5,000;
- 2) Increase pension limits to \$15,000;
- 3) Implement higher "catch-up" contribution limits for savers age 50 and over.

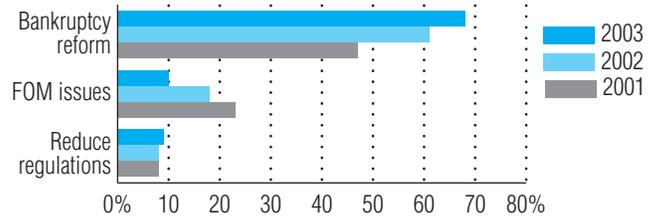
CUNA likewise supports proposals to:

- Expand IRA/pension availability;
- Simplify regulations;
- Educate employees

on investments.

"CUNA will take every opportunity to offer additional suggestions as the legislative process unfolds," confirms John McKechnie, CUNA's Senior VP of Governmental Affairs. "Credit unions have a lot of great ideas for improving the level and quality of retirement savings. Those ideas can be of great value to the ultimate form of this legislation." ♦

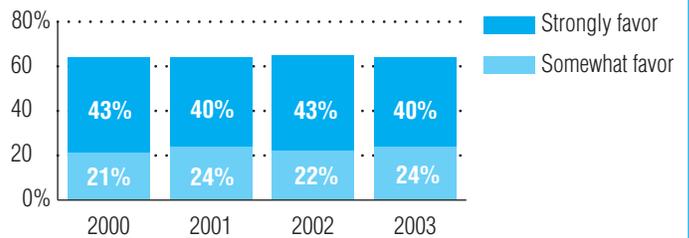
Legislative Change Most Beneficial to CUs



Credit union CEOs and boards want bankruptcy reform more than ever.

Bankruptcy reform

Make it more difficult for people to file bankruptcy



For the past 4 years, at least 64% of consumers agree with credit unions on the need for bankruptcy reform.

The Bankruptcy Abuse Prevention and Consumer Protection Act (H.R. 975) passed the House last month with an overwhelming bipartisan vote: 315-113-1, including 90 Democrats voting in favor.

CUNA is working with key Senators and staff to get reform moving in the Senate. ♦

CUNA Supports Pensions & Savings Bill



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IT'S NOT JUST A IT'S AN ENERGIZ

WHY EMPHASIZE THE FUTURE?

It's a fact of business life. Your credit union's success depends on the abilities of management and staff to prepare for the future. That need for preparation is the focus of CUNA's Future Forum.

WHY A FORUM?

It's not just a conference, it's a voicing of ideas... a venue for discussion...and a platform for exploring new directions. The Forum's unique mix of workshops and interactive sessions will be an **energizing** experience.

WHY NOW?

An uncertain economy and competitive challenges demand leadership that's positive and confident in its abilities to direct credit unions full speed ahead. CUNA's Future Forum will provide the foundation for that leadership.



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WITH MORE
QUESTIONS
THAN WHEN
YOU CAME...
BUT WE THINK
THAT'S A
GOOD THING!



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- 2 CUSTOMIZE YOUR AGENDA** with educational sessions by topic area. Breakout sessions in lending, executive development, technology, and director/volunteer concerns are arranged so that you can tailor your experiences.
- 3 SPEAK YOUR MIND** at the CU Sound Off — a highly interactive and thought provoking forum of credit union decision makers, potential consumers, and members.
- 4 EXPLORE THE CU MARKETPLACE** featuring a full-function, credit union of the future and more than 150 exhibitors displaying the latest in products and services.
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Flexibility on Employee Benefits

The NCUA Board unanimously approved a final rule giving federal credit unions more flexibility to make investment decisions to fund benefit plans for their employees and officers.

“CUNA commends the NCUA Board for adding language to make it clear that federal credit unions may offer deferred compensation plans and other arrangements as well as retirement benefits,” says Mary Dunn, CUNA’s Associate General Counsel & Senior VP of Regulatory Advocacy.

“One issue we were concerned about in the proposal was that variable-rate annuities wouldn’t be allowed,” Dunn explains. “We talked to NCUA about the issue, and the final rule does allow for variable-rate instruments.”

FCUs investing to fund an employee benefit plan obligation may purchase an investment that would otherwise be impermissible — on 2 conditions:

1) The investment must be directly related to the FCU’s obligation or potential obligation under the employee benefit plan; and

2) The FCU must hold the investment only for as long as it has an actual or potential obligation under the employee benefit plan. ♦

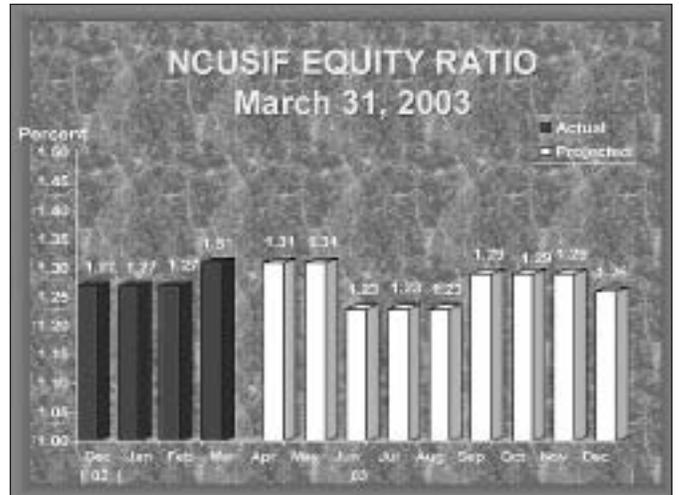
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Federal Insurance Update

If NCUA CFO Dennis Winans’ projections prove correct, the National Credit Union Share Insurance Fund will grow 10% and end 2003 with a 1.26% equity ratio — enough to keep CUs from paying a premium.

“Although it is still too early to tell,” says CUNA Chief Economist Bill Hampel, “given what our sample has shown, the 10% growth projection might be on the low side. The fund will also be challenged by declining yields on investments as they roll over at very low interest rates.”

Insurance losses remain low. Only 2 CUs have been liquidated this year, and only 9 CUs have a CAMEL 5. ♦



Insurance Ad Ideas Adopted

NCUA unanimously adopted 2 ideas from CUNA in its final rule governing how credit unions advertise their federal deposit insurance coverage:



1) Credit unions may alter the official sign of insured status as needed to be readable on their Web sites.

2) The official insurance statement is not required on

Web pages that members can’t access without viewing the home page or sign-in page first.

All members must receive the insurance statement on the home page or sign-in page.

CUNA also supports the final rule’s provisions on the use of “trade names.” ♦

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3 Steps to Foreign Branches

Credit unions may now branch onto foreign soil — beyond U.S. military bases in foreign countries — on 3 conditions:

1) Obtain written approval from the host country, recognizing NCUA authority.

2) Develop a 12-point business plan (*NewsWatch*, Sept. 23).

3) Submit the plan, along with approval from the host country (and state regulator if applicable), to NCUA.

The National Credit Union Share Insurance Fund will insure the accounts if denominated in U.S. dollars and payable by the term of the account agreement at a U.S. office of the CU.

The unanimously approved final rule enables multinational corporations with U.S.-based CUs to extend their CU service to employees at their offices in foreign countries. ♦

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Compliance

Compliance Help for Soldiers & Sailors

Requests under the Soldiers' & Sailors' Civil Relief Act keep coming in as more troops are mobilized to relieve those already performing active duty.

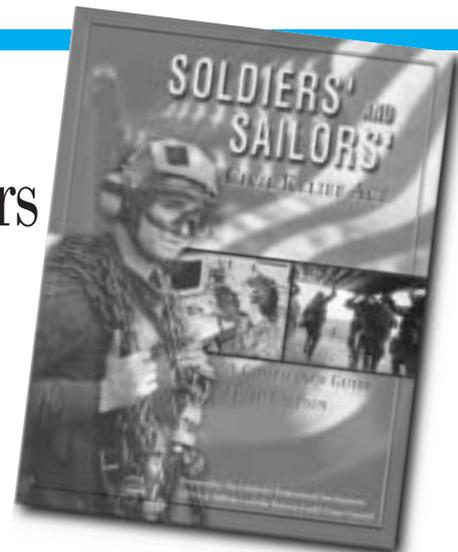
And when service members return from active duty, credit

unions of all sizes have responsibilities under the Uniformed Services Employment and Reemployment Rights Act.

Credit unions can get advice on both laws in a new audio cassette this week.

The cassette features military and compliance officials from CUNA's latest nationwide audio conference -- including Lt. Col. J.T. Parker from the U.S. Army's Judge Advocate General (JAG) School.

Credit unions can buy the cassette plus the new 3rd edition of *Soldiers' and Sailors' Civil Relief Act:*



A *Compliance Guide* for a package price of \$78.95.

Call 1-800-356-9655, ext. 4139, e-mail cschwenn@cuna.coop, or use the computer button and click Audio Conferences. ♦



"All credit unions should be knowledgeable and reminded of the Soldiers' and Sailors' Civil Relief Act."

- Dennis Dollar, Chairman National Credit Union Administration



People & Places

Time to Hike the Hill

(Continued from Page 1)

What makes an effective Hike the Hill visit? It begins with preparation at home, says CUNA Grass-roots Manager Gretchen Graf.

Credit unions who complete Project Zip Code and Project Differentiation come prepared with 2 conversation pieces their lawmakers want to hear: how many CU members live in each lawmaker's district, and how the CU makes a difference to those members.

Know the Issues

Once they arrive in Washington, CUs are further prepared in issues briefings by CUNA's Governmental Affairs team. This year, briefing packets are being re-designed to focus on more issues specific to each state.

For example: Leagues and CUs in states with private insurance laws will be proactive. They'll be prepared to explain why private

insurance is a valuable option for some CUs; how it strengthens the dual chartering system; and why a healthy dual chartering system benefits all CUs.

Persistence Pays Off

Persistent messages on previous Hike the Hill visits have paid off.

"Having credit unions on the Hill each week helped us carve out the first regulatory relief provisions for credit unions in over two decades," reveals John McKechnie, CUNA's Senior VP of Governmental Affairs. "Over the past year I've been approached by several lobbyists for other industries who were impressed that we got more than a dozen provisions exclusive to credit unions. They knew bankers were trying to knock our provisions out."

So far this year, 2 new CU provisions have been added (*NewsWatch*, March 31). McKech-

WOCCU Australia Discount Extended to May 15

May 15 is the final deadline for early bird discounts to the World Council of Credit Unions' International CU Forum, June 22-26 in Brisbane, Australia. With international speakers from outside as well as inside the movement, the forum will explore diverse topics such as change, branding, leadership, and culture clash.

See www.woccu.org or call (608) 231-7398. ♦

nie feels CUs have already gained significant ground on reg relief, and are laying the groundwork for further relief on member business loans, secondary capital, and PCA.

"It's so important for credit unions to be in Washington more than once a year at CUNA's GAC," Graf concludes.

To Hike the Hill, contact your league. For a schedule, see CUNA's online calendar. ♦





Online Security Advice

Early subscribers to *The Point* got real-time security advice from Kevin Prince, Technology Security Specialist at CUNA Network Services (CNS). Key points:

Q: Is a firewall enough security?

A: No. If you host services such as e-mail or home banking, your system must open ports on your firewall. You need at least a quarterly remote vulnerability assessment to make sure these ports are safe. Most CUs should also have an intrusion detection system (IDS) to protect against hackers.

Q: What are NCUA examiners looking for?

A: Lack of a formal security policy, lack of regular system assess-

ments, and unmanaged firewalls. Examiners also often want to see an IDS monitored 24/7 by a third party.

Q: Are Virtual Private Networks more secure than T1 lines?

A: Yes. VPNs use encryption; most private lines don't. To make the most of a VPN, use the same carrier and Internet connection type at each outlet.

Q: Do you have a template for a security manual?

A: CNS offers a "Policy Development Toolkit" designed specifically for CUs. With your input, it produces a comprehensive 60-page security policy tweaked to fit your CU's needs.

For more from CNS, call 1-888-344-3414, ext. 2344, or e-mail salesinfo@cns.coop ♦



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