

MARCH 3, 2003

CREDIT UNION

NEWS Watch



Legislation, Regulation, and Innovation from CUNA & Affiliates

President Bush Addresses CUNA



"I look forward to working with the Credit Union National Association to strengthen our economy, and help more Americans than ever before realize their financial dreams," said President George W. Bush, in a videotaped message to CUNA's Governmental Affairs Conference (GAC) last week.

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Bankruptcy Reform Introduced

In the wake of 3,000 credit union activists visiting Capitol Hill this week for CUNA's GAC, a bankruptcy abuse prevention bill was introduced in the House Thursday night with 51 co-sponsors.

(Continued on Page 8)



Lead sponsor:
Rep. James Sensenbrenner
(R-Wis.)

Pilot Helps All CUs Make Business Loans

The next time a member walks into your credit union and asks for a small business loan, you can make that loan in less than an hour -- even if you have never made a business loan before.

And up to 85% of the loan can be guaranteed by the Small Business Administration.

Through CUNA's pilot program with NewTek Small Business Finance, the application takes less than 30 minutes to fill it out. Then within 20 minutes, you can get an indication if the loan is eligible for an SBA guarantee.

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Senate and House members speak out on credit unions



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CUNA financials turn positive



Financial education pays off





Quotes from GAC



Sen. Wayne Allard

"Credit unions are under attack. Some are calling for taxation of credit unions. This became an issue in my race for reelection. I oppose taxation of credit unions. Credit unions are not for profit and should not be taxed."

- Senate Banking Committee Member
Wayne Allard (R-Colo.)



Rep. Roy Blunt

"Bankruptcy reform is a top priority. A bill should come out of the House no later than the April break. With the help of our friends and if the new (Senate) leadership gets serious about it, we can get this done."

- House Majority Whip Roy Blunt (R-Mo.)



Rep. Michael Oxley

"We hope when we pass regulatory relief, it gives credit unions the ability to free up capital and spend compliance dollars more efficiently. And deposit insurance reform will ensure that deposits in the NCUSIF keep pace with other financial institutions' insurance."

- House Financial Services Chairman
Michael Oxley (R-Ohio)



Rep. Pete Sessions

"I think you understand grassroots better than anybody. Every one of you has a story to tell. When you come to Washington to tell it, you will continue to be successful."

- House Rules Committee Member
Pete Sessions (R-Texas)



Rep. Bob Ney

"Also get to know the directors of the district or state offices of members of Congress. District directors are approachable and communicate often with staff in Washington."

- House Financial Services Committee Member
Bob Ney (R-Ohio)



Professor
William Jackson

"Deregulation for credit unions is the right thing to do because it's good public policy. Credit unions haven't benefited from deregulation like banks and thrifts have. Credit unions need more investment alternatives, relaxed field-of-membership rules, and expanded lending authority."

- William Jackson,
Associate Professor of Finance & Economics,
University of North Carolina

Strong Support, Serious Threats



More than 3,000 credit union advocates at CUNA's Governmental Affairs Conference heard many commitments from top legislators and regulators.

They received strong support for credit unions' tax exemption, fields of membership, and member business lending.

But they were also faced with some serious threats from bankers. And they were challenged to do more to protect credit unions.

For details, see Pages 2-7. ♦

Treasury Supports CU Tax Exemption & Membership

The U.S. Treasury supports credit unions' federal income tax exemption and membership, leaders told CUNA's GAC.

New U.S. Treasury Secretary John Snow received roaring applause when after his speech, CUNA President & CEO Dan Mica announced, "He's aware of President Bush's commitment not to tax credit unions and he agrees with it."

And Assistant Treasury Secretary Wayne Abernathy said he believes "Everyone in America should have the opportunity to belong to a credit union." He noted credit unions are "very close" to realizing that vision.

Meanwhile at a Senate Banking Committee hearing, CUNA staff met with Treasury officials and were assured that on deposit insurance reform, Treasury wants to protect the National Credit Union Share Insurance Fund from being unintentionally disadvantaged. ♦



CUNA President & CEO Dan Mica (right) thanks new U.S. Treasury Secretary John Snow.



Assistant Secretary Abernathy says his family is among millions who benefited from the Credit Union Membership Access Act of 1998.

President Bush Addresses CUNA

(Continued from Page 1)

"We are working with private organizations like the Credit Union National Association to provide financial education and housing counseling to new homeowners, so that people understand the opportunities and the responsibilities of owning their own home."

Speaking directly to credit unions, President Bush said, "You are partners with more than 83 million Americans who rely on your honesty and professionalism to help them achieve their financial goals." ♦

Dollar Considers Risk-Based PCA

NCUA Chairman Dennis Dollar asked credit unions and Congress to consider whether Prompt Corrective Action law should be modified to "reflect individual risk factors in credit unions," rather than "one-size-fits-all."

Speaking to CUNA's GAC, Dollar contended there's a "significant difference in risk between a credit union with net worth of 7% that is invested heavily in short-term Treasury securities and one that has a portfolio full of long-term higher risk loans."

In fact, NCUA would "examine and supervise those individual credit unions differently because of their differences in risk... We need to extend our risk-based approach to the issue of capital adequacy."

A minimum capital ratio would still be needed, Dollar maintained. He suggested it should be "similar to the leverage ratio required of banks and the core capital requirement of corporate credit unions."

For safety & soundness reasons, credit unions' top federal regulator also reaffirmed his commitment to credit unions' tax-exempt status and field-of-membership flexibility. ♦



NCUA Chairman Dennis Dollar asked CUNA and other CU trade groups to evaluate the concept and consider raising the issue with Congress as a part of the House regulatory relief effort.

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

Quotes from GAC

"I am proud to count myself among strong supporters of credit unions. Whether on privacy, bankruptcy reform, taxation — or the lack thereof, in your case — I am proud to stand with you. For us to do our jobs, we need to know what it takes to do your job."

- Senate Banking Committee Member
Evan Bayh (D-Ind.)



Sen. Evan Bayh

"I'm not shy about holding credit unions out as role models for banks. I appreciate your efforts fighting unfair predatory loans. I am grateful that you want to be involved in remittances. I support your positions on regulatory relief and bankruptcy reform."

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



Rep. Barney Frank

"Credit unions have an outstanding image on Capitol Hill. Your image in Congress is the same as your image in the community. But you need to at least keep your image to do well in the legislative process. Credit unions talk about credit unions. And banks talk about credit unions."

- House Financial Services Committee Member
Brad Sherman (D-Calif.)



Rep. Brad Sherman

"You will have my vote on all those credit union issues: regulatory relief, and no taxes on non-profits, including credit unions."

- House Financial Services Committee Member
Harold Ford (D-Tenn.)



Rep. Harold Ford

"The challenge for credit unions really has changed. You used to be 'The Little Engine That Could'... The good news: You've gotten to the top. The bad news: You're on top, and your fanny is hanging out. You've got to protect it. People are gunning for you. If you slow up, bankers will be happy to take your place."

- CNN Political Analyst Charlie Cook



Charlie Cook

For much more from CUNA's Governmental Affairs Conference, start at CUNA's home page, click any headline, then the GAC Daily icon.





"Beneath all the rhetoric, banks have one goal: Put credit unions out of business," warns CUNA Chairman Barry Jollette, CEO of San Mateo CU in Redwood City, California.

"Code Red" for Credit Unions

Credit unions are under attack. Bank-backed tax threats are looming in Florida, Iowa, Kansas, Missouri, New Mexico, Utah, and countless other states.

"For credit unions, it's Code Red — now," urges CUNA President & CEO Dan Mica.

That was the alert sounded to an overflow crowd at CUNA's GAC by Mica and CUNA Chairman Barry Jollette.

Mica stressed that state leagues and credit unions must serve as "weapons of mass instruction" — to do whatever it takes in terms of resources, energy, and volunteers

to teach legislators about not-for-profit credit unions and defend credit unions against unfair taxes.

Mica and Jollette urge all to "redouble your commitment":

- Hike the Hill. "We need 300 events this year at the Credit Union House on Capitol Hill. Visit your lawmakers in Washington. When they're not here, visit them at home."

- Use Project Zip Code. CD software shows lawmakers how many of your members are in their legislative district. It's proven to make lawmakers think twice about taxing credit unions. "We need at least 75 million mem-

bers matched to districts."

- Complete a Statement of Commitment to Members, using Project Differentiation. "This project was designed by credit union people, for credit union people, to defend credit unions. It needs to be done now."

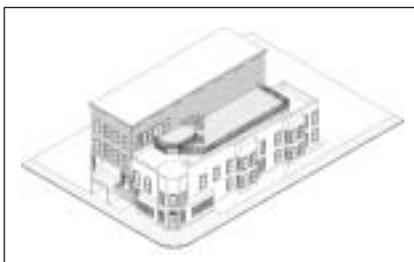
- "Never, ever let banks divide us!" ♦



CU House to Expand



Credit unions from California and Nevada raised nearly \$260,000 to build a rooftop terrace overlooking the U.S. Capitol at the CU House in Washington. "This sends a message that credit unions are here to stay," said CU House Chairman Dave Chatfield (center), President of the California & Nevada Leagues, and fundraising leader Ron McDaniel (left), CEO of Point Mugu FCU in Ventura, California.



Resolutions Address 6 Issues

CUNA's Governmental Affairs Committee passed 6 resolutions to direct CUNA advocacy efforts:

- 1) Support "the authority of state lawmakers to allow deposit insurance options for their consumers and the authority and responsibility of state regulators to determine the safety & soundness of allowable deposit insurance options."

- 2) Support "legislation to fund authorized obligations of FTC with respect to private insurers," to provide "maximum disclosure to credit union members with private share insurance."

- 3) "Endorse appropriate legislation to protect consumers from identity theft."

- 4) Encourage Congress to pass H.R. 395 to curtail "the proliferation of unwanted and fraudulent telemarketing" — provided it imposes "no undue burdens on credit unions."

- 5) Endorse *Anti-Predatory Lending Law Guidelines* from CUNA's State Credit Union Subcommittee as a "general framework for evaluating which anti-predatory lending laws and guidelines CUNA should support."

- 6) Commend SBA for allowing all CUs to apply for federal guarantees on small business loans. (See story, Page 1). ♦



CUNA Vice Chairman Dick Ensweiler (right), a strong advocate for Project Differentiation as President of the Texas CU League, presents an award to Montana League President Tracy Karls for her state's 86% participation rate.





Pilot Helps All CUs Make Business Loans

(Continued from Page 1)

Whenever a percentage of a loan is guaranteed, that portion will not count against the credit union's member business loan cap.

Credit unions can determine how many or how few services they want the pilot program to perform during each transaction.

Among the services available:

- Underwriting
- Approval
- Participations
- Funding
- Servicing

A turn-key program -- including all of these services and more -- is available through NewTek of New York City. NewTek is a \$10-billion American Stock Exchange-traded firm whose CEO, John Cox, led SBA's lending operations for 30 years.

"There are probably a lot of credit unions that don't realize some of their members are running small businesses with personal loans," Cox points out. "Some

small business owners even capitalize their businesses with credit cards. We want to move them over to SBA loans."

"This will make it easy for credit unions that don't want to invest a lot of money to become business lenders and participate in the SBA-guaranteed loan program," explains CUNA General Counsel Eric Richard. "You won't have to turn anybody away."

A direct program -- where your CU is trained to establish an in-house guaranteed loan operation and work directly with SBA -- will be available through CUNA's Center for Professional Development (CPD) and third-party consultants.

Starting in March, CPD will offer comprehensive training on business lending and services. Sessions will focus on all issues related to SBA as well as traditional member business lending.



SBA Administrator Hector Barreto opened the door for this pilot, by allowing all CUs to apply for SBA loan guarantees.

Among the topics:

- SBA Regulatory Requirements
- Efficient Operational Strategies
- Marketing to Members with Businesses
- Best Practices

For information on the CUNA Member Business Services pilot program, call 1-800-356-9655, extension 4189.

For information on CPD's training, use extension 4139. ♦



Johnson Proposes 3 Business Loan Enhancements

NCUA Vice Chair JoAnn Johnson unveiled 3 key components of the member business loan (MBL) regulation she plans to introduce on March 27:

1) Exclude the purchase of a business loan participation interest from the calculation of a purchasing credit union's aggregate MBL limit. Clarify that loans sold without recourse will not count as MBLs.

2) Exempt MBLs for vehicles from the 80% loan-to-value requirement. Allow 100% financing of business-purpose vehicle loans.

3) Extend the standard Prompt Corrective Action risk-based net

worth component that presently divides the portfolio of MBLs. Replace the single threshold of 12.25% with 3 tiers:

- Bottom Tier (risk-weighted at



NCUA Vice Chair JoAnn Johnson "heard stories from credit unions that after building up relationships for years, had to send members elsewhere to fulfill their small business financing needs. This is where a true opportunity lies for certain credit unions."

6%): MBLs less than or equal to 15% of total assets

- Middle Tier (risk-weighted at 8%): MBLs greater than 15% but less than or equal to 25% of total assets

- Top Tier (risk-weighted at 14%): MBLs in excess of 25% of total assets

In reconsidering the risk-weighting, Johnson explained, "Since 1988, the loss history of member business loans has remained remarkably consistent at 0.1% net charge-offs. Most notably, net losses have not increased as economic conditions have deteriorated." ♦



Serving the Community

Survey Shows CUs Serving Low-Income Members

In just 7 months, credit unions expanding into underserved areas have signed up 615,000 new members, made 250,000 loans totaling \$2.9 billion, and helped those members build savings of \$2.1 billion.

These are just a few results from CUNA's new survey, *Serving Members of Modest Means*. The survey polled 2,548 credit unions. Response rate was 43%.

Nearly 25% of respondents have expanded their membership fields into underserved areas. These 256 "expansion credit unions" have taken in 470 underserved areas.

Expansion credit unions are more successful attracting low-in-

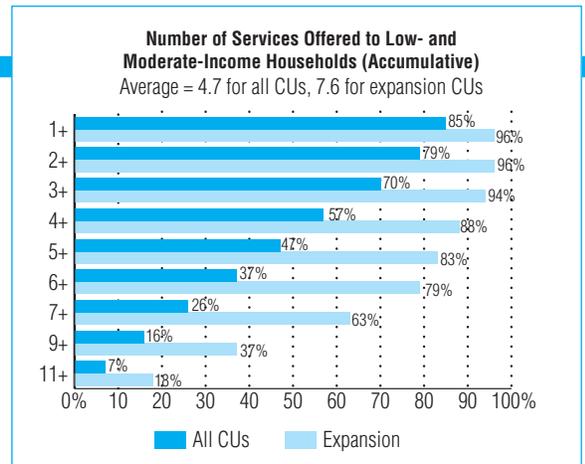
come members from these areas than they are attracting higher-income prospects.

Among all types of credit unions, access for low-income members comes in small loans and CDs:

- About 67% require \$500 or less to open a CD.
- About 33% require \$100 or less to open a CD.
- More than 33% make loans of \$100 or less.

On average, all credit unions target 40% of their marketing expenses to the low- and moderate-income market.

For decades, most credit unions were limited by occupational fields



All types of CUs offer services specifically for low and moderate incomes. (Low-Income = household income under \$20,000. Moderate-Income = household income from \$20,000-\$40,000.)

of membership. But in the very recent past, credit unions have been given more viable options to serve broader demographics.

"While we all realize we have a ways to go," says CUNA President & CEO Dan Mica, "the results demonstrate that credit unions are successfully embracing these underserved areas." ♦



"PALS" to Share Best Practices

To turn potential members into real members, NCUA Board Member Debbie Matz has introduced PALS: Partnering and Leadership Successes.



"Why should each of you have to find solutions by yourselves?" NCUA Board Member Debbie Matz asks 3,000 CU leaders at CUNA's GAC.

"Credit unions are spending a great deal of money to develop new approaches to appeal to a wider field of membership -- then even more money to market to different ethnic and socio-economic groups. Yet despite all that effort, some credit unions tell me there has been very little return."

The purpose of PALS is to "use best practices and help spread them across credit unions."

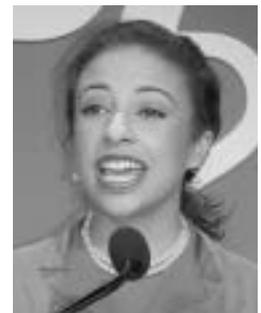
PALS is Matz's contribution to NCUA Chairman Dennis Dollar's Access Across America.

Like Access Across America, PALS will stage workshops across the country. The first is April 1 in San Francisco, promoting partnerships between credit unions and the Neighborhood Reinvestment Corp. ♦

Miss America Calls CUs "Champions of Hope"

The reigning Miss America believes credit unions need to tell their stories on Capitol Hill and at home.

"Share with your representatives the roles credit unions play in their communities through participation in the Children's Miracle Network," suggests Miss America Erika Harold.



The "Credit Unions for Kids" program is CMN's 2nd-largest sponsor, raising \$25 million for Children's Hospitals across America.

"When you go back home," Harold tells credit union advocates, "continue to show how credit unions are an integral part of America's communities." ♦

CUNA Financials Turn Positive

CUNA realized a positive operating line for 2002, despite budgeting an operating loss for the year.

CUNA's operating line swung \$619,000 — from a budgeted loss of \$615,000, to an actual gain of \$4,700 — according to unaudited year-end figures reported Saturday to the CUNA Board.

Key factors included:

- Increased revenue from conferences and schools;
- Higher ad sales in publications;
- Strong attendance and exhibitor participation at 2002 Symposium;
- Overall cost containment.



*Don Larson,
CUNA Treasurer*

"When 2002 began, the nation was still recovering from the September 11 attacks and the onset of a cooled economy," noted CUNA Treasurer Don Larson, CEO of Community Credit Union in Tacoma,

Washington. "Our best guess for CUNA's budget was lower involvement in CUNA programs and products. Fortunately, through members' support, CUNA posted a positive operating line."

The operating line represents operating revenue less operating expenses. As expected, CUNA's bottom line, which includes non-operating expenses, is estimated to show a decrease in unrestricted net assets of about \$2 million. The final bottom line will be released after a final outside audit.

Two factors are largely responsible for non-operating expenses: a soft sub-leasing market in Washington due to terrorist threats; and the sluggish economy's effect on CUNA Network Services, the technology company in which CUNA has invested.

A top financial priority is to sub-lease CUNA's former office space near the White House. CUNA's new space near the U.S. Capitol allows more efficient access to Congress.

At CUNA Network Services, revenues have been steadily rising, although not as quickly as hoped.

However, Chairman Juri Valdov points out, "revenue trends for CNS services — including Internet service providing, Web hosting and Internet security — are all upward. New products have great potential, including Internet bill payment services for credit unions." Valdov is CEO of Northwest Federal Credit Union in Herndon, Virginia.

Neither non-operating factor will have any impact on CUNA's core services: legislative & regulatory advocacy, communications & public relations, unity of the 3-tier system, research & policy. These services are covered almost entirely by dues.

A "State of the Association" report will be in the March 17 issue. ♦



*Juri Valdov,
CUNA
Board Secretary,
CNS Chairman*

Financial Education Efforts Pay Off



CUNA Board Executive Committee Member Allan Kemp McMorris (right), CEO of Oakland County CU of Waterford, Michigan, joins Michigan CU League President Dave Adams (left) in presenting the first Desjardins Youth Financial Education Award for a state

lawmaker. Michigan State Senator Michael Bishop (center) effectively enacted a new financial literacy law. "Tell your state legislators this can happen in your state," Bishop told 3,000 CUs. "Use me as a resource."

For More,
CLICK HERE
www.cuna.org
Youth Education

Foundation Issues \$1 Billion Challenge

National Credit Union Foundation Chairman Chuck Purvis challenges the credit union community to invest \$1 billion in the Community Investment Fund by 2005.

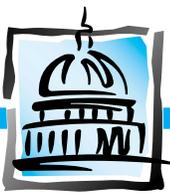
At today's rates, annual income from \$1 billion would be \$10 million.

"Imagine the impact \$10 million a year would make on credit unions' efforts to serve low- and moderate-income consumers. Imagine the impact this would have on our efforts on Capitol Hill."

The CIF funds state and national CU development. Investing CUs receive part of the return; a portion goes to the Foundation.

For info, call 1-800-356-9655, extension 4397. ♦





Bankruptcy Reform Introduced

(Continued from Page 1)

Lead sponsor of the Bankruptcy Abuse Prevention and Consumer Protection Act (H.R. 975) is House Judiciary Committee Chairman James Sensenbrenner (R-Wis.).

“Credit unions are strong supporters of bankruptcy reform legis-

lation, and commend Chairman Sensenbrenner for moving forward,” says CUNA President & CEO Dan Mica. “Credit unions have suffered record levels of bankruptcies for several years. Too many members walk away from their debts, although many have an ability to pay back some or all.”

When CUNA’s legislative team made Capitol Hill visits after the GAC, several House members noted credit unions’ continued activity on bankruptcy reform. “That obviously contributed to the thinking on the part of Chairman Sensenbrenner to get the process started once again,” reported John McKechnie, CUNA’s



CUNA Governmental Affairs Committee Member Lucile Beckwith, CEO of Palmetto Trust Federal Credit Union in South Carolina, was chosen to represent credit unions in bankruptcy reform testimony this week to the House Judiciary Subcommittee.

Senior VP of Governmental Affairs.

Sensenbrenner said his bill is very similar to the compromise reached in a House-Senate conference last year — except it doesn’t include the controversial “clinic violence” amendment that led to that bill’s defeat. ♦

Key Provisions

- Protect members’ ability to voluntarily reaffirm debts with their credit unions.
- Design a “means test” to determine whether debtors file Chapter 7 or Chapter 13.
- Provide debtors financial education.

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

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Pennsylvania Ave., NW, South Bldg., Suite 600, Washington, DC 20004
Published 23 times per year by Credit Union National Association, Inc. 601
Editorial: (202) 508-6767 • Editorial Fax: (202) 638-7716
Address Changes: (608) 232-8045
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