

NEWS Watch



Legislation, Regulation, and Innovation from CUNA & Affiliates

SBA Expands Loan Program to All CUs

The Small Business Administration has expanded its guaranteed loan program to all credit unions, regardless of charter. This empowers all credit

unions to apply for federal guarantees on small business loans, which can stimulate the economy and serve members who operate small business.

(Continued on Page 2)



Who Remembers H.R. 1151? Not Many in Congress

If you were in the credit union movement in 1998, chances are you remember H.R. 1151.

Now better known as the Credit Union Membership Access Act of 1998, H.R. 1151 overturned a U.S. Supreme Court ruling that would have closed many credit unions. It proved that year in Congress, credit unions' grassroots were more powerful than banks' money.

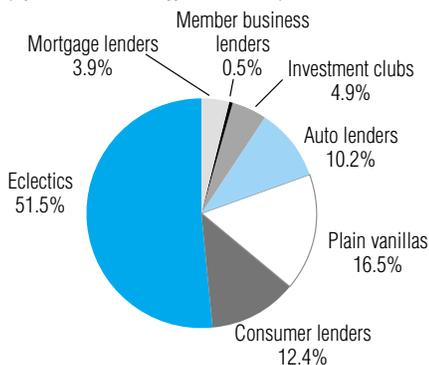
But many lawmakers have moved on. More than half the current members of the House Financial Services Committee and Senate Banking Committee joined those committees after 1998.

Today it's more important than ever for credit unions to educate their lawmakers before a legislative crisis.

(Continued on Page 4)

Types of CUs

(By business strategy/orientation)



Source: CUNA's economics and statistics department

Which CU Are You?

Member business lenders have the highest return on assets of any type of credit union. But due to restrictive laws, they're the hardest to find.

Which type of credit union is yours? Find out and see how your numbers compare.

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SBA Expands Loan Program to All Credit Unions

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For many years, SBA limited credit union participation to only those with community charters.

But on Friday, a letter to CUNA from SBA General Counsel David



Hector Barreto

Javdan confirmed the legal rationale for making SBA's 7(a) program available to all credit unions.

CUNA has been working on this issue with the SBA, including Administrator Hector Barreto, for

the past 18 months.

Administrator Barreto will be speaking at CUNA's Governmental Affairs Conference (GAC) Monday, Feb. 24. He will likely expand on his agency's decision during those remarks.

"We consider this announcement by SBA to be very good news for credit unions," explains CUNA President & CEO Dan Mica. "Finally, credit unions will be able to offer more of their services to their members with small businesses. We appreciate SBA's faith and interest in credit

unions' ability to help small business grow and prosper."

However, Mica notes that "the banking industry is not likely to greet this announcement with the same enthusiasm. In fact, we have heard some rumblings that the bankers are considering legal action against SBA. We certainly hope the bankers will see the folly in that position, as it denies small business a significant channel for further growth -- something the economy of this country certainly could use." ♦

For More, CLICK HERE Business/SEG Services www.cuna.org

State CU Tax Threats

Bankers are seeking tax hikes on credit unions from California to Florida, from Iowa to Texas. Some of the latest threats:

Utah

The Utah League of Credit Unions and members throughout the state have been waging an all-out grassroots effort to stop or amend a bank-sponsored credit union tax bill. The bill would raise taxes as much as 30% on several credit unions, and threaten to tax more in the future.

"We aren't talking public policy. This is sheer politics driving this bill," Travis Wood, the league's VP of Government Affairs, told CUNA's News Now.

State legislators pushing the tax hike work for local banks. Thousands of bank employees were given time off to lobby against credit unions.

Credit unions and the league have been tireless in their efforts to inform

the public and educate lawmakers on the issue.

Missouri

Banks are laying groundwork to introduce a CU tax hike next year, warns the Missouri CU Association.

"Bankers have been quick to lay out their complaints about credit unions," reports Amy McLard, the league's VP of Public & Legislative Affairs. "Most of the 90 new lawmakers in the State House bring up credit unions' tax status and field of membership."

League lobbyists visit all lawmakers regularly to explain CUs. But McLard says the message "has more impact coming from credit unions -- and voters -- in their district."

Iowa

This month banks expect to introduce a bill to assess a 5%



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franchise tax on state-chartered CUs.

"As the only real alternative to the for-profit banking industry, credit unions will fight to protect consumers' right to choose by defending our not-for-profit tax structure," promises Iowa CU League VP Patrick Jury.

Credit unions in all the states point out they already pay many taxes.

Tax Cuts?

At the same time, banks are seeking tax breaks through Subchapter S or limited liability corporations (LLCs).

In the U.S. Congress, the focus so far this year has been on tax cuts to stimulate the economy. As lawmakers consider President Bush's tax package and develop tax bills, CUNA urges CU input. (See next page.) ♦

For More, CLICK HERE News Now www.cuna.org



Tax Legislative Outlook for the 108th Congress

By J. Leon Peace, Jr.
CUNA Manager of Tax,
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Please send your comments and suggestions for federal tax legislation to:

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New Congress

The 2002 mid-term elections reversed a historical trend. For the first time in over half a century, a sitting first-term President's party gained seats in both the House of Representatives and the Senate, regaining control of the Senate and slightly increasing the majority in the House.

The First Session of the 108th Congress began last month with narrow Republican majorities:

House

229 Republicans
205 Democrats
1 Independent

Senate

51 Republicans
48 Democrats
1 Independent

Recent indications suggest that the 108th Congress will begin with an aggressive agenda.

Favorable Provisions

During the 107th Congress, CUNA, with help from the leagues and credit unions, successfully lobbied for enactment of

pension and retirement reform legislation that included a number of provisions favorable to credit unions.

The 108th Congress offers credit unions an opportunity to put forth legislative proposals of particular interest to credit unions. CUNA invites you to send your ideas as we develop our legislative agenda.

New Legislative Agenda

Several tax issues of interest to credit unions may be addressed this year.

For example, early indications suggest that the 108th Congress may act to enhance retirement savings, which continues to be a priority for CUNA and credit unions.

We are also interested in a proposal under consideration that would create tax-deferred savings accounts for farmers.

President's Tax Package

Recently, the Administration put forth its tax package for Fiscal Year 2004 (which begins October 1, 2003).

The package would, among other items:

- Accelerate the 2001 tax-cut package retroactive to this year;
- End the double taxation of dividends, and;
- Create a new retirement savings structure.

The President's tax package may be significantly modified as it moves through the tax writing process. For example, Reps. Rob Portman (R-Ohio) and Ben Cardin (D-Md.) plan to introduce legislation that is expected to have strong bipartisan support.

Tax Writers

Article I, Section 7, of the U.S. Constitution provides that tax bills must "originate in the House of Representatives; but the Senate may propose or concur with Amendments."



Rep. Thomas



Sen. Grassley

Tax legislation is usually written in the tax committees. House Ways & Means Committee Chairman Bill Thomas (R-Calif.) and Senate Finance Committee Chairman Chuck Grassley (R-Iowa) have indicated their interest in taking up certain proposals that were not included in the President's package.

Your Ideas Needed

The tax-writing committees are expected to begin working in earnest on the tax bill within the next month as part of the budget reconciliation process.

This presents an opportunity to offer legislative proposals of interest to credit unions.

We invite your ideas for inclusion in the tax bill. Please send your suggestions to me. CUNA will keep you informed of any developments. ♦



Renaissance: Charting the Progress



Issue	Leaders / Sources	Status
Regulatory Relief Legislation	Rep. Oxley (R-Ohio) Rep. Capito (R-W.V.) Rep. Bachus (R-Ala.) Rep. Sandlin (D-Texas) <i>Financial Services Regulatory Relief Act of 2002</i>	In the first regulatory relief bill ever to contain specific relief for credit unions, 13 provisions were drawn from credit union input into CUNA's Renaissance process. If those provisions are carried over, credit unions would be allowed to: <ul style="list-style-type: none"> • Offer check-cashing and money orders for everyone in the field of membership; • Offer wire transfers for everyone in the field of membership; • Make loans to non-profit religious groups and not count them against member business loan caps; • Apply for equal access to the Federal Home Loan Bank System; • Keep loans for 15 years or longer; • Invest more in Credit Union Service Organizations (CUSOs); • Invest more in securities; • Enter into voluntary mergers regardless of size; • Recruit new members from existing membership groups, even after mergers or community charter conversions; • Save up to \$280,000 in federal merger fees; • Reimburse directors for wages lost while volunteering on credit union business; • Consider term limits for directors; • Expel members for just cause. Again drawing on Renaissance, CUNA has suggested 15 additional regulatory relief measures. (See top story, next page.)
Serving People of Modest Means	CUNA's Federal Credit Unions Subcommittee	The Renaissance Vision Statement on the Mission of Credit Unions reaffirms that "The purpose of credit unions is to promote the economic well-being of all people, including those of modest means..." CUNA Market Research is completing a nationwide survey of how credit unions are serving members of modest means. It's the first survey of its type conducted of credit unions nationwide. Results will be released at next week's CUNA Governmental Affairs Conference. CUNA's Federal Credit Unions Subcommittee is exploring changes whereby more credit unions could qualify for a low-income designation. This would help credit unions reach even more people of modest means. CUNA's legislative team is advocating for expanded Individual Development Accounts (IDAs) to be included in the U.S. Congress' tax package. <div style="float: right; border: 1px solid black; padding: 2px; text-align: center;"> For More, CLICK HERE <i>Renaissance</i> www.cuna.org </div>
Fields of Membership	CUNA's Federal Credit Unions Subcommittee	The Renaissance Vision Statement on Membership maintains that "credit union boards of directors must have significantly greater flexibility to determine their fields of membership to enhance safety, soundness and service." CUNA is strongly advocating NCUA's proposal to ease many unnecessary membership limits. And CUNA's Federal Credit Unions Subcommittee is recommending 4 additions to the proposal that would further help consumers. (See 2nd story, next page.) <div style="float: right; border: 1px solid black; padding: 2px; text-align: center;"> For More, CLICK HERE <i>Regulations/Compliance</i> www.cuna.org </div>
Business Lending & Business Services	SBA Administrator Barreto NCUA Treasury HUD Agriculture Dept. Commerce Dept. Energy Dept. CUNA's Business/SEG Services Committee	The Renaissance Vision Statement on Powers & Authorities envisions credit union services evolving to meet members' changing needs. Since millions of members are starting small businesses, CUNA has led efforts with the Small Business Administration to let more credit unions offer guaranteed loans through SBA's 7(a) program. (See story, Page 1.) And after hosting a summit with SBA and 6 other agencies, CUNA's Business/SEG Services Committee released Federal Agencies Serving Small Businesses, a report on funding available to credit unions offering small business services. Working with CUNA's Regulatory Advocacy team, the committee also convinced NCUA to allow a higher appraisal threshold for member business loans. <div style="float: right; border: 1px solid black; padding: 2px; text-align: center;"> For More, CLICK HERE <i>Business/SEG Services</i> www.cuna.org </div>
Safety & Soundness	CUNA's Examination & Supervision Subcommittee <i>Comments on NCUA Strategic Plan 2003-2008</i>	In meetings with top regulators, CUNA's Examination & Supervision Subcommittee has recommended changes in NCUA's Strategic Plan. As Renaissance envisions, CUNA is asking regulators to focus more on safety & soundness. This includes more guidance on risk-focused exams, and less guidance on unrelated issues.
Deposit Insurance Reform	Rep. Bachus (R-Ala.) (H.R. 522) Sen. Johnson (D-S.D.) (S. 229)	CUNA succeeded in including the National Credit Union Share Insurance Fund in deposit insurance increases for financial institutions. House and Senate bills this year would raise coverage for all institutions to \$130,000 per savings account and \$250,000-\$260,000 per retirement account.
State Charters	State Credit Union Leagues <i>Bills in 8 state legislatures</i>	State leagues have been working on bills that would give state-chartered CUs more control over fields of membership, share insurance, member business loans, and new powers. Already this year, 16 bills are moving in 8 states that would amend state CU acts. <div style="float: right; border: 1px solid black; padding: 2px; text-align: center;"> For More, CLICK HERE <i>Government Affairs</i> www.cuna.org </div>



CUNA's John McKechnie (left) briefed new Rep. Rick Renzi (R-Ariz.) on the day he was sworn in last month. Renzi soon joined the Financial Services Committee.

A New Day in Congress

(Continued from Page 1)

"H.R. 1151 was almost 5 years ago -- an eternity in this business," stresses John McKechnie, CUNA's Senior VP of Governmental Affairs. "It's a new day in Congress."

More than 3,000 credit union leaders will meet with lawmakers in Washington this month during CUNA's Governmental Affairs Conference. Hundreds more will return throughout the year with their state leagues, as part

of CUNA's "Hike the Hill" program.

"Education, like legislation, is not an event -- it's a process," reminds CUNA President & CEO Dan Mica, a former 10-year member of Congress.

Banks want to make it a "process of elimination" for credit unions, Mica says. "But if you educate lawmakers from state capitals to our nation's capital, the American political process will work." ♦



CUNA Sends 15 Reg Relief Measures to Congress

CUNA is asking the House Financial Services Committee to pick up regulatory relief legislation where it left off.

“As you know, credit unions remain the most highly regulated and restricted of all insured financial institutions,” CUNA President & CEO Dan Mica reminded Committee Chairman Michael Oxley (R-Ohio).

Mica encouraged Chairman Oxley to start with provisions from the reg relief bill approved by the committee last year (*NewsWatch*, June 10, 2002).



Mica (right) thanked Chairman Oxley for his ongoing efforts to relieve depository institutions of unneeded, burdensome regulations.

Then Mica offered 15 suggestions for further relief:

- 1)** Eliminate or at least raise the 12.25% member business loan cap for all federally insured credit unions.
- 2)** Allow federal credit unions to be able to build net worth through secondary capital.
- 3)** Allow community credit unions to continue adding members from all groups that were in their field of membership before they converted to a community charter.
- 4)** Allow FCUs to serve underserved areas with an ATM.
- 5)** Lower the statutory net worth levels under Prompt Corrective Action by 1% in every category for federally insured CUs.
- 6)** Eliminate the 1% limit on FCU investments in CUSOs. Also eliminate the 1% limit on loans from FCUs to CUSOs.
- 7)** Remove investment limits from the FCU Act. Let NCUA update the appropriate rules.
- 8)** Remove the 3,000-member cap limiting select

groups applying to join an existing FCU. Also remove the requirement that NCUA must encourage such groups to form their own CU before they can join.

- 9)** Delete statutory language directing the governance of FCU boards.
- 10)** Eliminate the requirement that only 1 NCUA Board Member can have CU experience.
- 11)** Remove statutory provisions on consumer and mortgage lending. Let NCUA update these rules.
- 12)** Eliminate the usury ceiling, so FCUs can continue to lend in a rising rate market.
- 13)** Let NCUA determine “underserved” areas.
- 14)** Allow federally insured CUs to make member business loans unless they are significantly undercapitalized at 4% or less.
- 15)** Change the definition of “new” CUs under Prompt Corrective Action to CUs open less than 10 years or under \$20 million in assets.

Some of these measures, in limited form, are in the committee’s draft reg relief bill for 2003.

“I fully understand that you will not be able to incorporate all of these suggestions in the current legislation,” Mica concluded. “It is my hope that this bill will be the first installment in a continuing effort.” ♦

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

4 Ways to Improve FOM Plan

While strongly advocating NCUA’s proposal to ease many unnecessary limits on fields of membership, CUNA offers 4 suggestions to further help federal credit unions and consumers:

- Expand the concept of a common bond based on a trade, industry, or profession (TIP).
- Empower multiple-group FCUs (as well as FCUs with a single occupational common bond) to add groups based on a TIP.
- Enable FCUs with substantial interest in an ATM or network to add new members based on ATM locations.
- Allow FCUs to use a shared service facility to add new members. ♦

For More,
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Serving the Community

A "Different" Kind of Hill Visit

"Credit union detractors routinely approach elected officials with cries for a 'level playing field' with credit unions. But are they showing you the whole field?"

This kicks off *The Credit Union Difference* flyer used in Capitol Hill visits by Metro Health Services Federal Credit Union of Omaha, Nebraska.

The flyer's human interest



Rep. Lee Terry (R-Neb.) reads a flyer highlighting a CU's Statement of Commitment to Members, inspired by CUNA's Project Differentiation.

stories caught the attention of NCUA Board Member JoAnn Johnson and many lawmakers.

Here's one story:

"Serving Those Who Serve"

A U.S. Marine

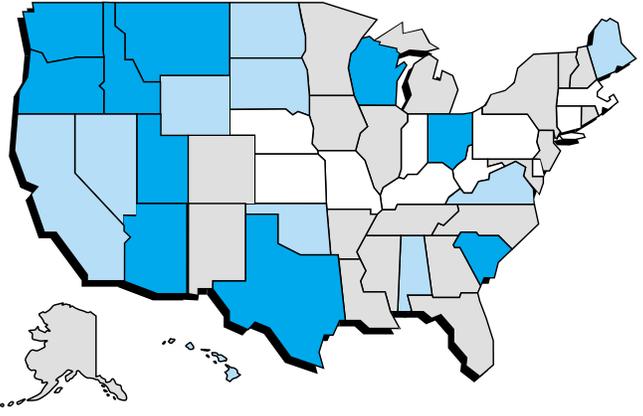
Sergeant and his wife lost their child 2 years ago. His wife was unable to return to work. She was a nurse and had earned more than he did. So the CU refinanced both of his car loans, forgave missed payments, and added funds to help with family expenses. The CU's loan officer also helped the family create a budget that works with their lower income.

As the flyer concludes, "The products, services and philosophies of our credit union are very representative of the credit unions all over America."

Many other CUs on Capitol

States Making a Difference

Project Differentiation shows the difference your CU makes. Use your "Statement of Commitment" to educate your staff, board, members and elected officials. To get involved, contact your state league.



Dark Green = States with 20% or more CUs involved in Project Differentiation
Light Green = States with 10%-19% of CUs involved in Project Differentiation
Gray = States with 5%-9% of CUs involved in Project Differentiation

Montana by far leads the U.S. as 86% of its CUs have completed Project Differentiation Statements. Wisconsin has joined Texas and Ohio with more than 100 CUs participating in each state.

Hill visits deliver their Project Differentiation Statement of Commitment to Members. "We've seen how these reinforce the credit union difference with legislators," reports CUNA Political Programs Director Pat Raymond.

For instance: Illinois CU System Senior VP Don Edwards used a CU's Statement of Commitment to convince a lawmaker to withdraw a plan that would have imposed burdensome requirements on CUs. ♦

For More, CLICK HERE Project Differentiation www.cuna.org

Wegner Awards Honor Credit Union Service

Two long-time leaders and a nearly new CU have earned the movement's highest honors -- Herb Wegner Memorial Awards sponsored by the National CU Foundation:



Ed Callahan

• Lifetime Achievement: Ed Callahan, retired CEO, Patelco CU, San Francisco, California. As NCUA Chairman in the early 1980s,

Callahan helped establish multiple-group CUs and recapitalize the National CU Share Insurance Fund.



Rufino Carbajal

• Individual Achievement: Rufino Carbajal, Jr., President, West Texas CU, El Paso, Texas. Carbajal partners with the World Council of CUs, CUNA, his league and a local CUSO. With just

\$25 million in assets, his CU offers international remittances, financial education, and affordable housing.

• Outstanding Organization: Latino Community CU, Durham, North Carolina. In just 3 years, the CU has become a national model for Latino service delivery -- including 4,000 members who never had a bank account. ♦

For More, CLICK HERE National CU Foundation www.cuna.org



Which CU Are You?

(Continued from Page 1)

"There are many different ways to serve members," points out Mike Schenk, VP of CUNA Economics & Statistics. While these 7 CU types are listed by return on assets during a snapshot in time, Schenk reminds that these numbers can't measure member service.

1) Member Business Lenders

These CUs devote at least 30% of their loan dollars to member business loans. Some were granted exemptions from the federal 12.25% MBL cap. Others are state-chartered with private insurance. With strong loan volume and controlled asset growth, member business lenders have by far the highest loan-to-savings ratios. However, these CUs especially must watch their delinquencies in a slow economy.

2) Plain Vanillas

These CUs keep at least 80% of their deposits in regular shares, and 85% of loans in personal

unsecured or auto loans. They have by far the lowest expenses.

3) Mortgage Lenders

Some of these CUs keep at least half of their loan dollars in first mortgages. Others keep at least 25% and sell at least another 20% to the secondary market. Their expenses are relatively low. So are their loan loss provisions. This reflects mortgages' strong security interest, says Schenk.

4) Investment Clubs

With non-cash investments at 60% or more of assets, these CUs have by far the lowest loan-to-savings ratios. Low expenses and loss provisions help offset high funding costs.

5) Auto Lenders

New and used vehicle loans account for 80% of volume at

Results by CU Type

(average results in basis points of average assets)

	Return on Assets	Loans/Savings	Operating Expenses	Loss Provisions
1) Member Business Lenders	108	97%	308	28
2) Plain Vanillas	101	50%	128	15
3) Mortgage Lenders	93	68%	283	12
4) Investment Clubs	90	30%	178	12
5) Auto Lenders	79	66%	359	36
6) Eclectics	73	70%	385	32
7) Consumer Lenders	58	64%	374	37

(based on CUs \$20 million - \$100 million in assets; data from mid-year 2002 annualized where appropriate)

Sources: CUNA Economics & Statistics, NCUA

these CUs, despite competing against dealers' 0% financing.

6) Eclectics

A wide variety of services can be found here. Expenses are high, but loan-to-savings ratios are strong.

7) Consumer Lenders

With no first mortgages or secondary market sales, these CUs are facing high expenses on their other loan products.

For more findings, see CUNA's *Credit Union Executive Newsletter*. To subscribe, call 1-800-348-3646 or follow this computer button. ♦



Reach the Youth Market for Under \$150

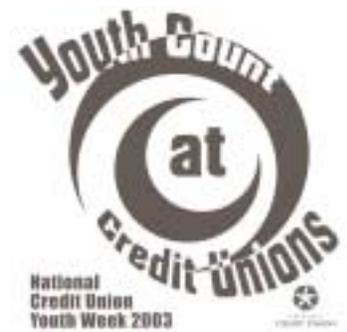
Only 26% of consumers ages 18-24 belong to a credit union. This is far below the overall average of 36%.

So the 2nd annual National Credit Union Youth Week, April 13-19, is time to make "Youth Count at Credit Unions."

With materials available from CUNA, you can do it for less than \$150:

- \$32: wall-sized coloring banner
- \$31: calculators for 10 young members
- \$30: 200 copies of the parents' brochure, *Teach Children About Money*
- \$21: Youth Week buttons for staff
- \$18: Youth Week brochures for teller windows

- \$0: Free materials from CUNA include the logo, poster, newsletter article, coloring page, and creative ways to celebrate. ♦



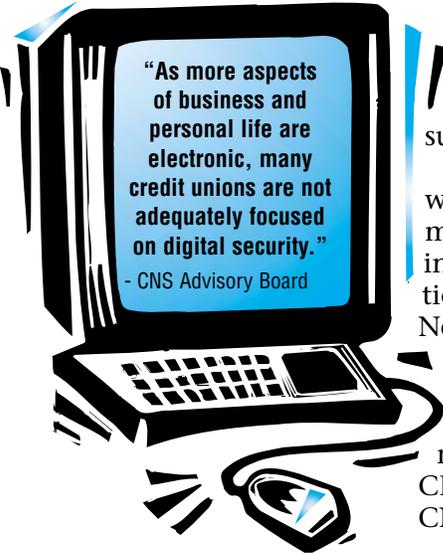


The

Innovators

FEBRUARY 18, 2003

How to Tighten Your Digital Security



"As more aspects of business and personal life are electronic, many credit unions are not adequately focused on digital security."

- CNS Advisory Board

Almost all credit unions invest in digital security, but many lack a comprehensive security strategy, reveals CUNA's 2003 tech survey.

Anti-virus protection and basic firewalls are CUs' most common security measures. Far less common are tighter intrusion detection services, encryption, dual firewalls, and Virtual Private Networks (VPNs).

All of these services are provided by CUNA Network Services (CNS).

"CNS' focus on digital security is right on target," observes TowerGroup CEO Mark Sievwright, a member of the CNS Advisory Board. For info, call 1-888-344-3414, ext.

2344, or e-mail salesinfo@cns.coop ♦

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