



August 10, 2006

Mary Rupp, Secretary of the Board  
National Credit Union Administration

Sent Via Email: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

RE: Comments on Proposed Rule Part 740

Thank you for the opportunity to comment on the proposed ruling for NCUA Rules and Regulations, Part 740, regarding revisions to the official sign indicating insured status.

The Credit Union Association of Oregon (CUAO) is a nonprofit, professional trade association representing Oregon's state, community, and federally-chartered credit unions. Since 1936, CUAO has been at the forefront of credit union issues at the state, regional, and national level, and provides a voice for Oregon's 1.3 million credit union members on issues impacting credit unions at a local level.

All of Oregon's credit unions (88) are federally insured through NCUA. Nearly half of our affiliated credit unions (44) are \$35 million in assets or less. Half of those credit unions (20) are \$10 million or less in asset size. Because this particular proposal has the potential to create undo hardships and expenses for all size credit unions, but particularly smaller institutions - a large percentage of our membership, we write these comments with their financial and operational welfare in mind.

NCUA has issued this proposal to address the changes to the Federal Credit Union Act affected by the Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 with respect to the increase in share insurance coverage for certain retirement accounts and revising the official sign of insured status to include a statement that insured accounts are backed by the full faith and credit of the United States Government.

CUAO supports the increased insurance coverage for retirement accounts to \$250,000 and the provisions for inflationary adjustments. CUAO commends NCUA in their efforts to get that legislation passed. The increased limit for retirement savings is most certainly an advantage to members. We also support and appreciate the parity and consistency that was maintained between NCUA and FDIC and are pleased the agencies are coordinating efforts in implementation of the changes.

The four main aspects of the proposal and our comments are detailed below.

### **1. The verbiage amending the statement on the official sign of insured status**

The proposal submits the following statement to replace the existing statement on the official sign: "Your savings federally insured to at least \$100,000 and backed by the full faith and credit of the United States Government."

Qualifying words such as "to" (current) or "at least" (proposed) attempt to address the caps of aggregating accounts for coverage and at the same time broad enough to include the many instances that insurance coverage could exceed \$100,000, like the recent increase to \$250,000 for certain retirement accounts.

Accounts with the same ownership/vesting are aggregated and insured to a maximum of \$100,000. To illustrate, consider a member with two individually owned regular share accounts, one account has \$70,000 and the other account has \$50,000. Both accounts would be aggregated (a total of \$120,000) and covered for \$100,000, leaving \$20,000 uninsured.

The word "to" helps to convey that an account will not be insured for more than \$100,000. In reality however, even before the retirement account increases, a person could theoretically have millions in insurance coverage depending on the different ownership interests or rights in different types of accounts. A simple example of this: a joint account with Member A and Member B as owners, each owner is insured up to \$100,000, or a max of \$200,000. Add to this an individual account owned by Member A. The insurance coverage would be \$200,000 for Member A (\$100,00 for the joint account and \$100,000 for the individual account) and \$100,000 for Member B. This of course is dependent on the balances in the accounts. You can see that the qualifier "to \$100,000" is problematic because a person can actually have a great deal more than \$100,000, the retirement increase to \$250,000 is only one example of this.

The proposed wording "insured to at least \$100,000" may also be confusing because the definition of "at least" is: "according to the lowest possible assessment or not less than" (dictionary.com). If we apply this to an individually-owned share account with a balance of \$50 (assuming the member has no other accounts), it would seem that based on a strict reading of "at least \$100,000", the member would be entitled to not less than \$100,000 even though the member only had \$50 in the account.

To further complicate the issue, the new final rules for insurance let the agencies review and potentially adjust the amounts of insurance coverage due to inflation. The agencies can do this starting in 2010 and then every five years after that. This is not to say that the insurance amount will be adjusted every time, but it could.

Therefore, the statement on the official sign should be somewhat broad in scope to account for any future adjustments. Otherwise, we'll be looking at changing the sign each time there is a change in the insurance amount – and we don't want to do that. It seems logical that the need to account for the potential increases is where the "at least" terminology stems from. However, it looks like in doing so there may be an implication that insurance payouts will be a minimum of \$100,000 regardless of account balance, when clearly that is not the intent.

Having said this, it is noted that the FDIC Proposal for Advertisement of Membership (12 CFR 328), which proposes to revise the official signs and advertising of FDIC membership, also uses the verbiage "at least". The full text of the proposed FDIC official sign is: "Each depositor insured to at least \$100,000." It also includes the statement: "Backed by the full faith and credit of the United States government." While using the term "at least" may not be ideal, the NCUA and FDIC versions are consistent and therefore the message to members and customers, respectively, is the same.

It is suggested NCUA explore alternatives to the verbiage describing insurance coverage to avoid confusion, keeping in mind that the statement should not come across as being less beneficial to consumers than insurance coverage through FDIC.

## **2. The compliance timeframe to display the revised sign**

The proposal requests specific comments regarding the 60-day timeframe for credit unions to comply with posting the revised sign in all applicable locations, including branches, websites, and advertisements. It is stated the 60 days will start after the credit union receives its initial supply of the revised signs from NCUA.

Changing branch signage and websites within 60 days is reasonable. It is also reasonable for credit unions to incorporate the revised official sign and language in any new orders for printed materials, membership and account forms and brochures, and/or advertisements within 60 days.

The proposed compliance timeframe is not sufficient with respect to existing inventories of printed materials and advertisements. Not only is it not sufficient, it would result in huge financial and environmental waste. Most credit unions, especially small credit unions, order supplies in larger quantities to receive the benefit of lower pricing based on volume. Consequently, larger quantities are inventoried over a longer period of time. Additionally, the requisitioning of these supplies involves advanced planning and budgeting. Credit unions have already made plans and budgeted for items for this year and will be starting the budget

process for next year in the next few months. The timing of this proposal and anticipated implementation of the rules is not conducive to allowing credit unions the opportunity to plan and prepare accordingly. Consequently, this proposition would demand credit unions to dispose of massive amounts of current inventory and start over from scratch. Moreover, it would require interruption in current advertising agreements. For instance, some of our credit unions use billboards and bus backs. One credit union reported that to change out one billboard would be a minimum of \$1,200. The cost to make the required changes in all of the places that it would need to be changed easily adds up to several thousands of dollars per credit union. The proposal, as is, would be very costly to credit unions.

Furthermore, the proposal does not seem to address the magnitude of the situation or contemplate that the coordination of this effort extends beyond each individual credit union. Even though Part 740 dictates the conditions under which the official sign is to be used, credit unions frequently include the official sign in other mediums, even when not required, simply to promote insurance as an overall benefit. Replacing the existing logo with the new one will require credit unions around the country to process the requests with their respective third party providers. One example is CUNA Mutual, a prominent service provider for credit unions. Nationally, a large number of credit unions rely on CUNA Mutual for their forms, which include the official sign/logo. The 60-day timeframe is not realistic considering the number of credit unions that would need to complete orders with one particular provider. There are also inquiries and concerns being raised about how NCUA will handle all of the requests for signage from all the federally-insured credit unions across the country.

It is not clear why NCUA has selected such a short compliance timeframe. While the increase in insurance coverage is a plus for our members and credit unions, and a change to the official sign is warranted, the general consumer is not likely to notice the subtle difference in verbiage, especially in printed materials. Typically, members and potential members who are concerned about adequate insurance coverage rely on and are educated by credit union staff in the process of establishing accounts or via the NCUA share insurance brochures, which have already been updated. Furthermore, members who have substantial savings are likely already aware of the changes in insurance coverage. The impact to members would be extremely low if the compliance timeframe was extended for existing supplies of printed materials and advertisements.

It is also noted that FDICs proposal sets forth a six-month timeframe, in contrast to NCUAs 60 days, for compliance with the revised signage. It is strongly recommended based on issues of expense, hardship, logistics, and environmental waste that the compliance timeframe to replace and update existing printed

materials and advertisements be a minimum of one year. Ideally, because the effect of the change in verbiage on the official sign is minute and has no impact to the actual coverage a member would receive, a grandfathering approach would be optimal, allowing credit unions to work through whatever current supplies they may have on hand before investing in all new materials.

Again, 60 days to comply with the revised signage for branches, websites, and new orders for printed materials and new advertisements is sufficient. However, 60 days for all other aspects of incorporating the revised official sign is not sufficient and should be extended using a grandfathering method.

### **3. The addition of a daily penalty for non-compliance**

Enforcement fines of \$100 per day for non-compliance of NCUA Part 740 seems excessive, *especially* in conjunction with the proposed compliance timeframe of 60 days. Of all the rules and regulations to have enforcement by monetary penalty this one is a bit surprising because the penalty considerably outweighs any potential risks or safety and soundness issues that would result by not posting the sign as required. The purpose of the sign is to educate consumers and highlight the fact that their savings have insurance protections. Just because the sign isn't posted doesn't mean members would not receive insurance benefits for their accounts. Also, the probability of a credit union needing NCUA to pay out insurance claims is low.

The monetary penalties do not appear to match the level of risk to members for non-compliance.

### **4. The initial supply of the revised sign provided to credit unions by NCUA**

The proposal indicates that NCUA will provide credit unions with an initial supply of the revised sign at no cost. Additional supplies will need to be at the expense of the credit union. The proposal does not indicate how NCUA will determine each credit union's initial supply. Will it be determined based on number of branches, asset size, or something else? This information would have been helpful to outline in the proposal so credit unions could further evaluate how the implementation of this rule would affect them. This has been a question for many of our credit unions. Some assume NCUA will provide all the signs they need initially, while others are wondering how many they will need to order.

It is recommended that NCUA include this kind of information in future proposals so that credit unions can assess and address the totality of the issue.

Mary Rupp  
Page 6 of 6  
August 10, 2006

One final note on the Regulatory Flexibility Act, which states this rule would not have a significant economic impact on a substantial number of small credit unions. On what basis has NCUA drawn this conclusion? To date, several comments have been received by NCUA, many from small credit unions citing that this indeed would have adverse economic consequences. I hope that NCUA considers the overall impact this will have on all credit unions with a focused emphasis on the financial and operational liabilities it creates for small credit unions.

Thank you again for affording us the opportunity to comment on this important rule.

If you need any further information please contact me at the CUAO office, 503-641-8420.

Respectfully,

Jennifer F. Grant  
Compliance Officer/Small Credit Union Liaison  
Credit Union Association of Oregon