NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

August/September 2003
Number 4

HIGHLIGHTS

NCUA Board addresses NAFCU Annual Meeting in Boston, Massachusetts

Chairman Dollar highlights risk management, diversification, taxation and demutualization

Speaking in July before the National Association of Federal Credit Unions' Annual Meeting in Boston, NCUA

Chairman Dennis Dollar highlighted the agency's recent regulatory actions and agenda for 2003, and encouraged credit union participants to carefully consider risk management. He discussed the challenges ahead for America's credit unions, including the potential impact of taxation on the net worth position of credit unions and concerns about an increased move toward demutualization of credit unions resulting from taxation.

The Chairman discussed the challenges of credit union risk management in a lower interest rate environment and the due diligence required in a credit union's asset-liability management when rates inevitably begin to move upward. Dollar also addressed risk diversification in credit union fields of membership, investment portfolios and product offerings.

The one-size-fits-all prompt corrective action law in place today needs a risk-based component, Dollar explained. By statute, credit union capitalization is determined by the 7 percent net worth standard. NCUA cannot reward better risk management within the statute and credit unions have no guide post to structure risk management more effectively under current PCA requirements.

"Risk management and diversification are keys issues for the future," said Dollar. "I think credit union leaders should weigh whether or not they think PCA based upon risk assets rather than total assets has long-term benefits for the credit union movement."

Taxation and demutualization concerns

What today is a state-chartered credit union issue has every potential to be a nationwide issue for all credit unions, Chairman Dollar cautioned.

"Taxation like regulation tends to become malignant and grows upon itself," Dollar said. "The taxation issue should be a concern. It is a structural issue. The tax exemption of a federal credit union is based upon its structure as a not-for-profit financial cooperative," Dollar stressed.

In August, at the National Credit Union Director's Conference, Dollar announced that this fall the NCUA Board will consider a proposal to strengthen the member disclosure requirements when a credit union's membership is considering a vote to convert to a thrift.

"I believe without question in the right of credit union member-owners to change the structure and charter of their institution," said Dollar. "They would not be true owners if they could not do so. However, all member-owners should be fully and completely informed through an effective disclosure process that their ownership interest is subject to loss in as little as two years if their credit union moves to thrift and then to stockholder-owned bank. Credit union to thrift to stockholder ownership in just a matter of years has happened a number

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News briefs

2004 funding measures -- The House of Representatives approved legislation (H.R. 2861) that would provide funding for NCUA's Community Development Revolving Loan Fund and set the borrowing limit for the Central Liquidity Facility. In addition, the legislation includes funding for the Treasury Department's Community Development Financial Institutions program. The funding levels include:

- $51 million for the Community Development Financial Institutions Fund;
- $1 million for Community Development Revolving Loan Fund (CDRLF) technical assistance grants for low-income designated credit unions; and
- $1.5 billion was set for the Central Liquidity Facility borrowing authority ceiling.

The legislation provides $1 million for technical assistance grants to low-income designated credit unions rather than following its traditionally established pattern of dividing the funds between CDRLF loans and technical assistance grants. NCUA had requested $2 million for its 2004 CDRLF programs.

The Senate is expected to introduce similar legislation in September.

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Dennis Dollar, *Chairman*
JoAnn Johnson, Vice Chair
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

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Regional realignment

NCUA Region IV closes and Region VI relocates

Effective January 1, 2004, NCUA will realign a number of states as the agency reduces the number of regional offices from six to five and relocates its California office in a cost-cutting measure estimated to save the agency and credit unions millions of dollars.

With impending closure of the Chicago regional office, a number of states and their NCUA examiners will be reassigned to different regions based on the new five region configuration. As the California office closes December 31, 2003, a new NCUA Region V office will be located in Tempe, Arizona, and the Austin office will become Region IV.

With the realignment, effective January 1, 2004. NCUA supervision responsibilities will be transferred for the following states:

- Arkansas and Louisiana will shift from Atlanta to Region IV – Austin;
- Michigan will shift from Chicago to Region I – Albany;
- West Virginia will shift from Chicago to Region II – Alexandria;
- Indiana and Ohio will shift from Chicago to Region III – Atlanta;
- Illinois, Missouri and Wisconsin will shift from Chicago to Region IV – Austin; and
- Arizona, Colorado and New Mexico will shift from Austin to Region V – Tempe.

As part of NCUA's "Accountability in Management" initiative, the Board voted last November to consolidate from six to five regions to increase efficiency and take cost-saving measures to streamline the agency's operation and adjust the workload as a result of the decrease in number of credit unions.

NCUA had conducted an extensive two-year internal review of management and organizational structure to determine how best to accomplish the agency's regulatory, insurance and supervisory responsibilities in the most cost efficient manner. This key, cost cutting phase of the plan is estimated to save the agency approximately $27 million over 10 years.

A copy of the Realignment Transition Plan summary can be found on NCUA's Web site, http://www.ncua.gov/news/ReAlignment/index.htm

NCUA regional map effective January 1, 2004

Board Actions
July 31, 2003

18 percent loan interest rate ceiling extended

The NCUA Board voted to extend the 18 percent loan interest rate ceiling for 18 months, through March 8, 2005. Without this action, the 18 percent ceiling would revert to 15 percent September 9, 2003. A 15 percent ceiling would adversely impact a number of credit unions and their members, particularly smaller credit unions that tend to have higher levels of unsecured loans and credit unions that offer risk-based lending such as credit builder or credit rebuilder loans designed to assist members establish or reestablish solid credit histories.

Congress has imposed a loan interest rate ceiling for federal credit unions since 1934. In 1980, Congress set the ceiling at 15 percent and authorized the NCUA Board to set a ceiling above 15 percent if conditions warrant.

Fund equity level is 1.22 percent at mid-year 2003

At June 30, the Share Insurance Fund equity level was 1.22 percent based on projected insured share growth of 7 percent in the first six months of 2003. Gross income in the Fund was $84.6 million, operating expenses were $41.5 million, insurance losses were $14.1 million and net income was $29.0 million.

Seven credit unions failed through June 2003, and the number of problem code credit unions has declined to 206. Net income is projected to be $55 million at yearend 2003, and it's expected the Fund will end the year with a 1.25 percent equity level.

NCUA predicts 2.31 percent budget decline

2003 marks the first annual budget reduction in 15 years as the NCUA Board approved a mid-session review indicating NCUA's 2003 budget will fall 2.31 percent or $3,376,948 below projections because of lower operating costs, primarily due to the number of vacant positions.

The following chart looks at the original 2003 approved budget and the revised budget along with projected expeditors and percentages of change.

2003 NCUA budget

The most significant mid-year budget adjustments include –

- **$4,938,608** decrease in employee pay and benefits due to retirements and 38 vacancies;
- **$1,019,765** decrease in travel costs, with the majority of the decrease coming from Regions IV and VI;
- **$200,000** decrease in interest expense for the Alexandria building note due to lower interest rates;
- **$1,750,001** decrease in relocation expenses based on historical actual spending patterns;
- **$294,814** expenditures for the following security related items:
  - $89,314 for access control panel upgrade for existing card readers;
  - $18,000 for additional card readers on doors and service elevators;
  - $105,000 for installation of an access control system;
  - $40,000 for an x-ray machine in the loading dock area;
  - $5,000 for a magnetometer in the lobby; and
  - $37,500 for smart cards with access antennas.
- **$4,006,397** in expected realignment costs. A breakdown of projected major expenses includes:
  - $2,357,159 for Regions IV and VI relocation costs for 26 persons;
  - $422,198 for Regions I, II, III, IV, VI detail assignments and travel;
  - $226,904 for Regions IV and VI severance pay for involuntarily separated employees;
  - $214,396 in unemployment benefits for Region IV and VI employees who are separated; and
  - $478,179 in lease cancellation fees.

Votes are unanimous unless indicated

2003 NCUA mid-year budget adjustments

	Approved budget	Revised budget	Change	Percent change
Employee pay	$ 88,882,054	$ 85,045,253	$(3,836,801)	-4.32
Employee benefits	21,857,941	20,796,134	(1,061,807)	-4.86
Travel	12,778,288	11,728,523	(1,049,765)	-8.22
Rent/communications/ Utilities	4,397,835	4,492,405	94,570	2.15
Administrative	11,379,258	9,346,612	(2,032,646)	-17.86
Contracted services	6,784,334	7,287,438	503,104	7.42
Subtotal	$146,079,710	$138,696,365	$(7,383,345)	-5.05
Reorganization		4,006,397	4,006,397	100%
Total	**$146,079,710**	**$142,702,762**	**$(3,376,948)**	**-2.31%**

NCUA Board addresses NAFCU

Vice Chair Johnson discusses MBL, preparing for leadership change and communication

Vice Chair JoAnn Johnson told conference participants she has been focusing on enhancing the member business lending rule to ensure credit union members are better served and play a pivotal role in sustaining economic growth in America and to help sustain safe and sound institutions.

While noting that member business lending is not for every credit union Vice Chair Johnson said, "Economic progress requires the growth of small businesses across America. Small business owners represent more than 99 percent of all employers and maintain more than half of the private work force. These entrepreneurs create more than two out of every three new jobs and generate about 50 percent of the nation's gross domestic product."

Prepare for transition

Johnson noted NCUA faces challenges in preparing for its future as many long-term managers become eligible to retire in the next five years, and she discussed ensuring the continued stewardship of the credit union community.

"As credit union leaders, it is incumbent upon you to prepare for the transition of the next generation of credit union volunteers and for professional leadership," she said. "For CEOs nearing retirement I challenge you – Are you preparing the next generation of leaders to administer the activities of the credit union? Are you educating, mentoring and investing in the future of your staff?"

She challenged credit union boards -- "Are you incorporating succession planning in the strategic plan of your credit union? Are you working with your CEO on a collaborative basis and communicating effectively to understand when transitions will occur and what challenges you must prepare for?"

Enhance communication

Johnson also addressed communication, how NCUA communicates with credit unions, how credit unions communicate with NCUA and how credit unions communicate with their elected officials.

Currently, NCUA spends $1 million annually distributing information to roughly 10,000 credit unions, and credit unions experience significant delays before documents arrive.

"Therefore, the agency is working on a proposal to give credit unions the option of receiving most documents electronically. If 50 percent of credit unions elect to receive cor-

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Vice Chair JoAnn Johnson with the African American Credit Union Coalition officials

August 8, 2003, Detroit, Michigan – Vice Chair JoAnn Johnson, with the board of directors of the African American Credit Union Coalition, at their 5th Annual Meeting and Conference.

Board Member Matz challenges perceptions about credit unions

NCUA Board Member Debbie Matz reminded credit union leaders that inaccurate perceptions about credit unions can be harmful, citing three she considers most dangerous.

Perception #1: "Large credit unions are just like banks."

"Credit unions today have the ability to reach more members and offer more services," Matz said. "But the member-owned, not-for-profit structure remains a key difference between credit unions and banks."

And large credit unions and small credit unions alike are making a difference in the lives of their members and in their communities.

Perception #2: "Credit unions have no business making business loans."

More than 1,500 credit unions do have business making business loans, the board member countered. Matz said that the NCUA Board will consider a final member business lending rule at the September board meeting that will enable more credit unions to establish business loan programs that meet the needs of their members.

"The demand is out there," Matz said. "Credit union members need business loans. Often, because they are small loans, members cannot get them from other institutions."

Perception #3: "Credit union taxation is only a threat to large state charters."

Credit union taxation is a threat to all credit unions, Matz said. "Taxation is contagious. If states decide to tax credit unions, taxing federal credit unions may seem like a good idea to some federal legislators. And if large credit unions are taxed, it will be only a matter of time before smaller credit unions are taxed, too. The safety and soundness of the entire credit union community is threatened by

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Who and What: Vice Chair JoAnn Johnson will address the Management Perspectives Seminar.
When: Friday, Sept. 5, 2003
Where: Oslo, Norway
Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.
Contact: Heather Graham at 703-518-6309 or hgraham@ncua.gov.

Who and What: Chairman Dennis Dollar will speak at the NASCUS 38th Annual Conference and Symposium.
When: 11:30 a.m., Sunday, Sept. 7, 2003
Where: Vail Marriott, Vail, Colo.
Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.
Contact: Nicholas Owens at 703-518-6336 or nowens@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the NASCUS 38th Annual Conference and Symposium.
When: Tuesday, Sept. 9, 2003
Where: Vail Marriott, Vail, Colo.
Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.
Contact: Heather Graham at 703-518-6309 or hgraham@ncua.gov.

Who and What: Board Member Debbie Matz will speak at the NASCUS 38th Annual Conference and Symposium.
When: Tuesday, Sept. 9, 2003
Where: Vail Marriott, Vail, Colo.
Why: Board Member Matz will discuss the federal and state regulatory systems and raise issues important to credit unions of all charter types.
Contact: Steve Bosack at 703-518-6305 or sbosack@ncua.gov.

Who and What: Board Member Debbie Matz will speak at two New Jersey Credit Union League roundtables.
When: Saturday, Sept. 20, 2003
Where: New Jersey Credit Union League, Hightstown, N.J.
Why: In one roundtable, participants will offer feedback on regulatory policies with an impact on small credit unions. In the other roundtable, participants will discuss issues important to credit unions of all sizes.
Contact: Steve Bosack at 703-518-6305 or sbosack@ncua.gov.

Who and What: Board Member Debbie Matz will speak at the NAFCU Congressional Caucus.
When: Sunday and Monday, Sept. 21-22, 2003
Where: Grand Hyatt, Washington, D.C.
Why: Board Member Matz will meet with credit unions at Sunday's opening reception then deliver a speech at Monday's general session on issues important to federal credit unions.
Contact: Steve Bosack at 703-518-6305 or sbosack@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the NAFCU Congressional Caucus.
When: Tuesday, Sept. 23, 2003
Where: Grand Hyatt, Washington, D.C.
Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.
Contact: Heather Graham at 703-518-6309 or hgraham@ncua.gov.

Who and What: Chairman Dennis Dollar will speak to members of the Wisconsin Credit Union League.
When: 1:30 p.m., Wednesday, Sept. 24, 2003
Where: Credit Union House, 403 C Street NE, Washington, D.C.
Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.
Contact: Nicholas Owens at 703-518-6336 or nowens@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the Institute of Certified Credit Union Executives.
When: Saturday, Sept. 27, 2003
Where: Reno, Nev.
Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.
Contact: Heather Graham at 703-518-6309 or hgraham@ncua.gov.

Board Member Matz visits with New Mexico Credit Union League Board Members

July 9, 2003, Alexandria, Va. *– Board Member Matz visits with New Mexico Credit Union League board members at NCUA, during their Hike the Hill visit to Washington, D.C. From the left are Brenda Dugas, CEO/president, Eddy FCUs; Ronnie Johnston, CEO/president; Artesia Employees Schools CU; Deborah Matz; Andi Baum, CEO/president, Everyone's FCU; John Radebaugh, CEO/president, CU League, and Jeff McDaniel, CEO/president, First Financial CU.*

Praise for NCUA's Intern Program

"This is our third year to participate. I don't know how we could get through the summer without it. [The intern] brings new insight from the younger generation. We are the host credit union so we get to work with a neighboring credit union which is good…there is a closeness with the host credit union and the partner credit union…It's great that NCUA offers this program." **Norma Springfield, Members 1st Community Federal Credit Union Columbus, Mississippi**

The Student Internship Program, formed in 1998 and administered by the NCUA Office of Credit Union Development, teams a low-income designated credit union and a college student studying within the business realm with a larger credit union. The student interacts with both sharing ideas and successes. In its sixth year, the 2003 program includes 22 students and 44 credit unions and once again, students and credit union officials alike praise the experience.

Funding the program, NCUA's Community Development Revolving Loan Fund generally provides reimbursements of $2,500 to low-income designated credit unions to stimulate participation.

The internship promotes three significant opportunities. It permits college students to learn the credit union philosophy, creates future career opportunities within the credit union field and promotes a deeper understanding of the financial industry through on-the-job training. Partnering credit unions foster business development within low-income designated credit unions through the collaboration of methods and practices, and the safety and soundness of low-income designated credit unions improves through the partnership experience.

The internships are structured to meet specific areas of study that generally include business, accounting, information technology, marketing and finance for each student.

Credit unions and interns comment on the program:

"At my school, your first year you don't get into your business courses but this internship has helped me to learn a lot of things I will need to know for the upcoming year…It's fun working in the professional environment."

Gena Davis, intern, Webster United FCU, Minden, Louisiana

"I have all of my work caught up for the next 4 or 5 months. [The intern] is my right-hand person. She does all of my writing and research…the investigative work. It has been a great experience. I have the winning end of the experience because she is with me 4 out of the 5 days [of the partnership with the other credit union]."

Ivonne Lopez, Lower East Side People's FCU, New York, N.Y.

"We find it very beneficial just because we are in such a rural area that it gives a student the chance to come back to the area and learn something about the field they are going into…And hopefully someday they will come back…we actually just hired someone who was an intern about three yrs ago."

Tina Hove, Daniels-Sheridan FCU Scobey, Montana

"It has been a good experience so far. I never really understood the difference between a bank and a credit union before…I knew money management was important but until you see how other individuals handle their accounts…it makes me think twice about what to do. I have also noticed the difference between the two credit unions I work for [with regards to] their goals and their missions…You get to see how [all the departments] relate to one another."

Bilita Mora, intern, Kingsville Community FCU Kingsville, Texas

"I really enjoyed working here…It has helped me to get over a lot of my shyness…It's helped with my education because I actually get to work in the field that I am studying and get real life experience."

Rebecca Kennedy, intern, Carter FCU, Springhill, Louisiana

Credit union and student participants in the 2003 intern program

Host Credit Union	Partner Credit Union	Student Name
Daniels-Sheridan	Froid FCU	Louise Torgeson
Members 1st Community	Columbus-Lowndes Educational	Lance Reed
Kingsville Community	Kingsville Area Educators	Bilita Mora
Cross Valley	Wilkes-Barre VA Employees	Dannie Evans
Harlingen Area Teachers	NAFT FCU	Amanda Celis
Bethex FCU	Neighborhood Trust	Edwin Fernandez
Atlantic City	Riverton Educators	Tanya Alexander
Toledo Urban	Sun Federal	Ashley Baher
Greater Abbeville	Emerald Credit Assoc.	Jason Brown
Schuykill	Schuykill County	Justin Billingham
Lower East Side Peoples	CSAE	Dana Rosenthal
Brooklyn Ecumenical	Artists Community	Vyacheslar Golubar
Choice One Federal	UFCW	Katie Hope
Co-Op Credit Union Of Montevideo	Dawson	Jeff Sachariason
Everyone's FCU	Tucumcari FCU	Whitney Maciel
Carter FCU	Temco FCU	Rebecca Kennedy
Lakeland FCU	Carolina Employees	Faria Gwata
McPherson Community	Centris FCU	Phillip Masters
Community First Guam	Government of Guam Empl FCU	Desiree M. Braga
Webster United	UBC Southern Council	LaVonte' E. Routt Price Gena Davis
Quitman Tri-county	Shelby/Bolivar FCU	Terrance Handy
Central Orleans	Ontario Shores	Patrick Fitzsimmons

CUs post solid midyear saving and loan growth

Federally insured credit unions show solid share growth across the board and solid growth in mortgage and used auto lending during the first six months of 2003 reflecting the continued robust pace of savings and an expanding mortgage market intrinsic with low interest rate financing.

According to data submitted by the nation's 9,529 reporting federally insured credit unions, membership grew to 81,791,715 people, marking a 1.05 percent increase in the first six months of 2003 and a steady pace of membership growth.

Changes in major balance sheet and income statement categories between December 30, 2002, and June 30, 2003, and pertinent ratios follow:

- Assets increased 7.56 percent, up from $557.1 to $599.2 billion;
- Loans increased 3.25 percent, up from $342.7 to $353.8 billion;
- Savings increased 7.63 percent, up from $484.2 to $521.2 billion;
- Investments increased 12.12 percent, up from $140.2 to $157.2 billion;
- Equity increased 4.84 percent, up from $60.5 to $63.4 billion;
- Net income increased 6.64 percent, up from $5.7 to $6.0 billion;
- Net worth ratio declined from 10.71 to 10.46 percent;
- Delinquency ratio declined from 0.79 to 0.74 percent; and
- Loan to share ratio declined from 70.77 to 67.88 percent.

Looking at specific items of interest, mid-year data reveal member business loans grew 13.42 percent in six months, up from $6.66 to $7.56 billion. Dividend interest expense declined 15.13 percent, down from $10.38 to $8.81 billion as credit unions lower interest paid on savings. Credit union employee compensation and benefits grew 7.17 percent, up from $8.56 to $9.17 billion. Delinquent loans declined 3.89 percent, down from $2.72 to $2.61 billion, and net worth increased 5.01 percent, up from $59.71 to $62.70 billion.

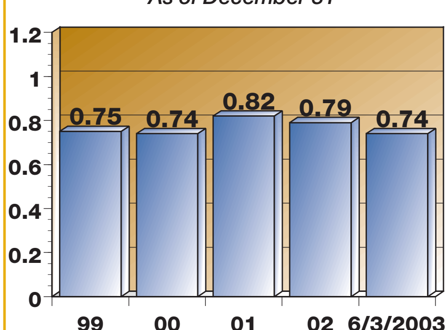
Share account categories across the board continue to expand. Share drafts grew a significant 10.46 percent, up from $57.97 to $64.04 billion, while regular shares grew 9.78 percent, up from $172.16 to $188.99 billion. Money market shares expanded 9.68 percent, up from $86.35 to $94.72 billion, while share certificates grew 1.73 percent, up from $118.28 to $120.32 billion. In the first six months of 2003, federally insured credit union IRA accounts grew 5.76 percent, up from $42.85 to $45.32 billion.

Delving into the major asset categories, the largest lending category, first mortgage real estate loans continue to set the pace expanding 7.13 percent, up from $100.73 to $107.91 billion in the first six months of 2003. Next in size and performance, used auto loans expanded 7.01 percent, increasing from $72.16 to $77.22 billion. New auto loans declined a slight 0.33 percent, down from $60.46 to $60.26 billion, and unsecured credit union loans declined 5.0 percent, down from $21.56 to $20.48 billion.

As saving growth continues to outpace loan demand, credit union investments flourish. The largest investment category, federal agency securities grew a substantive 13.59 percent, up from $74.60 to $84.73 billion. Bank and S&L certificate deposits expanded 12.14 percent, up from $23.32 to $26.15 billion, and funds in corporate credit unions grew 18.31 percent, up from $59.5 to $70.4 billion.

FICU loan delinquency ratio

As of December 31



Credit unions expand mortgage origination share

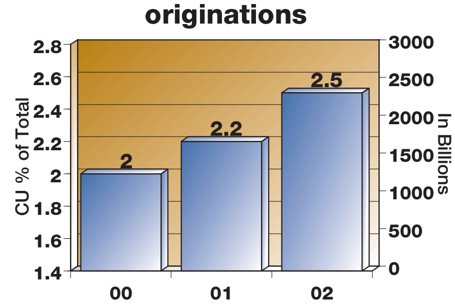
Federally insured credit unions (FICUs) continue to increase their share of national mortgage originations. Over the past 10 years, this share increased from 1.9 percent to the current level of 2.5 percent. Significantly, this increase took place as the volume of mortgages originated in the U.S. set record levels in 2001 and 2002.

The growth can be attributed to more active participation by FICUs in granting first mortgage loans. In the last 10 years, the percentage of FICUs offering mortgage loans increased from 39.8 percent to 49.6 percent. At the same time, the level of delinquent mortgage loans at FICUs dropped from 1.79 percent in 1993 to .96 percent in 2002.

Interest rate risk strategies imperative Growth in the number of credit unions offering mortgage loans and the volume of loans granted also represents a challenge to the industry to ensure that proper interest risk management strategies are in place. Successfully meeting this challenge will allow credit unions to continue to prosper and expand the wide variety of services available to their members.

Strategies to manage interest rate risk range from limiting risk to actively managing risk. Portfolio limitations could be based on the credit union's analysis of acceptable interest rate risk levels within its balance sheet structure. Some strategies to reduce or manage interest rate risk could include selling mortgages to the secondary market or borrowing from the FHLB to lock in interest rate spreads. The appropriate risk mitigation strategy depends entirely on the credit union's risk profile, interest rate risk exposure and the knowledge level of management.

CU percentage of mortgage originations



NCUA implements CUMAA – Five year history

Aug. 7, 1998		CUMAA enacted
Sept. 29, 1998	MBL	Interim final rule issued
Oct. 29, 1998	PCA	Advance notice of proposed rulemaking on PCA
Dec. 1998	FOM	Final rule issued; ABA filed lawsuit
May 18, 1999	PCA	PCA system proposed rule issued
May 26, 1999	NCUSIF	Proposed rule issued
May 27, 1999	MBL	Final rule issued
Oct. 18, 1999	NCUSIF	Final rule issued
Feb. 18, 2000	PCA	PCA final rule issued
Feb. 18, 2000	PCA	RBNW component proposed rule issued
March 2000	FOM	ABA challenge dismissed, ABA filed appeal
May 22, 2000	PCA	PCA report made to Congress
July 20, 2000	PCA	RBNW component final rule issued
Aug. 7, 2000	PCA	PCA system implemented
Nov. 3, 2000	PCA	RBNW report made to Congress
Jan. 1, 2001	PCA	RBNW component implemented
Nov. 9, 2001	FOM	Court of Appeals affirmed dismissal of ABA lawsuit
March 27, 2003	FOM	Final rule issued
April 4, 2003	MBL	Proposed rule issued
July 16, 2003	FOM	Lawsuit filed by ABA in Utah

Before Enactment of CUMAA

In January 1996, the NCUA Board appointed key senior staff to a field of membership (FOM) task force to examine opportunities to improve FOM policy. The agency also considered member business lending (MBL) issues.

As the Credit Union Membership Access Act (CUMAA) was introduced in and considered by Congress, NCUA followed its progress closely. FOM and new MBL regulations were drafted by the FOM task force and the agency's Office of General Counsel in anticipation of CUMAA's requirements, putting NCUA in a good position when CUMAA was enacted.

Field of Membership

CUMAA was enacted August 7, 1998, and NCUA issued a new FOM regulation in December 1998. The American Bankers Association (ABA) immediately filed a lawsuit challenging the regulation. In March 2000, the Federal District Court in the District of Columbia dismissed the ABA challenge. The Court of Appeals for the District of Columbia Circuit affirmed the dismissal in November 2001.

A revised FOM final rule was issued in March 2003. On July 16, 2003, the ABA filed suit in the Federal District Court in Utah, objecting to the NCUA Board's application of its FOM policy.

Member Business Lending

In September of 1998, NCUA issued an interim final rule updating MBL requirements for credit unions based on CUMAA mandates. In May 1999, the final rule was issued.

In April 2003, NCUA issued another proposed rule concerning MBL. The NCUA Board is expected to issue a final rule in September 2003.

Prompt Corrective Action

Prompt Corrective Action (PCA) was introduced in CUMAA. NCUA complied with the statutory deadlines.

In May of 1999, a PCA system proposed rule was issued. In February 2000, a risk-based net worth (RBNW) proposed rule was issued and a PCA system final rule was issued. NCUA submitted a PCA report to Congress in May 2000. In July of that year, a RBNW final rule was issued and in November, a RBNW report was submitted to Congress.

In August 2000, the PCA system was implemented.

Share Insurance Fund

To conform its regulation with changes in the *Federal Credit Union Act* brought about by the passage of CUMAA, NCUA issued a proposed rule in May 1999 concerning capitalization of the share insurance fund through the maintenance of a deposit by each insured credit union, payment of an insurance premium and equity distribution. A final rule was issued in October 1999.

GC opinion letters

The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions submitted.

Summaries of a few recent opinion letters follow. To secure the letters mentioned, contact NCUA's Office of Public & Congressional Affairs, 1775 Duke Street, Alexandria, Va. 22314-3428, or access all GC opinion letters on the NCUA Web site at http://www.ncua.gov/ref/opinion_letters/opinion_letters.html

 # 03-0382 – Re: Long-term health care insurance for officials – An FCU may provide volunteer officials with long-term care insurance reasonable in coverage and amount as long as they remain capable of serving in their official capacity. When an individual is no longer a credit union official, coverage must cease immediately.

03-0647 – Participation in New Markets Tax Credits Program -- An FCU may become certified as a Community Development Entity (CDE) and exercise CDE powers to the extent authorized by law. An FCU's authority to buy and sell loans is limited by 12 C.F.R. §701.23. Its borrowing is permitted to the extent it is authorized under §107(9) of the FCU Act. 12 U.S.C. §1757(9). NCUA does not believe the activity of applying for, obtaining and selling NMTCs on behalf of a credit union CUSO subsidiary is within an FCU's incidental powers; however, if the CUSO regulation is amended to permit CUSOs to originate member business loans, a CUSO may become a certified CDE and apply for and sell NMTCs. The CUSO would use the proceeds from the sale to make business loans.

Vice Chair Johnson

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respondence electronically, savings could be substantial," Johnson said.

Equally important is that the credit union community communicate with NCUA.

"I cannot emphasize enough how important substantive comment letters are in the drafting of our final rules. While form letters show the broad range of support for a proposal, it is letters that suggest thoughtful changes that most impact our thinking at the agency," Johnson said.

"And please, let me reiterate the importance of communicating with your elected officials. As a former State Senator, I can attest to how credit union members can educate elected officials and help shape public policy.

"I firmly believe that no one has a monopoly on good ideas. From sharing your ideas and concerns with lawmakers and sending your comments and suggestions to us to NCUA keeping the credit union community informed, the entire process no doubt leads to better decisions and regulations," Johnson said.

Matz challenges perceptions

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taxes. Every credit union has a stake in the tax debate."

"You must educate your lawmakers and the public in order to change these perceptions. Tell them what your credit union does for your members and your communities. Remind them what makes credit unions different from banks," Matz told attendees. "The future of the credit union community depends on it."

Matz concluded with remarks about her Partnering and Leadership Successes (PALS) initiative. "Reaching all the people in your field of membership with low-cost, quality service is critical," Matz said. "PALS is a means for credit unions to learn from one another. Those who have implemented successful initiatives can share them with others."

The next PALS workshop will focus on member business lending. Scheduled for Oct. 16, the free workshop will be held in Washington, D.C. Register on NCUA's Web site, www.ncua.gov

Help prevent fraud

The August *Letter to Credit Unions No. 03-CU-12* alerts credit unions to fraudulent newspaper advertisements and/or Web sites by entities claiming to be credit unions. The false ads offer various types of loans, and via a toll-free number callers are solicited to provide personal financial information for a prospective loan. Once the loan is "approved," the victim is directed to make advance payment on the loan via wire transfer. The Web site fraud takes two forms. The first is perpetrated by the same entities involved in the ad fraud and involves copying legitimate credit union Web sites and replacing legitimate phone numbers with bogus toll-free numbers. The second type involves Web sites using the words "credit union" in their name, including sometimes using the name of legitimate credit unions. The fraudulent Web site links to a number of products, some are financial products

Check newspapers and Web sites

Working with law enforcement authorities and the Federal Bureau of Investigation, NCUA is asking federally insured credit unions to help prevent this crime by reviewing local newspapers for suspicious advertisements and by conducting regular internet searches for entities either using the same or a similar domain name to their own.

Additional guidance on credit union Web site protection is offered in December 2002 NCUA *Letter to Credit Unions on Protection of Credit Union Internet Addresses, No. 02-CU-16.t* http://www.ncua.gov/ref/letters/letters2002_2000.html.

Call NCUA

Please call the NCUA Fraud Hotline at (703) 518-6550 or (800) 827-9650 to provide any pertinent information. Affected credit unions should file a Suspicious Activity Report and/or contact the local FBI.

If members are victims

Credit union members who are scam victims should contact their credit union, NCUA and/or the FBI. To protect against further identity theft, members should file a complaint with the Federal Trade Commission and notify their credit bureaus. Further information and guidance on protecting against identity theft can be found at the FTC Web site, http://www.consumer.gov/idtheft/.

About investments

Balance Sheet Assessment

Recently, longer-term interest rates have moved higher. The increased potential of a stronger economy and large federal and municipal deficits could raise rates even more. With higher interest rates, many callable investments will not be called and reduced refinancing will slow cash flows from mortgage loans, mortgage-backed securities and CMOs. The value of these investments will decline. At the same time, higher rates will cause members to consider various investment alternatives, increasing the pressure to raise dividends.

Since this is a possibility, have you considered what the impact would be on your credit union? What would happen to the value of your balance sheet and your earnings if rates rose? What about your liquidity? Would asset cash flows stay the same or extend as prepayments decrease? Would asset yields increase or are they tied to fixed rate instruments? What would happen if your members were attracted by higher rates available elsewhere or by an improved stock market? Will your earnings be squeezed too much if share rates must be raised?

If any of these scenarios apply, you're too vulnerable. Decide now what to do to reduce vulnerability. Reducing risk costs money. Evaluate the trade-off between reduced earnings now and less exposure to rising interest rates later. Determine the impact on earnings and net worth if you shift to more variable rate assets. What occurs if you reduce holdings of mortgage loans and mortgage-related investments and interest rates rise further? This evaluation can help determine whether you should stay put or alter your balance sheet to reduce vulnerability.

Chairman Dollar addresses NAFCU

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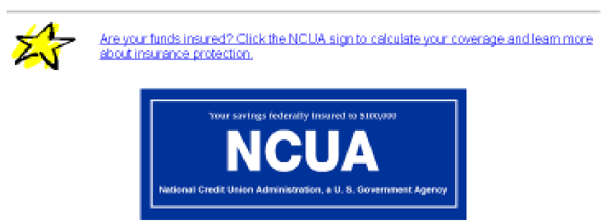
of times in the recent past, and NCUA has heard from countless former credit union member-owners who said they wish they had known earlier the possible ramifications of abandoning their credit union charter. Demutualization of the credit union movement is a concern if taxation gets a toehold and grows to be something that credit unions are dealing with," Dollar said.

Check out NCUA's new **Share Insurance Estimator** accessible at ***www.ncua.gov*.**



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