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NCUA News National Credit Union Administration

Johnson addresses U.S. Treasury Southwest Regional Conference

Helping families take control of their finances was the focus of Chairman JoAnn Johnson's remarks Dec. 4, 2006, at the U.S. Treasury Southwest Regional Conference on Reaching Unbanked People held at the University of Texas-Pan American in Edinburg, Texas.

Johnson joined U.S. Treasurer Anna Escobedo Cabral and other government and private sector officials at the conference discussing innovative ways financial institutions can reach out to unbanked consumers. The Treasury conference included panels of experts discussing several issues affecting the unbanked, including:

- remittances and reaching the unbanked;
- innovative products and strategies for reaching the unbanked;
- asset building;
- financial education; and
- reaching unbanked youth.

***Edinburg, Texas, December 4, 2006**—U.S. Treasurer Anna Escobedo Cabral and NCUA Chairman JoAnn Johnson at the U. S. Treasury's Conference on Reaching Unbanked People.*

Chairman Johnson said that NCUA will emphasize the importance of not just getting people into financial institutions but also helping engender financial literacy that can help their entire lives.

"This conference is a big step in setting the course for America's financial institutions to make a profound difference to the segment of our population that is often overlooked yet so vital to the health of America's economy," Johnson said.

More than 50 credit union representatives from Texas attended the one day conference, which is the second of four regional events organized in conjunction with this year's launch of the National Strategy for Financial Literacy published by the Financial Literacy and Education Commission (FLEC) and available on the website administered by the panel, www.MyMoney.gov.

Chairman JoAnn Johnson serves on the FLEC, which Congress created in 2003, comprised of 20 federal agencies and headed by Treasury.

Board actions December 14, 2006

2007 NCUSIF operating level is 1.3 percent

The NCUA Board set the 2007 NCUSIF operating level at 1.3 percent based on credit unions' current 11.5 percent well-capitalized position and the Fund's adequate reserve level.

The Credit Union Membership Access Act mandated NCUA set a normal NCUSIF operating level between 1.2 and 1.5 percent. The normal operating level, or equity ratio, is the ratio of fund equity less unreserved contingent liabilities divided by the aggregate amount of all insured shares.

Equity ratio and share fluctuation

NCUA considers the NCUSIF equity ratio along with current and projected insured share growth in setting the NCUSIF operating level. Based on expected 2007 share growth of between 3.5 – 4.0 percent, the equity ratio is projected to be approximately 1.31 percent December 31, 2007.

Reserves and insurance losses

The NCUSIF (Fund) reserve level was approximately $73 million at the beginning of 2006. Reserves are funds set aside to cover the costs of potential credit union failures and problems.

There were 252 problem credit unions representing less than 1 percent of total insured shares on November 30. Also, 14 credit unions had failed at a cost of approximately $4 million. At November 30, the reserve balance was $71.4 million.

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Vice Chairman addresses military lending conference

Vice Chairman Rodney E. Hood addressed the Federal Deposit Insurance Corporation (FDIC) Affordable, Responsible Loans for the Military Conference in Washington, D.C., December 6, 2006. The conference focused on building profitable, long term, multiple-account banking relationships using traditional financial institutions as an alternative to high cost, non-bank financial service providers often surrounding military bases.

Vice Chairman Hood was joined by private and public sector officials including FDIC Chairman Sheila C. Bair as well as Congressman and new House Financial Services Committee Chairman Barney Frank.

The vice chairman commended Chairman Bair and the countless dedicated professionals at FDIC for "taking steps to protect the brave men and women who keep America safe," then he described credit union efforts.

"Credit unions play a pivotal role in providing hardworking people with the affordable financial products they need to achieve the American dream of homeownership, and NeighborWorks America has launched a new Foreclosure Prevention initiative to help families sustain their dream of homeownership."

He also emphasized the necessity for our military-affiliated credit unions to work hard in reaching young men and women in uniform before they turn to predatory lenders.

"The most unscrupulous financial service providers place their shell offices near military bases. These fringe providers of capital have no desire to help our enlisted members achieve economic empowerment," Hood said. "Enlisted men and women are able to enter the financial mainstream by having access to affordable loans, financial literacy and hope largely due to the tireless work of credit unions."

"Credit unions and military banks are exploring opportunities to share a common agenda in helping provide affordable products to our military personnel," he said.

"As a regulator, I believe that we must manage, not avoid risks. This can be accomplished with regulation that is effective as opposed to excessive. Ensuring credit unions have the regulatory flexibility they need to effectively serve their members is my regulatory goal," the vice chairman said.

"As we diligently examine financial products and services to combat predatory lending, it is imperative that financial regulators and stakeholders work together crafting user-friendly, flexible policies that do not produce unintended consequences for banks, credit unions, and the very group we are trying to protect—those individuals who are devoting their lives to preserve American democracy."

For more information, a predatory lending brochure is available in English and Spanish on the NCUA website http://www.ncua.gov/Publications/Index.htm.

NCUA News

National Credit Union Administration

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

JoAnn Johnson, *Chairman*
Rodney E. Hood, *Vice Chairman*
Christiane Gigi Hyland, *Board Member*

Information about NCUA and its services may be secured by contacting 703-518-6330.

Office of Public & Congressional Affairs
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Chairman's GAO Report Statement

December 1, 2006, Alexandria, Va.

"The data used by the Government Accountability Office does not provide as complete a picture of credit union member income as that gathered by NCUA in its Member Service Assessment Program. The MSAP data consisting of over 14 million credit union member records was not evaluated by GAO or incorporated in the report. GAO's acknowledgement of the restrictions federal credit unions face regarding who they are legally able to serve is a critical aspect that merits additional discussion by Congress. It is also encouraging that the GAO report notes that federal credit unions are taking advantage of the available avenues, such as low-income designation and addition of underserved areas, to serve members in all income strata. We welcome this discussion, as well as the process by which Congress has learned more about federal credit union member service."

See related article "NCUA issues member service assessment results" in the November issue of NCUA NEWS online at http://www.ncua.gov/news/newsletter/NCUA/NCUANews.html.

The NCUA MSAP is available at http://www.ncua.gov/ReportsAndPlans/MSAP/MSAP-Pilot.pdf.

Board Actions

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The NCUSIF and federally insured credit unions have experienced an extended period of minimal losses and manageable problems.

Credit union conversion rule finalized

The NCUA Board approved final rule Part 708a to improve the information available to the members and the board of directors who are considering converting an insured credit union to a mutual savings bank or mutual savings association, which NCUA considers to be a fundamental shift.

The rule revisions ensure credit union members are fully informed of the reasons for a conversion, have adequate time to weigh the pros and cons, and have an opportunity to communicate with one another and share their views with credit union directors.

Specifically, the amended rule revises disclosures and voting procedures and adds procedures to facilitate members' intercommunication and for members to provide their comments to directors before the credit union board votes on a conversion proposal.

Final rule Part 708a is effective 30 days after publication in the Federal Register.

Investment rule amendments adopted

The NCUA Board amended investment rule Part 703 permitting federal credit unions (FCUs) to engage in investment repurchase transactions when the instrument consists of first-lien mortgage notes, with certain limitations specified in the Federal Credit Union Act (Act). While expanding FCU authority to invest in mortgage-related securities, the amendment includes requirements to help FCUs manage risks associated with these investments.

An FCU may invest in mortgage notes offered and sold pursuant to the Act §107(15)(A) and as an investment repurchase agreement under revised §703.14, subject to the following conditions:

1. Investments with one counterparty are limited to 25 percent of a credit union's net worth and 100 percent of its net worth with all counterparties;
2. When an FCU purchases mortgage notes, the counterparty, or party fully guaranteeing the transaction, must have the equivalent or better of an A- long-term outstanding debt rating and an A-1 short-term rating;
3. The FCU must obtain a daily market value assessment of securities using an independent qualified agent;
4. The mortgage note repurchase transaction is limited to a maximum 90-day term;
5. All mortgage note repurchase transactions will be conducted under tri-party custodial agreements; and
6. An FCU must have undivided interest in the securities.

The revised investment rule is effective 30 days after publication in the Federal Register.

Board votes are unanimous unless indicated

Hood named to FCC committee

NCUA Vice Chairman Rodney E. Hood has been appointed by Federal Communications Commission (FCC) Chairman Kevin J. Martin to serve on the FCC's Advisory Committee on Diversity for Communications in the Digital Age. The committee objective is to continue and grow services needed by the American people, paying particular attention to the strength and vibrancy of diversity, creating an environment where all Americans have access to opportunities to participate in the communications industry.

The mission of the committee is "to make recommendations to the FCC regarding policies and practices to enhance the ability of minorities and women to participate in the telecommunications and related industries."

"I am honored to join such a distinguished committee of accomplished

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McNeill becomes NCUA Ombudsman

NCUA Chairman JoAnn Johnson selected Deputy Financial Officer and Division Director Mike J. McNeill to replace Carol Bullock as the agency's Ombudsman effective January 1, 2007.

As Ombudsman, McNeill investigates complaints and recommends solutions relating to regulatory issues that cannot be resolved at the regional level.

The Ombudsman does not handle any matter:

- subject to formal review as set forth in NCUA Regulations or IRPSs;
- involving an enforcement action where a notice of charges has been filed;
- in litigation;
- involving a conservatorship or liquidation; or
- within the Inspector General's jurisdiction.

The Ombudsman assists in resolving problems by helping define options and recommending actions to the parties involved. The Ombudsman cannot decide matters in dispute or advocate position of the complainant, NCUA or other parties.

The Ombudsman makes recommendations to appropriate agency officials for systemic changes to deal with recurring

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Visit the NCUA website http://www.ncua.gov to get the latest information directly from NCUA.

My Government Listens

Date: Saturday, January 6, 2007
Who: Chairman JoAnn Johnson
Event: SAC Federal Credit Union—James A. Guretzky's retirement celebration
Location: Omaha, NE
Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Wednesday, January 17, 2007
Who: Vice Chairman Hood
Event: Midwest Credit Unions Management Issues Conference
Location: Austin, TX
Contact: Sally Ridgely at sridgely@ncua.gov or 703-518-6307

Date: Friday, January 19, 2007
Who: Vice Chairman Hood
Event: AACUL Annual Meeting
Location: Palm Desert, CA
Contact: Sally Ridgely at sridgely@ncua.gov or 703-518-6307

Date: Friday, January 19, 2007
Who: Chairman JoAnn Johnson
Event: Governmental Affairs Forum
Location: Olympia, WA
Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Friday, January 19, 2007
Event: AACUL Annual Meeting
Who: Board Member Gigi Hyland
Location: Palm Desert, CA
Contact: Nina Bullard at nbullard@nuca.gov or 703-518-6318

Date: Saturday, January 20, 2007
Who: Chairman JoAnn Johnson
Event: AACUL Annual Meeting
Location: Palm Desert, CA
Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Monday, January 22, 2007
Who: Vice Chairman Hood
Event: NC CUL Northwest Chapter Meeting
Location: Raleigh, NC
Contact: Sally Ridgely at sridgely@ncua.gov or 703-518-6307

Date: Wednesday, January 24, 2007
Event: Southernmost Chapter Meeting
Who: Board Member Gigi Hyland
Location: Miami, FL
Contact: Nina Bullard at nbullard@nuca.gov or 703-518-6318

Date: Thursday, January 25, 2007
Event: Meeting of South Florida Chapters
Who: Board Member Gigi Hyland
Location: West Palm Beach, FL
Contact: Nina Bullard at nbullard@nuca.gov or 703-518-6318

Date: Tuesday, February 6, 2007
Who: Vice Chairman Hood
Event: CEO Affordable Housing Roundtable
Location: Columbia, SC
Contact: Sally Ridgely at sridgely@ncua.gov or 703-518-6307

Date: Wednesday, February 7, 2007
Who: Vice Chairman Hood
Event: TN CUL Legislative Regulatory Conference
Location: Nashville, TN
Contact: Sally Ridgely at sridgely@ncua.gov or 703-518-6307

Date: Thursday, February 8, 2007
Event: DC Chapter Meeting
Who: Board Member Gigi Hyland
Location: Washington, D.C.
Contact: Nina Bullard at nbullard@nuca.gov or 703-518-6318

Johnson and Hyland attend student CU ribbon cutting

NCUA Chairman JoAnn Johnson and Board Member Gigi Hyland, November 29, 2006, attended the ribbon cutting ceremony of the Viking Vault, a student-run branch of Fort Belvoir Federal Credit Union located inside Woodbridge Senior High School, Woodbridge, Virginia. Johnson and Hyland were joined at the ceremony by students, local school officials, and Patricia Kimmel, president and CEO of Fort Belvoir Federal Credit Union.

The Viking Vault is a result of the partnership of Prince William County Public Schools and Fort Belvoir FCU. The credit union branch will provide a valuable learning experience giving high school students access to a wide variety of services and products including checking and savings accounts, loans and credit card accounts. Students are encouraged to open basic accounts to save for events such as holiday gift giving, high school rings and prom activities.

Interested students were hired to manage the branch. Their responsibilities include developing and executing business plans and teaching members the value of financial management.

"It is never too early to start developing healthy financial habits," said Chairman Johnson. "The Viking Vault will certainly give educators, students and parents the opportunity to work together to achieve this vital objective. I admire their innovative and cooperative spirit and am certain that the results will benefit them for a lifetime."

"The Viking Vault is a shining example of how partnerships between credit unions and their community can be a tangible win-win for everyone involved," said Board Member Hyland. "I give particular credit to the student tellers who will be the stewards of sharing information on healthy financial habits and the benefits of belonging to a financial cooperative. The work of the credit union, the high school, community leaders and elected officials to make this new branch a reality is truly admirable."

Hyland keynotes BSA conference

Board Member Gigi Hyland commended credit unions for their critical role in the war against terrorism and money laundering and acknowledged the sacrifice and cost involved with Bank Secrecy Act (BSA) compliance. She also highlighted key areas in which credit unions can improve on December 15 at a BSA/Patriot Act compliance conference sponsored by *Credit Union Times* and the Executive Enterprise Institute.

During her keynote address, "Keeping the 'B.S.' out of BSA," Board Member Hyland recalled the challenges faced with BSA compliance during her experience as senior vice president, general counsel of Empire Corporate Federal Credit Union.

"It's not news that BSA compliance came screaming onto the scene with unparalleled vigor a few years ago," stated Hyland. "After 9/11, with passage of the USA PATRIOT Act, there was renewed focus on curbing possible sources and flow of terrorist financing through the mechanism of BSA as well as enhanced FinCEN and Office of Foreign Assets Control regulations.

As a person whose job was to keep a corporate credit union compliant with all applicable regulations, my initial sense of the BSA storm was that the unprecedented onslaught of new requirements and obligations on financial institutions equated to an unattainable goal for credit unions. The lack of tangible guidance and detail on structuring or what constitutes 'suspicious activity;' the dearth of documents of resolution related to BSA on credit union examinations; the enormous regulatory burden; and the uncertainty of where all these suspicious activity reports (SARs) were going and whether they were doing what they were supposed to do—help catch the bad guys—all contributed to my sense that there seemed to be quite a bit of 'B.S.' associated with BSA."

Board Member Hyland highlighted three key ways to improve BSA compliance:

- Periodic risk-based assessment;
- Enhance communication with NCUA; and
- Idea-sharing and improvements through FFIEC.

Board Member Hyland encouraged credit unions to understand that the burden is shared throughout the financial service sector and emphasized that careful and periodic risk-based assessment is the backbone for an effective and cost-efficient BSA compliance program. She noted helpful guidance available including FinCEN's website and the BSA/AML Examination Manual. Hyland reminded the audience of the vital mission of protecting the reputation of the credit union system by continuing to maintain safety and soundness throughout BSA compliance.

While discussing the key area of enhanced communication between credit unions and NCUA, Hyland emphasized the importance of constructive dialogue with examiners on what is best for each credit union, providing all applicable support documents, and sharing individual stories on examinations with other credit unions.

In order to improve the overall system, Board Member Hyland highlighted the continuing dialogue within the FinCEN BSA Advisory Group and with the FFIEC. She reminded the audience of the upcoming August 1, 2007, deadline for mandatory compliance with the new SAR form while emphasizing the importance of including all available information on the form. Hyland encouraged the use of helpful resources such as the *SAR Activity Review*, which summarizes the trends, tips and how law enforcement is using the information.

Las Vegas, Nevada, December 15, 2006—*NCUA Board Member Gigi Hyland addresses the Executive Enterprise Institute Bank Secrecy Act/USA Patriot Act Conference—Challenges and Best Practices for Credit Unions—at Caesars Palace.*

Board Member Hyland also assured the audience NCUA is working diligently to improve the system, noting the agency's participation on the BSA Advisory Group to share best practices and work to improve the system, including the effort to respond to the recent GAO study of federal financial regulator enforcement efforts.

RD Dupcak retires

Edward P. Dupcak, director of the NCUA Region II office in Alexandria, retired at year-end 2006 after nearly 33 years of service to the agency.

"I salute Ed Dupcak for the wonderful job he has done at NCUA," Chairman JoAnn Johnson said. "As a regional director, Ed has been a stabilizing and cohesive force, garnering the respect of staff and credit unions alike. His management skills and expertise, particularly in the areas of ALM and investments, have been invaluable. I wish Ed the very best in retirement."

McNeil

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problems revealed through investigations.

The Ombudsman reports to the NCUA Board and is independent of operational programs.

Contact the NCUA Ombudsman by email, OMBUDSMAN@NCUA.gov, or by phone, 703-518-6570.

Hood

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individuals and welcome the opportunity to serve the FCC and the American people," said Hood. "I look forward to contributing toward the committee's noble mission."

Chairman Johnson visits Louisiana recovery area

Chairman Johnson spent three days in December in Louisiana traveling through areas recovering from Hurricane Katrina, meeting with credit unions affected by the storm, and attending a financial literacy graduation ceremony.

Chairman Johnson, guided by Louisiana Credit Union League CEO Anne Cochran, traveled nearly 80 miles December 18 through the hurricane damaged New Orleans metropolitan area. She visited officials from St. Bernard Parish School Board Employees Federal Credit Union and Barbers & Cosmetologists Credit Union, both affected by the storm.

"Even though more than a year has passed since Katrina devastated this area, the visible impact of the storm is still unimaginable," said Chairman Johnson. "Despite the great task of recovery that lies ahead, the spirit of the community is truly inspiring. Nowhere is the heroic and courageous spirit more evident than in the credit union community affected by the storm. I was honored to witness firsthand how credit union officials and volunteers are truly embodying the 'people helping people' philosophy by keeping their institutions operational so their members can continue to depend upon them. As these communities rebuild their lives, their credit unions have been by their side."

***Baton Rouge, Louisiana, December 20, 2006**—NCUA Chairman JoAnn Johnson presenting the President's Call to Service Awards to James H. Moore and Kenneth E. Uffman (seated), recognizing their dedication and commitment to volunteer service. Nominated by the Louisiana Credit Union League, both men have contributed more than 4,000 volunteer hours to financial and educational causes.*

At the invitation of John Milazzo, president and CEO of Campus Federal Credit Union, December 19 Chairman Johnson participated in a graduation ceremony for a financial literacy school sponsored by the credit union, in cooperation with Louisiana State University (LSU), in Baton Rouge.

Nearly a year ago, Campus FCU met with officials from LSU to discuss offering financial literacy classes to employees. Eighteen people graduated from the course that covered savings and investing, checking, establishing and building credit, reviewing a credit report, and homeownership. After the graduation ceremony, Chairman Johnson met local credit union officials and volunteers at a dinner hosted by Campus FCU.

Chairman Johnson concluded her visit to Louisiana by meeting with New Orleans credit union officials and volunteers at a luncheon hosted by the Louisiana Credit Union League.

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