

Chairman Johnson outlines 2006 regulatory focus

NCUA Chairman JoAnn Johnson outlined NCUA's regulatory focus for 2006 and highlighted opportunities and challenges for the nation's credit unions during her address to the Iowa Credit Union League Annual Conference February 7 in Des Moines.

"While 2005 presented many challenges, this year's opportunities are expected to be met with progress and solutions that will further underscore the significant role of credit unions in today's society," said Chairman Johnson. "With a full complement on the NCUA Board, we are positioned to accomplish great initiatives to further strengthen the well-being of the nation's credit union system. I anticipate a forward-focused year of progress."

The chairman said that she will continue to lead with a regulatory philosophy of "earned flexibility" for

federal credit unions, as demonstrated with the recent final rule lowering the RegFlex qualifying net worth ratio from 9 to 7 percent for well-managed, well-capitalized credit unions. (See Board actions on page 3.)

Reforming Prompt Corrective Action (PCA) remains a priority from which NCUA cannot waiver the Chairman said. "Credit union capital standards should not be one-size-fits-all and instead should recognize risk-based factors in an individual credit union's balance sheet. This issue will require greater effort from the regulator and regulated in working with Congress to bring this important safety and soundness priority to fruition. We look forward to continuing dialogue with Congress to reform PCA."

Chairman Johnson said the increased focus on "enhancing clarity" and collecting data that demonstrates credit

union service to persons of modest means will likewise be a priority for the NCUA. (See related page 9 article.)

"I have long believed credit unions are meeting their mission of service. I am confident that NCUA will utilize resources to collect and demonstrate service to persons of modest means in a way that is effective and not burdensome for credit unions," Johnson said. "I know credit unions are eager to learn more about this process, and I assure you NCUA is focused on this being a productive and worthwhile evaluation," the Chairman said.

Additional announced 2006 priorities include:

- Maintain "wise stewardship of agency resources" in the budget and allocation of resources, and further develop the long-term strategic direction for NCUA;

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Alexandria, Jan. 18—Federal Reserve Board Governor Susan Schmidt Bies (right) visits NCUA Chairman JoAnn Johnson to discuss issues affecting the financial services industry. They discussed financial education as well as regulatory issues impacting the credit union system.

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Loan growth is strong in 2005

Loans grow rapidly, delinquencies remain low

The nation's federally insured credit unions reported strong loan growth as delinquencies remained low according to fourth quarter 2005 Call Report data submitted by the nation's 8,695 federally insured credit unions.

During 2005, the loan to share ratio climbed to 79.4 percent as loans grew nearly \$44 billion, delinquencies remained well below 1 percent.

"The strong pace of loan growth is an excellent indication that credit unions are fulfilling their mission of being the source of affordable loans for their members," said Chairman JoAnn Johnson. "What's more, net worth continues to grow at a consistent, healthy level, which indicates credit unions are effectively managing their balance sheets."

Credit unions reported a 0.85 percent annualized return on average assets and the net worth ratio climbed to 11.24 percent during 2005. While the return on average assets declined to .85 percent as a result of increases in operating expenses and the provision for loan and lease loss

expenses, the return on average asset ratio of .85 percent remains at a sustained level.

The major balance sheet categories and membership growth at federally insured credit unions between January 1 and December 31, 2005 follows:

- Assets increased 4.9 percent, to \$678.7 billion from \$646.9 billion;
- Loans increased 10.6 percent, to \$458.2 billion from \$414.3 billion;
- Shares increased 3.8 percent, to \$577.4 billion from \$556.1 billion;
- Investments decreased 7.31 percent, to \$148.0 billion from \$159.6 billion;
- Net worth increased 7.6 percent, to \$76.3 billion from \$70.9 billion; and
- Membership increased 1.5 percent, to 84.8 million members.

Examining specifics pertaining to lending, new vehicle loans soared 17.8 percent and 1st mortgage real estate loans grew a substantial 11.4 percent reflecting significant growth in two of credit unions' largest income producing loan categories. New vehicle lending has outpaced used vehicle lending during the past two years. In 2005, federally insured credit union new vehicle loans grew to \$84.0 billion while used vehicle loans grew 2.3 percent to \$86.6 billion.

In the real estate market, 1st mortgage

loans grew to \$144.9 billion while other real estate loans, such as second mortgage and home equity loans, showed faster paced 18.7 percent growth increasing to \$73.5 billion. Reflecting the nation's strong real estate market, total real estate loans grew 13.8 percent to \$218.4 billion in 2005 from \$192.0 billion at year-end 2004.

The smaller loan categories also expanded during 2005. Member business loans granted in 2005 grew 13 percent to \$7.7 billion and member business loan volume grew 33.5 percent to total \$18.0 billion. Unsecured credit card loans grew 6.3 percent to \$23.9 billion and other unsecured loans grew 1.4 percent to \$21.2 billion.

The loan delinquency ratio remains quite low at 0.73 percent, and the net charge-off ratio increased only 1 basis point, from .53 to .54 percent in 2005.

Total shares increased 3.8 percent to \$577.4 billion in 2005. As regular shares declined 3.7 percent, share certificates sharply increased 20.4 percent to reach \$152.6 billion at year-end 2005.

A consolidated balance sheet, with additional details, is available on the NCUA website at <http://www.ncua.gov/data/FOIA/foia.html>.

NCUA News

National Credit Union Administration

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

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

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Webinar features Board Member Hyland

NCUA Board Member Gigi Hyland shared her thoughts with over 30 New York credit unions during a statewide webinar "Town Meeting" hosted by the New York State Credit Union League (NYSCUL). During the one-hour webinar, Board Member



Hyland detailed her views on the role of the regulator and the Board's commitment to have NCUA be a strong, well-respected agency. Hyland stated she fervently believes "that you need a strong regulator to have a strong credit union system."

Albany, N.Y., Jan 31—Michael Lanotte, NYSCUL SVP/general counsel; Mark Treichel, NCUA Region I director; and William J. Mellin, NYSCUL president/CEO, watch as Board Member Gigi Hyland participates in the New York League webinar.

Board actions February 16, 2006

2005 National Credit Union Share Insurance Fund summary

The NCUA chief financial officer reported to the NCUA Board that during 2005 the National Credit Union Share Insurance Fund (NCUSIF) had gross income of \$175.7 million, net income of \$74.3 million and operating expenses of \$80.5 million.

The NCUSIF held \$72.97 million in reserves, and the NCUSIF equity ratio was 1.27 percent at December 31, 2005, based on projected insured shares of \$519 million. If insured share growth is less than projected, the NCUSIF equity ratio may instead be 1.28 percent at December 31, 2005.

Fifteen credit unions failed in 2005 — 10 liquidated and 5 merged with assistance. Insurance losses totaled \$21 million, which represents 0.04 cents per \$1,000 of insured shares.

At year-end 2005, there were 280 problem code credit unions with shares that represent 1.11 percent of total insured shares.

Based on monitoring and analysis of credit unions affected by Hurricanes Katrina and Rita in 2005, NCUA expects a small number of credit unions to eventually merge or liquidate and anticipates immaterial costs to NCUSIF.

Comments sought on audit requirement modifications

The NCUA Board issued an advanced notice of proposed rulemaking (ANPR) seeking comments on four principal issues concerning Part 715, Supervisory Committee Audits:

1. Should credit unions be required to obtain an "internal control attestation" (evaluation) from their external auditors?
2. What standards should govern the assessment and evaluation components of an "internal control attestation"?
3. What qualifications should be required as prerequisites to serve on a credit union Supervisory Committee?

4. What standard should dictate the degree of independence required of state-licensed, compensated auditors of credit unions?

The ANPR was issued with a 60-day comment period.

Board actions January 19, 2006

FOM amendments proposed



The NCUA Board issued a proposed rule change to IRPS 06-1 amending the *Chartering and Field of Membership Manual* by limiting underserved area expansions to multiple common bond credit unions and by revising underserved area service facility requirements.

The NCUA issued a moratorium suspending the addition of new underserved areas in single common bond and community federal credit unions in December 2005. The moratorium was in response to an American Bankers Association lawsuit challenging NCUA's approval of America First FCU's addition of underserved areas. Following a thorough review of underserved area policy, NCUA believes it prudent to prospectively limit underserved area expansions because a degree of uncertainty now exists about the continued authority of non-multiple common-bond credit unions to serve underserved areas.

The NCUA Board also recommends the rule include a provision insuring a physical presence be established in an added underserved area to ensure an active credit union role and better serve local residents. The proposal was issued with a 60-day comment period.

RegFlex eligibility criteria modified

The NCUA Board issued a final rule reducing minimum net worth and extending the time frame it must be maintained to qualify for RegFlex.

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Chairman Johnson addresses field of membership proposal

Congress expressly recognized that multiple common bond credit unions would be authorized to serve persons or organizations within an area that was underserved in the Credit Union Membership Access Act of 1998.

We believe that the statutory language also reflects Congress' intent to make clear that this new charter type was authorized to add underserved areas, not exclude the other two federal charter types from doing so, as the Bankers are now arguing. I believe this is supported by the legislative history and the fact that at the time Congress enacted the Credit Union Membership Access Act, it was aware of NCUA's long standing policy allowing all federal charters to serve communities and groups in need of additional financial services.

It is important to recognize that this proposed rule is being issued in the best interests of credit unions and their members. Because of the uncertainty surrounding the current litigation, NCUA would be derelict if it did not take the action. Members of federal credit unions deserve no less. We recognize that the history of statutory changes is subject to different interpretations, that this creates a level of uncertainty for non-multiple common-bond credit unions and their potential members, and that we should take reasonable steps to protect them in light of the litigation that has been initiated by representatives of the banking industry.

I would be remiss if I did not also point out the hypocrisy with which the bankers have dealt with this issue. On the one hand, they have consistently argued that credit unions are not adequately serving people of modest means. On the other hand, they have filed lawsuits whose only reasonable outcome, should they prevail, would be to deny credit union services to those same potential members.

NCUA Chairman JoAnn Johnson

Conversations with AMERICA



My Government Listens

February

Who and What: Vice Chairman Rodney E. Hood will address the NeighborWorks America training session.

When: Wednesday, February 22, 2006

Where: Atlanta, Ga.

Why: To address the NeighborWorks America training symposium on Youth Matters.

Contact: Roslyn A. Hendricks at 703-518-6307 or roslynh@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the CUNA Governmental Affairs Conference.

When: Wednesday, February 27, 2006

Where: Washington, D.C.

Why: To outline NCUA's 2006 regulatory agenda.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Vice Chairman Rodney E. Hood will address the African-American Credit Union Coalition.

When: Monday, February 27, 2006

Where: Washington, D.C.

Why: To discuss economic empowerment initiatives.

Contact: Roslyn A. Hendricks at 703-518-6307 or roslynh@ncua.gov.

Who and What: Vice Chairman Rodney E. Hood will address the CUNA Governmental Affairs Conference.

When: Tuesday, February 28, 2006

Where: Washington, D.C.

Why: To discuss the vice chairman's 2006 regulatory focus.

Contact: Roslyn A. Hendricks at 703-518-6307 or roslynh@ncua.gov.

Who and What: Board Member Gigi Hyland will address the CUNA Governmental Affairs Conference.

When: Tuesday, February 28, 2006

Where: Washington, D.C.

Why: To share her views on current challenges facing the credit union system.

Contact: Fran Sewell at 703-518-6318 or fsewell@ncua.gov

March

Who and What: Chairman JoAnn Johnson will address the Women's Executive Management Association meeting.

When: Wednesday, March 8, 2006

Where: Washington, D.C.

Why: To address women credit union CEOs from the District, Maryland and Virginia.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Chairman JoAnn Johnson will address Big Valley Conference.

When: Monday, March 13, 2006

Where: Monterey, Calif.

Why: To address current regulatory issues affecting America's credit unions.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Board Member Gigi Hyland will address the California and Nevada Credit Union Leagues' Big Valley Educational Conference.

When: Tuesday, March 14, 2006

Where: Monterey, Calif.

Why: To share her views and listen to participant comments.

Contact: Fran Sewell at 703-518-6318 or fsewell@ncua.gov

Board Member Hyland highlights credit union uniqueness



Hartford, Conn., Jan. 26—Board Member Gigi Hyland addresses the Connecticut Credit Union Association 2006 Governmental Affairs Conference.

NCUA Board Member Gigi Hyland commended attendees of the Connecticut Credit Union Association's Governmental Affairs Conference for their advocacy efforts in her first address to a state league.

"There is nothing more important than advocacy at both the regulatory and legislative levels," said Board Member Hyland. "It is crucial to make your voices heard and to emphasize your uniqueness in the financial services arena. The future of the credit union system is in your hands."

Board Member Hyland discussed the importance of credit unions in validating their service to all members.

"The window of opportunity is open, for a time, for credit unions to define themselves and dictate the argument, not bankers nor Capitol Hill."

In response to a question on her view of the dual chartering system, Board Member Hyland emphasized, "I am a firm supporter of the dual chartering system and believe that credit unions must have the freedom to choose the charter most beneficial to them.

"As a regulator, I will take into account all comment letters received on proposed rules and assess them in making my decision. I will seek as much input as I can from credit unions while balancing a regulator's main obligation to preserve credit unions' safety and soundness."

Hood outlines initiatives to strengthen, sustain federal credit unions



Addressing the American Association of Credit Union Leagues January 21 in Naples, Fla., NCUA Vice Chairman Rodney E. Hood

assured credit union leaders from across the nation that he will focus on enhancing and sustaining the federal credit union charter.

Vice Chairman Hood said he is committed to promoting a regulatory agenda that encourages safe, sound innovation and empowers credit unions to serve members from all walks of life as opposed to regulatory burdens that stifle growth opportunities for credit unions or suppress the benefit of the federal credit union charter.

"I am committed to listening carefully, working hard, and doing my level best to ensure the safety and soundness of the nation's federally insured credit unions," said Vice Chairman Hood. "Realizing the role credit unions can play in being a financial partner of opportunity for their members, I am encouraging the NCUA, where the federal statutes allow, to enable credit unions to extend their services in more innovative ways so more members have access to lower-cost financial services."

Vice Chairman Hood discussed the NCUA Board's recent final rule which enhances the RegFlex program and allows regulatory flexibility for an additional 413 well-managed, well-capitalized federal credit unions by setting the RegFlex qualifying net worth requirement at 7 percent rather than 9 percent.

"I strongly agree with the dual chartering system," he said. "However, NCUA must continue to enhance and promote the federal credit union charter. I am calling on the NCUA staff to look for ways to say 'yes' to safe and sound creative regulatory approaches designed to make federal credit unions more competitive—rather than adopting a 'Just Say No' approach.

"I believe that as the regulator we have the responsibility to ensure credit unions can respond to today's challenges and are not restrained by burdensome and unnecessary regulations," said Hood.

The vice chairman also commented on the recent banking industry lawsuits and the impact on the agency's forward focus.

"NCUA and those we regulate should not retreat in defeat, because of recent attacks from the banking industry, but rather recognize that these attacks are on underserved consumers' freedom and choice of a financial services provider. There are those in the financial services community who desire to limit consumer choice for affordable financial services and who will do everything in their power to stop credit unions from serving those who need them most.

"Field of membership expansion is a vital element in ensuring an attractive and sustained federal charter for credit unions and an issue where the NCUA cannot

waiver," Hood said. "We should not shy away from approving field of membership expansions, such as, community charters or applications to serve underserved areas, when the applications are in compliance with the federal statute and NCUA's standards and guidelines. As an agency, we need to focus on allowing credit unions to expand fields of membership and allow for diversification of membership which, in of itself, is a safety and soundness factor, especially in cases when a single sponsor may cease to exist."

Additional priorities for the vice chairman include continued efforts to reform Prompt Corrective Action and risk-based capital for corporate credit unions, encouraging innovative investment pilot programs to mitigate risks, and economic empowerment initiatives to assist Americans from all walks of life achieve the American Dream of homeownership, owning a small business, and financial independence.

Hyland addresses AACUL

Speaking to over 100 league presidents, league chairmen and government affairs professionals, NCUA Board Member Gigi Hyland addressed the winter meeting of the American Association of Credit Union Leagues (AACUL) Jan. 20, 2006, in Naples, Fla.

In introductory remarks, Ms. Hyland spoke of the challenges facing the credit union system and signaled her response technique as an NCUA Board member.

"It is no surprise to this distinguished, well-informed group that there are several important key issues facing the credit union system," said Hyland. "Most of my remarks today are meant to reassure you that I will approach each issue in a deliberative, thoughtful way."

Board Member Hyland highlighted key national issues, including:

- Role of a regulator;

- Recent proposed changes to NCUA's chartering manual;
- Validation of credit unions' efforts to serve all segments of their fields of membership; and
- Credit union conversions to mutual savings banks.

In response to a series of questions regarding credit union conversions, Hyland commended AACUL for issuing its report "Protecting the Rights of Credit Union Members" last August.

"The depth of the report and the recommendations it contains will serve as fodder for this board member to consider as the agency addresses possible changes to its conversion regulation."

While emphasizing her view of the need to serve as a deliberative and effective regulator without creating unnecessary, burdensome regulations, Hyland

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Hyland selects Kohn as senior policy advisor

Board Member Gigi Hyland has appointed Gary J. Kohn as her senior policy advisor, her top aide advising on policy and regulatory matters.

"I am very pleased to welcome Gary to NCUA. His insight, knowledge of credit union issues and lobbying experience on Capitol Hill will play a great role in furthering NCUA's agenda," said Board Member Hyland. "I believe that Gary's wealth of experience will benefit the agency and the nation's credit unions for years to come."

Kohn has over 12 years experience conducting a full range of lobbying duties on behalf of the nation's credit unions, most recently as vice president, Legislative Affairs and senior legislative counsel for the Credit Union National Association (CUNA). Since 2002, he served as CUNA's representative on the Board of Directors of the Jump\$tart Coalition for Personal Financial Literacy, and he represented CUNA as a member of the Consumer Literacy Consortium and the Advisory Council of the National Foundation for Credit Counseling.

A graduate of Georgetown University Law Center and a member of the District of Columbia Bar, he was previously employed in a similar capacity by the Independent Bankers Association of America (IBAA) as its Senate and tax lobbyist. Before that, he held a similar position with the Investment Company Institute, the national trade association for the nation's mutual fund industry. A resident of Greenbelt, Maryland, he has been active in civic, political and religious organizations.

"I am very pleased to be joining NCUA and look forward to working with Board Member Hyland," said Kohn. "The next several years will be a critical time for the system and I am hopeful that I can contribute to ensuring a vibrant future for credit unions."

McKechnie named PACA director

John J. McKechnie III was appointed NCUA Director of Public and Congressional Affairs January 20, 2006.

McKechnie joins the agency with an extensive governmental and legislative affairs background in the credit union industry, on Capitol Hill and in the political arena.

"As the NCUA has a myriad of important issues—both as a regulator and before Congress—John McKechnie will be a tremendous asset in advancing an agenda important to the safety and soundness of America's credit unions," Chairman JoAnn Johnson commented.

"I appreciate John's willingness to serve and his commitment to public service at an integral point in time for the credit union system."

Prior to joining NCUA, McKechnie served as the chief lobbyist for the Credit Union National Association (CUNA). He served 19 years with CUNA, most recently as senior vice president of governmental affairs.

"I am honored and excited by this opportunity," said John McKechnie. "The environment for credit unions in Congress presents a challenge and opportunity, and I look forward to working to further the public policy goals of the NCUA in that context."

Before joining CUNA, McKechnie served as a legislative and press assistant for Representative Stan Parris of Virginia. He is a graduate of Loyola College in Baltimore, Maryland.



About investments

Prepare for a yield curve change

With today's relatively little difference between short term share deposit rates and investment yields, managers will have a difficult time keeping return-on-assets from declining. To prepare for an inevitable change in the yield curve, credit union managers should consider measuring their risk-to-earnings and value using two scenarios (1) an inverted yield curve and (2) a normal upward sloping yield curve.

An inverted yield curve is a good (but not perfect) predictor of an economic recession. An inverted yield curve is a terrific predictor of a profit recession. So, an inverted yield curve may also foreshadow higher loan losses.

At the same time, interest rate volatility is also low. This means credit unions currently investing in securities with embedded short option positions, such as mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs), and callable bonds, may be paying a high price because these investments aren't generating a wide spread compared to non-callable bonds.

A return to a more upward sloping yield curve, with higher long-term mortgage rates, will result in slower prepayments on mortgages. When investors expect slower prepayment speeds, they expect weighted average lives (WALs) to extend, resulting in a drop in MBS values.

When planning for earnings, credit union managers should have an idea of the impact of an inverted yield curve or a steeper yield curve, with short rates at current levels and long rates higher.

PSAs urge hurricane victims to contact their credit union, bank or thrift

NCUA and federal financial regulators initiated a public service announcement (PSA) campaign in January to aid in the financial recovery of victims of last year's hurricanes.

Six months have passed since Hurricanes Katrina and Rita made landfall yet many displaced storm victims have not contacted their lenders—an essential step in achieving financial recovery.

Mississippi credit union members who need assistance in contacting their displaced credit union can call NCUA at 678-443-3000. Texas and Louisiana credit union members can access the phone number and location of displaced institutions online at <http://www.ncua.gov/Hurricane/index.htm>, or call 512-342-5600 for assistance.

NCUA encourages credit unions to continue to work with borrowers affected by the hurricanes. Assistance may

include waiving fees, lowering interest rates, extending repayment schedules, or deferring principal or interest for an additional period, where appropriate. However, none of the options can be considered until the borrower contacts his or her lenders.

The public service announcements (PSAs) have been distributed to print and radio media outlets with the highest concentrations of people affected by the hurricanes. The PSAs are available to download from the NCUA website at <http://www.ncua.gov/Hurricane/index.htm>.

The federal and state financial agencies continue to work to meet the needs of federally insured depository institutions and their customers. Additional guidance is available at the Federal Financial Institutions Examination Council's website <http://www.ffiec.gov>

20 workshops scheduled in 2006

NCUA's Office of Small Credit Union Initiatives has scheduled 20 training workshops across the country in 2006.

The workshops are free to credit unions and will discuss current, significant credit union issues including:

- Disaster recovery planning
- Regulatory hot topics
- Financial education
- Due diligence-best practices

"I encourage credit unions to participate in a workshop, as these informative sessions provide valuable regulatory guidance and open discussions on important initiatives for your credit union's operations and membership," said Chairman JoAnn Johnson.

Conferences dates and locations:

- March 4, Dallas, Texas
- March 11, New York, N.Y.
- March 18, Salt Lake City, Utah
- March 25, Savannah, Ga.
- April 8, Los Angeles, Calif.
- May 12, New Orleans, La.
- May 20, Albuquerque, N.M.
- June 3, Tampa, Fla.
- June 24, Honolulu, Hawaii
- July 22, Newark, N.J.
- August 5, Jackson, Miss.
- August 12, Seattle, Wash.
- September 14, Cleveland, Ohio
- September 16, Philadelphia, Pa.
- September 27, Chicago, Ill.
- October 14, Buffalo, N.Y.
- October 14, Pittsburgh, Pa.
- October 21, Boston, Mass.
- November 4, Baltimore, Md.
- November 18, Queens, N.Y.

Credit unions can visit NCUA's website to register, view the agenda and most current information. Dates and locations are subject to change based on hotel availability.

View: www.ncua.gov/CreditUnionDevelopment/Events/Index.htm

GC opinion letters

The Office of General Counsel issues opinion letters interpreting agency regulations and policies in response to questions submitted. Summaries of a few recent opinion letters follow. Access all GC opinion letters online at http://www.ncua.gov/RegulationsOpinionsLaws/opinion_letters/opinion_letters.html.

#05-1038—Member business loan (MBL); meaning of fleet—Provides guidance on the vehicle exception to loan-to-value (LTV) requirements in NCUA's MBL rule and clarifies what constitutes a "fleet" of vehicles.

#05-1140—Calculating annual percentage yield (APY)—Truth in savings rule Part 707 requires that a disclosed earned APY must be no greater or less than a .05% tolerance rate. No

account, even a small balance account, is exempt from the accuracy requirements under the rule. The intent is to ensure members and potential members receive accurate information about credit union accounts to make informed decisions when comparing rates of competing financial institutions.

#05-122—Credit union vendor endorsements—Federal credit unions may provide endorsements of products or services offered by third-party vendors. A recommendation based on experience can be useful to other credit unions. However, an FCU should be alert to potential reputation risk and should perform adequate due diligence to assure that the vendor is reputable before providing an endorsement.

Pertinent letters to credit unions

Courtesy pay or bounce protection

NCUA issued **Letter No.: 05-CU-21** to federally insured credit unions to offer guidance for the operation of non-contractual overdraft products and to distribute the AIREs questionnaire NCUA examiners will use to evaluate non-contractual overdrafts. Credit unions may find the questionnaire useful in evaluating their own courtesy pay or bounce protection program.

Unlike traditional lines of credit, non-contractual overdrafts do not require individual underwriting or written agreements. This service, often referred to as bounce protection or courtesy pay, charges members a per item fee for honoring drafts or other transactions that overdraw a share account.

The risks and benefits associated with non-contractual overdrafts (courtesy pay) should be carefully evaluated by a credit union before offering the service. While courtesy pay may assist infrequent users in avoiding the inconvenience and merchant fees associated with returned checks, repeated use of courtesy pay can result in high aggregate fees that negatively impact a member's financial position.

Credit unions offering courtesy pay to members must provide clear and conspicuous disclosures about the cost of this service. To promote thrift and fiscal responsibility, credit unions should educate members about program details and less expensive options.

Access **Letter No.: 05-CU-21** and the AIREs questionnaire online at <http://www.ncua.gov/letters/letters.html>.

Combat phishing scams

As the number and sophistication of phishing scams continue to increase, NCUA issued **Letter No.: 05-CU-20** to assist in educating members about phishing activities, and to alert credit unions and their members of appropriate actions for phishing scam victims.

Along with salient information and resources, the letter includes two

attachments. Appendix A contains information to share with members to help prevent them from becoming phishing scam victims. Appendix B contains information to share with members who are phishing scam victims.

Access **Letter No.: 05-CU-20** online at <http://www.ncua.gov/letters/letters.html>.

2006 CDFI funding

NCUA **Letter No.: 05-CU-19** alerts credit unions to the U.S. Treasury's Community Development Financial Institutions (CDFI) funding of two community development finance programs, posted on the Internet at <http://www.cdfifund.gov/>. Approximately \$25 million will be available for awards through the CDFI program and approximately \$3.5 million will be available for awards through the Native American CDFI Assistance (NACA) Program this round.

For FY 2006, the CDFI Funding Program is required to only accept applications submitted through the Grants.gov electronic system. Find instructions for accessing and submitting an application at <http://www.cdfifund.gov/>. Because the process may take several weeks, applicants are encouraged to start the registration process as soon as possible at <http://www.cdfifund.gov/docs/2005/cdfi/grants.govInstructions.pdf>.

For more information, visit the CDFI Fund's website at <http://www.cdfifund.gov/> or (202) 622-9046.

Hyland addresses

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encouraged the participants to continue to confirm credit union's efforts to provide needed financial service to all segments of their charters.

"Leagues will continue to play a vital role in the advocacy of credit union interests. I urge you to continue to strive to assure credit unions' future as a vital and vibrant component of the financial services sector."

Board actions

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The final rule reduces minimum qualifying net worth from 9 to 7 percent, the "well capitalized" net worth classification. The final rule aligns RegFlex eligibility with the minimum 7 percent net worth requirement Congress set as "well capitalized" under PCA (prompt corrective action).

To ensure the 7 percent minimum qualifying net worth is a reliable indicator of sustained superior performance, the final rule extends the minimum time from 1 to 6 quarters when 7 percent net worth must be maintained to qualify for RegFlex.

The rule eliminates the requirement NCUA notify credit unions that automatically qualify for RegFlex, while it retains the requirement NCUA notify a credit union that applies for RegFlex designation, whether it is granted or denied. The rule is effective 30 days after publication in the *Federal Register*.

Uninsured secondary capital amendments issued

The NCUA Board voted to amend Section 701.34 to permit low-income designated credit unions to begin redeeming funds in uninsured secondary capital accounts in 20 percent annual increments beginning five years before maturity and to require prior approval of a plan for the use of secondary capital before a credit union can accept funds. The rule also clarifies that uninsured secondary capital cannot be used to pay dividends.

Redeeming secondary capital

By permitting low-income designated credit unions to redeem uninsured secondary capital at the same rate net worth value is discounted, the rule prevents the dilution of a credit union's net worth ratio under prompt correction action (PCA). Low-income designated credit unions with uninsured capital accounts are required to discount the net worth value of these accounts in 20 percent annual increments beginning five years before maturity.

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NCUA initiates process for measuring service to members

Chairman JoAnn Johnson has announced that NCUA is seeking clearance with the Office of Management and Budget to initiate a process for collecting data to measure service to credit union members and senior management compensation and benefits in response to congressional requests and the Government Accountability Office.

“With this data collection, NCUA is responding to specific congressional requests and looks forward to the opportunity for enhancing the clarity of credit union service to Americans from all walks of life,” said Chairman Johnson. “This is an important endeavor and the agency takes its responsibilities seriously.”

“I have always believed that America’s credit unions are meeting their mission in serving persons of modest means and are a

provider of affordable financial services,” Chairman Johnson emphasized. “This will be an opportunity for the not-for-profit financial cooperatives to demonstrate, with quantifiable data, the good work they are doing for Americans from all walks of life.”

In *Letter to Credit Unions 06-CU-02*, the agency details its plan for data collection from a statistically valid sample of federal credit unions across charter types using NCUA’s examination authority under the Federal Credit Union Act.

The data collected will be aggregated and utilized by NCUA to do an initial evaluation of:

- The extent and type of services provided to members;
- The income distribution of members;
- The reliability and value of this preliminary data; and

- Executive compensation and benefits. NCUA’s examiners have been trained on the collection methodology and, according to Chairman Johnson credit union staff involvement will be limited and focused on discussions with management or other appropriate personnel.

“It’s vital that we collect this data for analysis; however, it is also important that the collection methods are well-designed, efficient and not burdensome to the credit unions,” Chairman Johnson said.

Letter to Credit Unions 06-CU-02 and a Q&A to answer questions on measuring service to members can be found at:

<http://www.ncua.gov/letters/letters.html>

NCUA has solicited comments on pilot program documents as required by the Paperwork Reduction Act.

Chairman Johnson

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- Remain steadfast in enhancing a safe and sound federal credit union charter, share insurance fund, and opportunities for credit unions to mitigate risks;
- Evaluate opportunities to implement a risk-based capital structure for the corporate credit union system;
- Monitor and support ongoing recovery for the safety and soundness of credit unions affected during the hurricane catastrophes;
- Continue to support regulatory improvements before Congress and

enhance the agency’s interaction on Capitol Hill, along with other financial regulatory agencies at the federal and state levels;

- Further broaden partnerships for the agency’s Access Across America outreach initiative and continue to empower credit union service in underserved areas;
- Routinely review and update the low-income credit union designation regulations and other pertinent rules designed to encourage the establishment and long-term financial viability of community development and low-income credit unions; and

- Continue encouraging safe and sound credit unions to consider providing member business lending services to facilitate access to capital and credit for members’ small businesses.

“Our foremost priority is safety and soundness for all federally insured credit unions,” said Chairman Johnson. “However, we should be on a course that recognizes credit unions must have a regulatory environment that does not stifle innovation and flexibility but rather positions credit unions to flourish for the benefit of their membership and the continued vitality of the institution.”

Board actions

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Secondary capital use plan approved

To enhance oversight of uninsured secondary capital and ensure its proper use, the final rule requires the regional director and state supervisory authority to give prior approval to a low-income credit union’s plan for the use of uninsured secondary capital.

The rule becomes effective 30 days after publication in the *Federal Register*.

Call report revised

The NCUA Board approved revisions to subsection 741.6(a) requiring all federally insured credit unions to file the same quarterly report in order to reduce cost, confusion and errors while adding consistency, efficiency and improved financial trend analysis.

NCUA will introduce the revised 5300 call report form at mid-year 2006 so all federally insured credit unions will be using the same reporting form to supply second and third quarter data.

The revised call report consolidates information, reduces ancillary schedules and is easier to read and use. Reduced from 19 to 16 pages, the new 5300 is designed so small credit unions generally will not complete supporting schedules. Only the first 10 pages require input from all credit unions.

Board votes are unanimous unless indicated



www.accessacrossamerica.gov

Economic Empowerment Summit scheduled in Dallas

NCUA will sponsor the first 2006 Access Across America Economic Empowerment Summit in Dallas April 12 at the Omni Mandalay Hotel at Las Colinas.

The free, one-day event will provide education to credit union officials and board volunteers on how to apply federal resources and partnerships in order to best serve members and empower them to achieve the American dream of financial self-sufficiency. Credit unions in Arizona, Arkansas, Kansas, Louisiana, Missouri, Oklahoma and Texas are invited to attend the Dallas summit, which will include representatives from a number of government partners.

Registration opens at 8 a.m. and the program begins at 9 a.m. Key topics include:

- Health Savings Accounts
- Homeownership

- Member Business Lending
- Serving Emerging Markets and the Underserved

“NCUA is pleased to announce the first Access Across America summit of 2006,” Chairman JoAnn Johnson said. “This will be a great opportunity to educate and share an open dialogue with our public and private sector partners and will produce positive results that benefit credit union members.”

Participants are responsible for their own hotel accommodations.

The summit location is:
Omni Mandalay Hotel at Las Colinas
221 East Las Colinas Boulevard
Dallas (Irving), TX 75039
(972) 556-0729

Access Across America was established to promote and facilitate the extension of affordable financial services to individuals and communities across America. Access

Across America highlights partnerships with federal agencies that empower credit unions with the education, technical resources and finances needed to provide much needed services to credit unions, especially in underserved areas.

For more information and to register for the summit, please see NCUA's website at www.ncua.gov or e-mail AccessAcrossAmerica@ncua.gov

Visit the NCUA website
<http://www.ncua.gov>
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information directly
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