

Board actions July 20, 2006

NCUA budget reduced \$1.4 million

The NCUA Board approved the reprogramming of the 2006 operating budget with a decrease of \$1.4 million. The decrease is primarily driven by vacant positions that have existed during the year. Vacant positions reduce the cost of pay and benefits. At mid-year, NCUA has 28 vacancies with an authorized staffing level of 958, which is the lowest sustained vacancy figure since 1997.

Based on various funding requests and because spending is typically higher during the second half of the year, the Board approved a \$1.4 million decrease in the fiscal year 2006 budget, which reduced the original \$150,788,525 budget to an adjusted \$149,356,578.

Loan interest rate ceiling remains 18 percent

The NCUA Board voted to maintain the current 18 percent loan interest rate

ceiling to ensure federal credit unions can continue to meet their current lending programs and to permit the necessary flexibility for credit unions to react to adverse economic developments.

The current 18 percent per year federal credit union maximum loan interest rate was scheduled to revert to 15 percent September 9, 2006, unless actions are taken by the NCUA Board. A 15 percent ceiling could restrict certain categories of credit and adversely affect the financial condition of a number of federal credit unions currently making loans above 15 percent. The 18 percent loan interest rate ceiling will now expire in March 2008.

Loan interest rate ceiling rule modified

The NCUA Board issued a final rule amending Section 701.21(c)(7), NCUA's

lending rule, to include the criteria the Board considers in setting a permissible interest rate ceiling for federal credit unions that exceeds 15 percent.

With the interest rate ceiling currently reviewed every 18 months, the rule change is designed to eliminate unnecessary, periodic regulatory amendments and provide a more efficient and effective means of informing federal credit unions of the permissible interest rate ceiling. The rule also specifies that NCUA will notify federal credit unions of any change in the interest rate ceiling through a Letter to Federal Credit Unions, other official publications and a statement to the press. The rule change is effective September 9, 2006.

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Toronto, Canada, July 14, 2006 -- NCUA Vice Chairman Rodney Hood, Summit Federal Credit Union CEO Mike Vadala and NCUA Board Member Gigi Hyland participate in a panel discussion at NAFCU's Annual Conference and Exhibition.

News briefs

AIRES exam questionnaire

NCUA issued a new examination questionnaire designed to give examiners a standard framework for reviewing credit union Disaster Preparedness & Response efforts. This questionnaire will be added to the AIRES examination software as a permanent part of the optional set of review questionnaires. Issued with *Letter to Federally Insured Credit Unions 06-CU-12*, the questionnaire is available online at: <http://www.ncua.gov/news/express/xfiles/06-CU-12.pdf>

FCU Bylaws revised

The FCU Bylaws have been revised and distributed. The latest version, which includes bylaw changes through April 20, 2006, is available online at: <http://www.ncua.gov/GuidesManuals/bylaws/fcubylaws.html>

BSA money laundering manual revised

The Federal Financial Institutions Examination Council (FFIEC) has released a revised *Bank Secrecy Act*



Gort, Ireland, July 25, 2006

-- Chairman JoAnn Johnson drops in to say hello at Gort Credit Union during her trip to Ireland in July. Chairman Johnson was in Dublin, Ireland, participating in the World Credit Union Conference representing the United States at the Regulator Round Table.

Anti-Money Laundering (BSA/AML) Examination Manual (manual). The revised manual provides current and consistent guidance on risk-based policies, procedures, and processes for financial institutions to comply with BSA and safeguard operations from money laundering and terrorist financing.

The manual has been updated to clarify supervisory expectations and incorporate regulatory changes since the manual's 2005 release. The revisions also draw upon feedback from the banking industry and examination staff.

Revisions to the manual are noted in the table of contents. The manual is located on the FFIEC BSA/AML InfoBase at: http://www.ffiec.gov/bsa_aml_infobase/default.htm.

and maintenance processes.

The security of financial institutions' systems and information is essential to maintain the privacy of customer information and safe and sound operations. The *Information Security Booklet* describes how an institution should protect and secure the systems and facilities that process and maintain information. The booklet calls for financial institutions and technology service providers (TSPs) to maintain effective security programs tailored to the complexity of their operations.

Electronic versions of the *Information Security Booklet* and Executive Summary are available at: www.ffiec.gov/guides.htm.

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.

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.

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IT Security Booklet updated

As a member of the Federal Financial Institutions Examination Council (FFIEC), on July 27 NCUA issued revised FFIEC guidance for examiners and financial institutions to use in identifying information security risks and in evaluating the adequacy of controls and applicable risk management practices of financial institutions.

The *Information Security Booklet* is one of twelve, in total, that comprise the *FFIEC IT Examination Handbook*. Along with the revised booklet, the FFIEC agencies also released an Executive Summary that contains high level synopses of each of the twelve booklets and describes the handbook development



Chairman Johnson on Utah's FOM dismissal

Chairman JoAnn Johnson made the following statement July 21 after members of the banking community agreed to dismiss their lawsuit challenging a Utah community credit union's right to expand to serve a limited-income area.

"Now that the legal process has concluded, NCUA is pleased that credit unions can proceed knowing that there is clarity, and consumers in underserved areas will have another choice in financial services."

Board actions

Investment rule proposal issued

The NCUA Board issued a proposed rule change to Part 703 that would permit federal credit unions to invest in mortgage note repurchase transactions when the instrument consists of first-lien mortgage loans.

Issued with a 60-day comment period, the proposed rule includes requirements to help FCU's manage the risks associated with these investments. The proposal establishes a credit concentration limit, minimum credit rating, requirement for an independent assessment of market value, a maximum term, and custodial requirements for the transactions.

Quarterly insurance report

The National Credit Union Share Insurance Fund ended the second quarter of 2006 with a 1.27 percent equity ratio based on estimated insured shares of \$527.8 billion at June 30. With insured share growth expected to be 4 percent at year-end, the equity ratio is projected to be 1.29 percent at December 31, 2006.

Gross income in the first six months of 2006 was \$120.4 million, operating expenses totaled \$40.0 million, insurance

losses totaled \$1.7 million and net income was \$78.6 million. Thus far during the year, 10 credit unions have failed – 7 credit unions were liquidated and 3 credit unions were merged with assistance. The number of problem code credit unions has declined to 269 at June 30, 2006, from 280 at year-end 2005.

Charter conversions

The NCUA Board approved the application of \$150.5 million **Aerospace Community Credit Union**, St. Charles, Missouri, to convert from a state to a federal community charter serving the people who live, work, worship, attend school, businesses and other legal entities located in the City of St. Louis, as well as St. Louis or St. Charles Counties, Missouri.

The NCUA Board approved the application of \$885 million **American Eagle Federal Credit Union**, East Hartford, Connecticut, to convert from a multiple common bond to a community charter serving the people who live, work, worship, attend school, businesses and other legal entities located in Hartford, Middlesex or Tolland Counties, Connecticut.

Board votes are unanimous unless indicated

Balance sheet management

Evaluating non-maturity shares



There is considerable discussion regarding the evaluation of non-maturity shares (NMS) in the context of managing

liquidity and interest rate risk. This article recaps NCUA's guidance to credit unions on sound practices for evaluating behavior of NMS. The guidance can be found in NCUA *Letter to Credit Unions No. 03-CU-11*.

The evaluation of NMS is a critical component of balance sheet risk management for credit unions with mortgage loans or investments with longer maturities. Best practices include adopting sound and prudent policies and procedures when measuring the behavior of NMS for purposes of managing risk.

A credit union could choose a simple approach to measuring risk where, for NEV purposes NMS are always priced/valued at par or book value. This method assumes that all NMS are highly rate sensitive and that dividend rates are changed coincident with changes in interest rates. This is the most conservative method for valuing NMS.

A credit union that chooses to lengthen the maturity of its NMS should document its assumptions regarding NMS behavior and address factors such as:

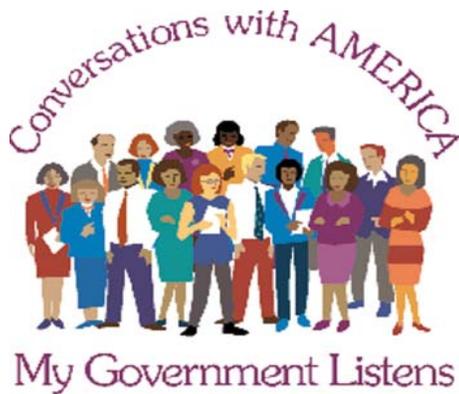
- Credit union pricing strategy;
- Membership growth;
- Presence of local competition;
- Economic conditions;
- Expected levels and trends of interest rates; and
- Credit union liquidity needs.

A sensitivity analysis reflecting the value of the NMS by varying the underlying assumptions and relating them to changes and differing levels of interest rates should also be performed.

Prudent balance sheet management includes sound policies and procedures for measuring the behavior of NMS. Credit unions should review their policies and procedures periodically to ensure compliance with best practices.



Washington, D.C., July 26, 2006 – NCUA Vice Chairman Rodney Hood with new SBA Administrator Steven C. Preston at the U.S. Small Business Administration. Vice Chairman Hood represented NCUA at Mr. Preston's swearing-in ceremony, and Vice President Dick Cheney administered the oath of office.



Who and What: Vice Chairman Rodney E. Hood will address the South Carolina Credit Union League at a CEO Roundtable.
When: Wednesday, Sept. 6, 2006
Where: Columbia, S.C.
Why: To discuss NCUA's regulatory agenda and legislative updates.
Contact: Sally Ridgely at 703-518-6307 or sridgely@ncua.gov

Who and What: Board Member Gigi Hyland will address attendees of the Texas Credit Union League Leadership Conference.
When: Friday, September 8, 2006
Where: San Antonio, Texas
Why: To share her views and elicit comments on current challenges facing the CU system.
Contact: Nina Bullard at 703-518-6318 or nbullard@ncua.gov

Who and What: Chairman JoAnn Johnson will address the Minnesota Credit Union Network.
When: Wednesday, September 9, 2006
Where: Brainerd, Minn.
Why: To provide an NCUA update on the issues of the day.
Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Board Member Gigi Hyland will address the attendees of the NACCU Conference.
When: Monday, September 11, 2006
Where: Las Vegas, Nev.
Why: To share her views and elicit comments on current challenges facing the CU system.
Contact: Nina Bullard at 703-518-6318 or nbullard@ncua.gov

Who and What: Chairman JoAnn Johnson will address the Tennessee Manager's Conference.
When: Thursday, September 14, 2006
Where: Kingsport, Tenn.
Why: To address financial literacy and provide NCUA updates.
Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Vice Chairman Rodney E. Hood will address the NAFCU Ohio Group Meeting.
When: Thursday, September 14, 2006
Where: Miami, Ohio
Why: To discuss examiners' focus on exams, new rules promulgated by the agency and serving members of modest means.
Contact: Sally Ridgely at 703-518-6307 or sridgely@ncua.gov

Who and What: Vice Chairman Rodney E. Hood will address the HUD Homeownership and Counseling Agency – Local Fair.
When: Saturday, Sept. 16, 2006
Where: Washington, D.C.
Why: To discuss NCUA's regulatory agenda and legislative updates.
Contact: Sally Ridgely at 703-518-6307 or sridgely@ncua.gov

Who and What: Chairman JoAnn Johnson will address NAFCU's 2006 Congressional Caucus.
When: Monday, September 18, 2006
Where: Washington, D.C.
Why: To discuss the state of the federal credit union system and a vision for the future.
Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Board Member Gigi Hyland will address the attendees of NAFCU's 2006 Congressional Caucus.
When: Monday, September 18, 2006
Where: Washington, D.C.
Why: To share her views and elicit comments on current challenges facing the CU system.
Contact: Nina Bullard at 703-518-6318 or nbullard@ncua.gov

Who and What: Vice Chairman Rodney E. Hood will address NAFCU's 2006 Congressional Caucus.

When: Tuesday, Sept. 19, 2006
Where: Washington, D.C.
Why: To discuss NCUA's regulatory agenda and legislative updates,
Contact: Sally Ridgely at 703-518-6307 or sridgely@ncua.gov

Who and What: Vice Chairman Rodney E. Hood will address the Alliance of Credit Unions.
When: Friday, Sept. 22, 2006
Where: Montreal, Canada
Why: To discuss NCUA's regulatory agenda and legislative updates.
Contact: Sally Ridgely at 703-518-6307 or sridgely@ncua.gov

Who and What: Board Member Gigi Hyland will address the attendees of the Missouri Credit Union Association Executive Summit.
When: Wednesday, September 27, 2006
Where: Osage Beach, Mo.
Why: To share her views and elicit comments on current challenges facing the CU system.
Contact: Nina Bullard at 703-518-6318 or nbullard@ncua.gov

Who and What: Chairman JoAnn Johnson will visit America's Credit Union Museum.
When: Thursday, September 28, 2006
Where: Manchester, N.H.
Why: To meet with credit union officials.
Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

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Vice Chairman Hood seeks advice from Secret Service



NCUA Vice Chairman Rodney E. Hood recently met with agents of the Criminal Investigation Division of the United States Secret Service (USSS) to discuss protecting the financial

identity and personal data of credit union members. The USSS is a lead federal law enforcement agency for identity theft and data security crimes.

“Protecting the financial identity and strengthening the consumer confidence of Americans requires a team effort,” said Vice Chairman Hood. “I praise the valuable role the United States Secret Service plays in preventing security breaches and bringing financial predators to justice.

“The services that financial institutions provide through ATM cards, credit cards, and Internet billing give consumers the freedom to access their funds at their convenience,” said Hood. “Unfortunately, consumer trust in the electronic payment

system may be jeopardized if data security breaches are not promptly detected, prevented where possible, and mitigated when breaches occur.”

The Federal Trade Commission (FTC) estimates that 10 million Americans fall victim to identity theft each year, a number that has been rising for the past four years. In the credit union industry, CUNA Mutual Group predicts approximately \$120 million in losses due to credit card fraud in 2006.

Since Hood believes this is unsustainable, he reached out to Jeff Post, president and CEO of CUNA Mutual Group, in the effort to seek a solution. When meeting with Vice Chairman Hood, Post stated “there must be diligence on all fronts to combat identity theft and data security failures. These crimes are perpetrated by everyone from organized crime to kids in garages. The credit union industry must work together to prevent all instances.”

To this end, the Secret Service briefed Vice Chairman Hood on the most current identity theft trends, and agents offered several suggestions of how to deter these crimes, including:

- Limit the access of financial services employees to sensitive files and client information;
 - Limit the time sensitive and personal data are retained;
 - Continue educating consumers about the latest identity theft trends; and
 - Encrypt computer files that store sensitive personal data.
- “The United States Secret Service is on the cutting edge of law enforcement and devoting considerable resources to countering identity theft,”



said Hood. “We enjoyed a productive discussion and examined best practices on how to work together in this effort. As a regulator, I am dedicated to strengthening consumer confidence by protecting consumer’s financial identity. After my discussion with the Secret Service, I feel even more strongly that Congress should consider limiting the duration of time corporations and institutions retain sensitive and personal information.”

Board Member Hyland wraps-up regional visits



Atlanta, Ga., June 29, 2006 -- Board Member Hyland shares a laugh with NCUA staff during her visit to Region III

In the eight months since Board Member Gigi Hyland was appointed to a seat on the NCUA Board, she has met with and addressed thousands of people throughout the credit union community. However, one of her key goals was to visit all of NCUA’s regional offices soon

after her appointment. On August 29, 2006, she will travel to NCUA’s Region IV office concluding visits to each NCUA region during her first year on the Board.

“I’m visiting all of the regions because I think it is crucial for me as a policy maker to meet with NCUA staff

and understand how the policy is actually implemented. It’s a great opportunity to gain insight on the operations of the agency from a variety of perspectives,” Board Member Hyland stated.

Welcoming the opportunity to sit down and chat with NCUA regional office staff, Board Member Hyland said she is honored to serve on the NCUA Board and join the dedicated NCUA staff working daily to ensure our country’s safe, sound, dynamic credit union system.

“Credit unions are a vital part of our economic community and make a difference for thousands of people every day, especially the many who face financial challenges. In joining you at NCUA, I’m proud to be playing a role in helping maintain a financial system that constantly strives to meet the diverse needs of credit union members,” Hyland told staff members.



Access Across America Summit set in Norfolk

NCUA is hosting an Access Across America Economic Empowerment Summit October 3, 2006, at the Norfolk Waterside Marriott Hotel in Norfolk, Virginia. Registration opens at 8 a.m. and the program will begin at 9 a.m.

Credit unions from the District of Columbia, Delaware, Maryland, North Carolina, Virginia and West Virginia are invited to attend.

The free, one-day event will provide education to credit union officials and board volunteers on how to apply for federal resources and partnerships in order to best serve members and empower them to achieve the American dream of financial self-sufficiency.

Key topics will include:

- Data and identity protection;
- Homeownership and member business lending;

- Health savings accounts; and
- Serving the military and underserved communities.

Past summits have included presenters from the Departments of Agriculture, Housing and Urban Development, Treasury, and the Small Business Administration. For this event, invited presenters include Neighborworks America, the Virginia Credit Union League, Virginia and North Carolina credit union representatives, as well as other federal agency representatives.

Participants are responsible for their own hotel accommodations. Please contact the hotel directly:

Norfolk Waterside Marriott Hotel
235 East Main Street
Norfolk, VA 23510
757-628-6479 or
1-800-228-9290

Free NCUA workshops

The Office of Small Credit Union Initiatives has a variety of free training workshops scheduled during the remainder of 2006 that include subjects such as disaster recovery planning, regulatory hot topics, financial literacy and due diligence-best practices. Credit unions are invited to attend at any convenient location.

View agenda or registration forms at the following link, <http://www.ncua.gov/CreditUnionDevelopment/Events/Index.htm>. For questions regarding these events, please contact OSCU at 703-518-6610 or e-mail OSCUIMail@NCUA.Gov.

Details are posted as they become available. If a conference notes "To Be Announced," please check back for the information.

Illinois:

- 09/27/06 Chicago, IL
Agenda and Registration

Maryland:

- 11/04/06 Baltimore, MD
Agenda and Registration

Massachusetts:

- 10/21/06 Peabody, MA
Agenda and Registration

New York:

- 10/14/2006 Buffalo, NY
Agenda and Registration
- 11/18/06 Queens, NY
Agenda and Registration

Ohio:

- 09/14/06 Cleveland, OH
Agenda and Registration

Pennsylvania:

- 09/16/06 Philadelphia, PA
Agenda and Registration
- 10/14/06 Pittsburgh, PA
Agenda and Registration

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