

## Fryzel sworn in as Chairman



Michael E. Fryzel became Chairman of the National Credit Union Administration July 29, 2008, in Chicago, Ill. The Honorable Lee Preston, Judge of the Cook County Circuit Court, administered the oath of office.

“I am grateful to the President for this opportunity to serve,” said Chairman Fryzel. “To be the NCUA Chairman is a tremendous honor and I pledge to work to the best of my ability to fulfill the trust that has been placed in me.”

*July 15, 2008, Alexandria, Va.—Chairman Designate Michael E. Fryzel meets with then Chairman JoAnn Johnson and senior NCUA staff during a two-day visit to Washington July 15-16, as part of his preparation for assumption of chairmanship.*

## NCUA seeks a new agency seal

The NCUA Board voted to seek an Executive Order from President Bush approving a new agency seal that incorporates the eagle and shield of the Great Seal of the United States to more clearly convey a federal government image. An Executive Order is necessary to replace the Executive Order President Nixon signed establishing the original NCUA seal in 1971.

The eagle and shield incorporated in the new seal is designed to symbolize strength and security. The goal of the new proposed seal, which closely resembles other federal agency seals, is to ensure that NCUA is more clearly recognized by members of Congress, other agencies and the general public as an entity of the United States government.

“Initiating a new seal for NCUA is a conscious effort to make clear the status of our agency as a federal regulator and insurer,” said NCUA Chairman JoAnn Johnson. “I believe that heightening this



awareness with lawmakers, the media and, perhaps most importantly, the American consumer will act to promote confidence in federally insured credit unions. This has become especially critical during these times of difficulty in other segments of the financial services marketplace.”

The proposed new seal was specifically designed to symbolize the following:

The eagle and shield from the Great Seal of the United States clearly indicates

NCUA’s role as an agency of the federal government. NCUA research, confirmed by the United States Department of State, indicates that 18 U.S.C. 713(a) is the governing law with respect to use of the Great Seal of the U.S.

This U.S. Code site states it is a crime to knowingly display any printed or other likeness of the Great Seal of United States for the purpose of conveying, or in any manner reasonably calculated to convey, a false impression of sponsorship or approval by the U.S. Government or any department, agency or instrumentality thereof.

Three blue stars above the eagle represent the three-member NCUA Board.

Using “NCUA” in white on a blue background on the crest of the shield, matches the federal share insurance sign that federally insured credit unions are required to display.

The circle on the seal includes the agency title, “National Credit Union

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# Falling home values underscore essential credit principles

According to the latest forecasts, the high inventory levels, rising mortgage rates, and an elevated ratio of house prices to rentals point to further declines in home prices. It has become increasingly important in this environment to assess the borrower's character and capacity to repay, in addition to using realistic appraisals of collateral value.

Housing prices generally have been declining since prices peaked in 2006. Nationally, the median sales price of existing single-family homes in May 2008 was 6.8 percent lower than a year ago. There were 4.5 million previously occupied homes for sale—enough to last 11 months at the current sales rate. This level of homes for sale is almost twice the 6-month inventory level associated with a market balanced between buyers and sellers, according to the National Association of Realtors (NAR).

Many forecasters call for continued declines in national home prices. According to the NAR, the median price of existing homes is projected to fall 6.2 percent in 2008, while new home prices are

expected to decline 3.2 percent. Forecasts call for collateral values to continue to go down in many of the nation's metro areas this year and next.

How does a credit union prudently expand mortgage lending in this environment, especially for low- and moderate-income households? By adhering to the long-standing basic principles of credit underwriting, including:



**Capacity:** the member's ability to repay

- Verify income source and stability, instead of using stated income.
- Use realistic limits on debt-to-income ratios, using the fully indexed mortgage payment amount.

**Character:** the member's commitment

- Evaluate past repayment history.
- Review debts listed on the application versus a credit report.

**Collateral:** the member's property

- Use a current appraisal.
- Consider the downside risk-to-collateral value based on local market trends, and don't rely on hopeful estimates of future value increases.
- Ensure the member will have sufficient equity (or capital) in the property, in light of the combined loan-to-value ratio, and obtain insurance on high-dollar loans with little equity.

Credit unions know the decision to lend is not based solely on collateral. It is based on a case-by-case review of the member's circumstances and capacity to repay. Credit unions don't lend to the collateral. By sticking to what credit unions do best, serving member's needs in the best interest of the member, credit unions will continue to lend to meet member needs in a challenging financial landscape.

## 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.

**Michael E. Fryzel**, *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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Visit the NCUA website  
<http://www.ncua.gov>  
to access the latest  
information directly  
from NCUA.

**new seal** continued from page 1 Administration." The date "1934" in the lower portion of the circle reflects the creation by Congress of the federal credit union system in 1934 and the long unbroken line of federal credit union regulation that evolved into NCUA. The two stars within the circle separate "1934" from NCUA's title.

"This new proposed logo represents a bold and important move forward for this agency," noted Vice Chairman Rodney Hood. "Visually and symbolically, the logo will help point the way for NCUA and the industry toward the future."

"As NCUA looks forward to celebrating the 75th anniversary of the Federal Credit Union Act next year, I think it is critical to have the agency recognized as a federal entity," Board Member Gigi Hyland said. "It will serve to underscore the important role NCUA plays in federal insurance protection and the safety of deposits in federally insured credit unions at a time when consumer confidence in the financial system is wavering."



## Board actions July 24, 2008

### Board seeks executive approval for new agency seal

The NCUA Board voted to seek an Executive Order from the President approving a new agency seal that incorporates the eagle and shield of the Great Seal of the United States. As the federal regulator and insurer, NCUA has an important role in maintaining confidence in America's system of federally insured financial institutions. The new design readily and clearly conveys that NCUA is an agency of the federal government, with the associated confidence and security. The design of the new seal also incorporates elements of NCUA's official insurance sign for better and more consistent recognition and association with the federal share insurance backed by the full faith and credit of the United States Government.

### NCUSIF mid-year 2008 financial highlights

The NCUA Chief Financial Officer and E&I Director reported to the NCUA Board that during the first six months of 2008 National Credit Union Share Insurance Fund (NCUSIF) gross income was \$149.2 million, operating expenses totaled \$39.2 million, insurance loss expense was \$109.4 million, and net income was \$0.6 million.

Currently, Reserves total \$334.2 million, which includes \$84.7 million in unallocated Reserves. Thus far in 2008, six federally insured credit unions have failed at a cost to date of \$5.0 million. Through June, there were 245 problem code 4 and 5 credit unions, with shares representing \$8 billion, or 1.37 percent of total insured shares.

Based on 5 percent estimated growth, insured shares will total \$594 billion at mid-year 2008, and the equity ratio will adjust to 1.24 percent. The NCUSIF held \$7.3 billion in equity at mid-year 2008, and current projections indicate the NCUSIF equity ratio will be 1.28 percent at year-end 2008.

### NCUA 2008 budget is unchanged after midyear review

The NCUA budget remains unchanged at \$158,631,447, while reprogramming is necessary to accommodate increased employee travel expenses and several information technology projects.

Because of significant uncertainties related to travel costs as well as industry pressures increasing the agency's workload, the Office of the Executive Director has taken the unusual step to earmark \$2.1 million of programs that can be delayed or cancelled. In the event that higher travel costs or increased workload

cause increased operating costs beyond mid-session estimates, these earmarks have been identified to ensure the full execution of the agency's safety and soundness program.

The NCUA Board accepted the recommendation for another budget review, to be completed by September 30, 2008. The NCUA Board also granted the executive director temporary authority to reprogram funds if necessary.

### Net worth PCA definition proposal issued

The NCUA Board issued a proposed rule change to implement a statutory amendment to expand the "prompt corrective action" (PCA) definition of natural person credit union's "net worth" to include in its capital the retained earnings of a merging credit union; and to similarly amend corporate capital definitions.

The amendment expands the definition of "net worth" to allow the retained earnings of a merging credit union to be combined with the acquiring credit union to determine post-merger "net worth." Similarly, the proposal redefines corporate credit union capital to allow an acquiring corporate credit union to include in post-merger capital the retained earnings of the merging credit union.

Implementing the Financial Services Regulatory Relief Act, the proposal was issued with a 60-day comment period.

### Horizon One FCU Converts to Community Charter

The NCUA Board approved a request from Horizon One Federal Credit Union, Indianapolis, Indiana, to convert from a multi-group to a community charter able to serve the people who live, work, worship, volunteer, attend school and businesses and other legal entities located in Marion or Johnson County in Indiana.

### Final IRPS provides prohibition guidance

The NCUA Board issued a final Interpretive Ruling and Policy Statement (IRPS) that provides guidance and direction to federally insured credit unions and those who may be affected by

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July 24, 2008, Alexandria, Va.—Chairman JoAnn Johnson bids farewell to a standing ovation at the conclusion of her final NCUA Board meeting.

## Conversations with AMERICA



### My Government Listens

**Date:** Tuesday, August 5, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** Illinois Credit Union League's Small Asset Size Conference  
**Location:** Naperville, IL  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

**Date:** Thursday, August 7, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** Vice Chairman Hood's 2008 Risk Mitigation Summit  
**Location:** Chicago, IL  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

**Date:** August 18, 2008  
**Who:** Board Member Gigi Hyland  
**Event:** DCUC Annual Meeting  
**Location:** Chicago, IL  
**Contact:** Jessica Vogel at [jvogel@ncua.gov](mailto:jvogel@ncua.gov) or (703) 518-6318

**Date:** September 4, 2008  
**Who:** Board Member Gigi Hyland  
**Event:** Credit Union Foundation: Development Education UK  
**Location:** Edinburgh, Scotland  
**Contact:** Jessica Vogel at [jvogel@ncua.gov](mailto:jvogel@ncua.gov) or (703) 518-6318

**Date:** Monday, September 8, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** NCUA Regional Meetings  
**Location:** Dallas, TX  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

**Date:** Thursday, September 11, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** Members United Corporate FCU—Financial Strategies Conference  
**Location:** Chicago, IL  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

**Date:** Monday, September 15, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** NAFCU Congressional Caucus  
**Location:** Washington, DC  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

**Date:** September 8 & 16, 2008  
**Who:** Board Member Gigi Hyland  
**Event:** NCUA Regional Conferences  
**Location:** Dallas, TX  
**Contact:** Jessica Vogel at [jvogel@ncua.gov](mailto:jvogel@ncua.gov) or (703) 518-6318

**Date:** September 16, 2008  
**Who:** Board Member Gigi Hyland  
**Event:** NAFCU Congressional Caucus  
**Location:** Washington D.C.  
**Contact:** Jessica Vogel at [jvogel@ncua.gov](mailto:jvogel@ncua.gov) or (703) 518-6318

**Date:** Wednesday, September 17, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** NCUA Regional Meetings  
**Location:** Dallas, TX  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

**Date:** Thursday, September 18, 2008  
**Who:** Vice Chairman Rodney E. Hood  
**Event:** Texas Credit Union League CEO Roundtable  
**Location:** Dallas, TX  
**Contact:** Sally Thompson at [sridgely@ncua.gov](mailto:sridgely@ncua.gov)

## Hyland attends FDIC forum on low- and mid-income mortgage lending



Board Member Gigi Hyland represented NCUA July 8 in Arlington, Va., at a Federal Deposit Insurance Corporation (FDIC) forum on strategies for promoting responsible, sustainable mortgage lending for low- and moderate-income (LMI) families.

Board Member Hyland joined Sheila Bair, FDIC Chairman, who hosted the event; Henry M. Paulson, Jr., Secretary of the Treasury; Ben S. Bernanke, Chairman, Federal Reserve Board of Governors; and Brian Montgomery, Assistant Secretary for Housing-Federal Housing Commissioner, Department of Housing and Urban Development, at a forum of experts in banking, investment, government, academia and the nonprofit community. It was convened to explore a framework for LMI mortgage lending in the future, including identifying market and regulatory incentives for encouraging responsible mortgage lending to LMI borrowers.

"I was honored to represent the agency

at this important, dynamic forum," noted Board Member Hyland. "Getting back to basics in mortgage lending by adhering to solid underwriting standards and following the four "Cs" of good lending—commitment, credit, collateral and capital—were key themes of the day. Credit unions have an opportunity to be a trusted lender to members in these times of economic uncertainty, but they need to adhere to the time-tested principles of good lending."

Available credit for mortgage borrowers has sharply declined. First quarter 2008 originations were down almost 30 percent from first quarter 2007 figures. Origination volume has fallen even more dramatically in the subprime and non-conforming so-called "Alt-A" segment—nearly 90 percent and 80 percent respectively. What's more, mortgage originations are predicted to decline by 18 percent in 2008 and by 11 percent in 2009, according to the Mortgage Bankers Association.

A live Webcast of the forum and a follow-up meeting addressing strategies to encourage mortgage lending can be viewed at <http://www.vodium.com/goto/fdic/advisorycommittee.asp>.

# Hood announces initial Blueprint 2020 findings

NCUA Vice Chairman Rodney E. Hood stressed the importance of recruiting, training and retaining individuals for careers in the credit union industry and announced the initial findings of the study group assembled for his Blueprint 2020 Initiative at NAFCU's Annual Conference July 9 in San Diego, Calif.

Hood acknowledged that as the baby boomer generation begins to retire in the coming years, the composition of the financial services landscape will change significantly and there are few candidates from generations "x" and "y" waiting to assume roles in this arena.

"While hedge funds and private equity are the careers du jour, America's financial services providers will need dedicated professionals in marketing, operations, accounting, risk management, compliance, and sales in order to remain viable, sustainable and competitive," Vice Chairman Hood said. "I am currently working with a group of credit union and university leaders to develop a program that fosters future credit union leaders."

Vice Chairman Hood credited John Milazzo, president and CEO of Campus FCU for leading the volunteer group comprised of Tyrone Burke, president and CEO, Georgia State University FCU; Phyllis Coleman-Mouton, vice chancellor, Baton Rouge Community College; J. Coon, senior vice president and CFO, Ent FCU; Elizabeth Dooley, president and CEO, Educational Employees CU; Mary D. Feduccia, Ph.D., associate dean of students and director, Career Services, Louisiana State University; Lee Fogle, president and CEO, Duke University FCU; Rob Givens, president and CEO, Mazuma CU; Mark Herbert, chief operations officer, Oregon Community CU; David W. Kantar, president and CEO, Southland Savings FCU, and Ben Rogers, Filene Research Institute.

Mr. Hood charged the study group with developing a framework for credit unions that would include:

- credit union internship and mentoring opportunities for college students;
- strategic consulting projects for MBA students;

- working with credit unions to perform management assessment of timely issues, such as membership growth, marketing campaign, product analysis, and membership segmentation;
- creating relationships with representatives from college career planning and placement offices to participate in career fairs;
- creating symposia and curricula for students to receive academic credit while interning at credit unions;
- providing low-income designated credit unions with contributions to pay for summer interns; and
- cultivating new board members, supervisory committee and credit committee members for the credit union system.

The study group met several times via telephone and Internet to discuss their charge and how best to accomplish Vice Chair Hood's expectations. The

study group found conclusive evidence suggesting opportunities exist for credit unions to increase student membership, employment and participation in their organizations. Nearly all the options have one thread running through them...a partnership between the credit union and institutions of secondary and/or post-secondary learning. If credit unions want to be successful in attracting the attention of young people, they would be well advised to network with the career services counselors of local high schools, colleges and universities.

"In order for the credit union industry to be sustainable and thrive, particularly during the current climate of economic unrest, it is crucial for industry leaders to begin recruiting and training the leaders of tomorrow. The interest is out there, and we have the power to develop and advance the future of the credit union industry," Hood said.



*July 24, 2008, NCUA Headquarters—Vice Chairman Rodney Hood welcomes Navy Federal Credit Union student interns to the agency following the July Board meeting in Alexandria, Va. With Vice Chairman Hood, from the left are Baltimore, Md., Morgan State University student interns Abena Kaakyire, Kehinde Oladeinde, and Jason Carter along with Navy FCU Assistant Vice President of Compliance Anita Marchion.*



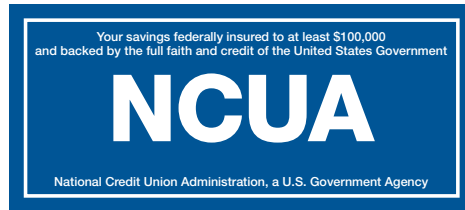
## Shared branches must display accurate insurance signs

NCUA regulations require federally insured credit unions to display the official NCUA sign at each teller window or station accepting share deposits insured by the NCUA. The official sign informs and assures members that their shares are insured by an agency of the U.S. government to at least \$100,000.

### Your savings federally insured

When federally insured credit unions participate in shared branching networks, these shared branches must also display the official NCUA sign where share deposits are received. Where the shared branching network includes both federally insured credit unions and privately insured credit unions, NCUA imposes additional requirements to ensure members are not confused about the insurance coverage of their share deposits.

For example, Section 740.4(c) of NCUA regulations prohibits the acceptance by the same teller of both federally insured deposits and privately insured deposits. The only exception to this prohibition is where the teller displays a second sign, above or beside the official NCUA sign, that states “[o]nly the following credit unions serviced by this facility are



federally insured by the NCUA” and then lists each federally insured credit union in lettering clearly legible to all members making share deposits.

Many shared branch arrangements use service facilities run by a third party, and each participating federally insured credit union must ensure that, where privately insured credit unions also participate, the third party is posting both the official NCUA sign and the “740.4(c)” sign.

Some shared branch networks also permit any participating credit union to use its own branch offices to conduct transactions for other participating credit unions. If a federally insured credit union is accepting deposits in its own branches for a privately insured credit union, the federally insured credit union’s tellers must display both the NCUA sign and the 740.4(c) sign.

These share insurance disclosures serve a very important consumer protection function. Federally insured credit unions

must ensure the proper signage is posted both inside their own branches and also within any shared branches. Failure to post the proper signage, including the 740.4(c) sign, may subject a credit union to adverse administrative action, including penalties of up to \$100 per day.

If you have any questions, please contact your examiner or NCUA regional office.

**board actions** continued from page 3 prohibitions imposed by Section 205(d) of the FCU Act because of a criminal conviction or a pretrial diversion program.

Section 205(d) prohibits a person from participating in the affairs of an insured credit union without prior written consent of the NCUA Board if the person has been convicted of any criminal offense involving dishonesty or breach of trust, or the person has entered into a pretrial diversion or similar program in connection with criminal prosecution. The IRPS describes the actions prohibited under the statute and establishes the procedures for applying for NCUA Board consent on a case-by-case basis.

**Board votes are unanimous unless otherwise indicated**