

## Chairman Johnson testifies on conversion issues

### Johnson stressed disclosure and member rights before the House Subcommittee on Financial Institutions and Consumer Credit

NCUA Chairman JoAnn Johnson testified May 11, 2006, before the House Subcommittee on Financial Institutions and Consumer Credit on the Credit Union Charter Choice Act and credit union conversions.

Chairman Johnson took the opportunity to present the Agency's views on credit union conversions to mutual savings banks and associations, and she noted there are fundamental issues at stake. Credit unions are nonprofit cooperatives that exist to promote thrift and provide a source of affordable credit for their members rather than to maximize profits to outside investors or stockholders.

"A credit union is owned and governed by its members, and it is the member-

owners, not NCUA or any other group, who should decide the future of their credit union," Chairman JoAnn Johnson said. "NCUA fully supports the right of credit union members to decide the business model that is most appropriate and beneficial to them, and whether a charter conversion serves their best interest."

NCUA's primary mission is to ensure the safety and soundness of federally insured credit unions, and the Federal Credit Union Act requires NCUA administer the member vote on a proposed conversion and review the methods and procedures of the vote.

"Congress has recognized the important role played by NCUA in administering

the conversion vote, an important part of which is ensuring that plain-English, prominent disclosures are made. Real consumer protection is dependent on complete and accurate information. Once that is provided, it should be up to the members of a credit union to decide whether to convert," Chairman Johnson said. She noted that NCUA supports some provisions of H.R. 3026, the Credit Union Charter Choice Act, that would require a secret ballot and an independent inspection of elections as well as retain the 90, 60, and 30 day mailing requirement.

"NCUA believes its primary role in this matter is to ensure that members receive complete, accurate, and timely

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**Capitol Hill, May 11, 2006** — Chairman JoAnn Johnson testifies before the House Subcommittee on Financial Institutions and Consumer Credit. Scott Polakoff, Deputy Directory of the Office of Thrift Supervision sits next to the Chairman. Immediately behind her is NCUA General Counsel Robert Fenner and to his left is NCUA Public & Congressional Affairs Director John McKechnie.

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## Share insurance brochure and online calculator revised

NCUA's revised Share Insurance Calculator is available online at <http://webapps.ncua.gov/ins/> with modifications that provide for calculating IRA and KEOGH accounts up to the new \$250,000 limit.

The revised Your Insured Funds brochure is available in hardcopy and online at [http://www.ncua.gov/Publications/brochures/insured\\_funds/funds.pdf](http://www.ncua.gov/Publications/brochures/insured_funds/funds.pdf). Order

50 brochures for \$14 by phone at 703-518-6340 or by faxing the Publication List order form found at [http://www.ncua.gov/Publications/pub\\_avail/pub\\_avail.pdf](http://www.ncua.gov/Publications/pub_avail/pub_avail.pdf).



## Balance sheet management

### Non-traditional mortgage risks

Credit unions with a substantial amount of non-traditional mortgages normally have increased balance sheet risk. Federal financial institution regulators, including NCUA, have expressed concern about the additional risks posed by these loans.

A number of credit unions have been originating non-traditional mortgages, such as interest only and optional payment adjustable rate loans, which require little or no down payment. Many of these loan products became more widely available due to the rapid run-up in home prices and are being offered to meet member demand and compete with other lenders. Credit unions should be aware that these loans pose more credit risk than traditional mortgages.

With traditional mortgages, the borrower's down payment and subsequent

principal payments provide borrower equity. With non-traditional mortgages, the borrower has little or no equity in the home and may have little financial incentive to avoid default.

If a credit union has been originating nontraditional mortgages, the credit union should consider whether potential losses during economic stresses may be significant. If the risks make credit union management uncomfortable, three actions to consider include:

1. Sell some mortgages to immediately reduce risk;
2. Enhance loan collection policies and procedures to better manage risk; and
3. Tighten loan policies to limit the concentration of risky mortgages.

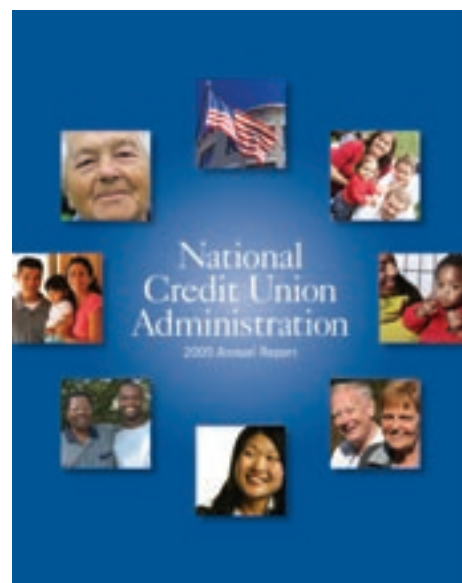
## Annual Report and CU Directory are available

NCUA's 2005 Annual Report is available. The document is the agency's official report to the White House, Congress and the credit union community on NCUA, the Share Insurance Fund, Community Development Revolving Loan Fund and Central Liquidity Facility operations. It contains vital credit union data, the auditors' report and annual performance report.

Credit unions can order a free annual report by contacting NCUA Publications at 703-518-6340 or by emailing [express@ncua.gov](mailto:express@ncua.gov). The report is also available online at <http://www.ncua.gov/ReportsAndPlans/annualrpt/annualrpt.html>.

The 2006 Directory of Federally Insured Credit Unions, which lists all federally insured credit unions by state and includes pertinent information and data, is available online at <http://www.ncua.gov/data/directory/cudir.html>.

A hardcopy is available upon request for \$15 by phone at 703-518-6340 or by submitting the Publication List order form found at [http://www.ncua.gov/Publications/pub\\_avail/pub\\_avail.pdf](http://www.ncua.gov/Publications/pub_avail/pub_avail.pdf).



## 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.

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# Credit unions demonstrate consistent strength

## Savings expand as delinquencies near six year lows

Credit unions are experiencing solid share growth and declining loan delinquencies according to first quarter 2006 Call Report data submitted by the nation's 8,617 federally insured credit unions.

The first quarter of 2006 ended with federally insured credit unions reporting a 0.59 percent loan delinquency ratio, down from the 2005 year-end delinquency ratio of 0.73 percent. During this time frame, the amount of delinquent loans and net charge-offs declined an annualized 13.1 percent.

Total loan growth expanded 10.39 percent between March 2005 and March 2006, while between December 2005 and March 2006 loans grew 0.94 percent and the loan to share ratio declined from 79.4 to 77.8 percent

"I commend credit unions for their continued expert financial management skills as the pace of loan demand slowed, savings grew and net worth continued to maintain a consistent, healthy level in the early months of 2006," NCUA Chairman JoAnn Johnson said. "Credit unions saw an influx of funds, and repeating tradition, first quarter loan delinquencies declined 18.4 percent and net charge-offs declined 5.7 percent as recoveries surpassed first quarter 2005 figures. The annualized net charge-off ratio dropped to 0.49 percent while recoveries grew an annualized 15.1 percent, and the first quarter ended with an average credit union net worth ratio of 11.16 percent."

The major balance sheet categories and membership growth at federally insured credit unions between December 31, 2005, and March 31, 2006, follows:

- Assets increased 2.5 percent to \$695.4 billion from \$678.7 billion;
- Loans increased 0.9 percent to \$462.5 billion from \$458.2 billion;
- Shares increased 3.0 percent to \$594.7 billion from \$577.4 billion;
- Investments increased 0.92 percent to \$149.3 billion from \$148.0 billion;
- Net worth to total asset ratio declined

to 11.16 percent from 11.24 percent; and

- Membership increased 0.5 percent to 84.9 million from 84.5 million members.

Examining data details, 1st mortgage real estate loans grew 2.2 percent reflecting continued growth in credit unions' largest income producing loan category during the first three months of 2006 while other real estate loans, such as second mortgage and home equity loans, grew 2.7 percent. New auto loans grew 0.9 percent and used auto loans declined a slight 0.4 percent. Unsecured credit cards loans also contracted by 3.9 percent.

Total shares increased 3.0 percent based on an 4.02 percent increase in regular shares, a 3.13 percent increase in other types of savings, and a 0.15 percent decline in share draft funds during the first quarter of 2006.

Detailed financial information is available online at <http://www.ncua.gov/data/FOIA/foia.html>

## Keith Morton named Region IV director



The NCUA Board named C. Keith Morton director of Region IV effective May 14, 2006. As Region IV director, Morton is responsible for oversight of the chartering, examination and supervision program for federal credit unions in Arkansas, Illinois, Iowa,

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**Chairman Johnson addresses Financial Literacy and Education Commission**  
*Washington, D.C., May 16, 2006*—Featured speaker Chairman JoAnn Johnson addresses the Financial Literacy and Education Commission (FLEC) meeting at the Department of Treasury. Sharon Brown-Hruska, Commissioner of the Commodity Futures Trading Commission is in the background. During her presentation, Chairman Johnson highlighted the importance of providing financial literacy to Americans of all ages and the many ways credit unions are contributing to this effort throughout the nation.



## My Government Listens

**Who and What:** Vice Chairman Rodney E. Hood will address the Louisiana Credit Union League's Annual Meeting and Convention.

**When:** Friday, June 16, 2006

**Where:** New Orleans, La.

**Why:** To discuss NCUA's regulatory agenda and legislative updates.

**Contact:** Sally Ridgely at 703-518-6307 or [sridgely@ncua.gov](mailto:sridgely@ncua.gov).

**Who and What:** Board Member Gigi Hyland will address the Maryland & D.C. Credit Union Association's Annual Meeting.

**When:** Friday, June 16, 2006

**Where:** Ocean City, Md.

**Why:** To share her views and elicit comments on current challenges facing the credit union system.

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

**Who and What:** Vice Chairman Rodney E. Hood will address the North Carolina Bankers Association.

**When:** Monday, June 19, 2006

**Where:** Hot Springs, Va.

**Why:** To discuss NCUA's regulatory agenda and legislative updates.

**Contact:** Sally Ridgely at 703-518-6307 or [sridgely@ncua.gov](mailto:sridgely@ncua.gov).

**Who and What:** Vice Chairman Rodney E. Hood will address the Lower East Side People's Federal Credit Union's Annual Meeting.

**When:** Saturday, June 24, 2006

**Where:** New York, N.Y.

**Why:** To discuss NCUA's regulatory agenda and legislative updates.

**Contact:** Sally Ridgely at 703-518-6307 or [sridgely@ncua.gov](mailto:sridgely@ncua.gov).

**Who and What:** Vice Chairman Rodney E. Hood will address the Rhode Island Credit Union League's Annual Meeting.

**When:** Monday, June 26, 2006

**Where:** Bristol, R.I.

**Why:** To discuss NCUA's regulatory agenda and legislative updates.

**Contact:** Sally Ridgely at 703-518-6307 or [sridgely@ncua.gov](mailto:sridgely@ncua.gov).

**Who and What:** Board Member Gigi Hyland will address the attendees of the Ukrainian National Credit Union Association Annual Meeting.

**When:** Monday, June 26, 2006

**Where:** Washington, D.C.

**Why:** To share her views and elicit comments on current challenges facing the credit union system.

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

**Who and What:** Board Member Gigi Hyland will address the attendees of the Development Educators Graduation Ceremony.

**When:** Tuesday, June 27, 2006

**Where:** Madison, Wis.

**Why:** Speak on current regulatory issues facing credit unions.

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

**Who and What:** Board Member Gigi Hyland will visit the offices of NCUA Region III.

**When:** Thursday, June 29, 2006.

**Where:** Atlanta, Ga.

**Why:** Meet and dialogue with Region III representatives.

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

**Who and What:** Chairman JoAnn Johnson will address the 49th Annual Convention of the Caribbean Confederation of Credit Unions.

**When:** Sunday, July 2, 2006

**Where:** Puerto Rico

**Why:** Chairman Johnson will discuss NCUA updates.

**Contact:** Linda Queen at 703-518-6309 or [lqueen@ncua.gov](mailto:lqueen@ncua.gov)

**Who and What:** Board Member Gigi Hyland will visit the offices of NCUA Region V.

**When:** Monday, July 10, 2006.

**Where:** Tempe, Ariz.

**Why:** Meet and dialogue with Region V representatives

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

**Who and What:** Chairman JoAnn Johnson will address the NAFCU 39th Annual Conference and Exhibition.

**When:** Wednesday, July 12, 2006

**Where:** Toronto, Canada

**Why:** Chairman Johnson will discuss regulatory issues affecting nation's credit unions.

**Contact:** Linda Queen at 703-518-6309 or [lqueen@ncua.gov](mailto:lqueen@ncua.gov)

**Who and What:** Board Member Gigi Hyland will address the attendees at the Mountain Regional Credit Union Roundtable.

**When:** Wednesday, July 12, 2006.

**Where:** Fairmont Hot Springs, Mont.

**Why:** To share her views and elicit comments on current challenges facing the credit union system.

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

**Who and What:** Vice Chairman Rodney E. Hood will address the NAFCU 39th Annual Conference and Exhibition.

**When:** Friday, July 14, 2006

**Where:** Toronto, Canada

**Why:** Panel discussion to field questions.

**Contact:** Sally Ridgely at 703-518-6307 or [sridgely@ncua.gov](mailto:sridgely@ncua.gov).

**Who and What:** Board Member Gigi Hyland will address the NAFCU 39th Annual Conference and Exhibition.

**When:** Friday, July 14, 2006

**Where:** Toronto, Canada

**Why:** To share her views and elicit comments on current challenges facing the credit union system.

**Contact:** Nina Bullard at 703-518-6318 or [nbullard@ncua.gov](mailto:nbullard@ncua.gov)

## Board Member Hyland cuts ribbon

NCUA Board Member Gigi Hyland participated in a ribbon cutting ceremony commemorating the opening of a community branch of HEW Federal Credit Union and congratulated the credit union's staff for undertaking rehabilitation of the office space and rebuilding it themselves.

"You have accomplished amazing work in turning this former convenience store into a welcoming branch where community residents can benefit from the credit union's host of services," Board Member Hyland said. "As not for profit financial cooperatives, credit unions are consistently helping people from all walks of life and communities to achieve the dream of financial self sufficiency. You are helping to make that dream a reality."

Located in the Penn-Branch shopping center at the intersections of Branch Avenue and Pennsylvania Avenue in Southeast Washington, the new branch will serve the needs of the surrounding low- to moderate-income community by providing a variety of affordable financial services, including: free checking; mortgages; insured savings accounts; auto loans; credit re-builder and financial counseling services.



*Southeast Washington, D.C., May 3, 2006—Cutting the ribbon at the new branch of HEW Federal Credit Union are, from the left, Carrie Thornhill, president/CEO of the Marshall Heights Community Development Organization, Inc.; Paticia Ellis, chairman, HEW Federal Credit Union; and Board Member Gigi Hyland.*

## Chairman Johnson co-chairs Economic Summit session

NCUA Chairman JoAnn Johnson joined government, private sector and non-profit leaders in Anacostia, a Southeast Washington, D.C., neighborhood, for a one-day economic Summit organized to celebrate the 1st anniversary of the Hope Center, which is dedicated to improving the economic quality of life in emerging

markets. Chairman Johnson and U.S. Department of Treasury Deputy Assistant Secretary for Financial Education, Dan Iannicola, co-chaired the Financial Literacy session, which provided a forum for participants to discuss critical aspects of financial literacy issues.



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



*Washington, D.C., May 3, 2006—Financial Literacy session panelists and co-chairs are, from the left, Gwen Robinson, director of Consumer Affairs, GE Consumer Finance; Jeff Carter, executive director of D.C. Learns; Chairman JoAnn Johnson; Laura Levin, executive director of Jump\$tart Coalition for Personal Financial Literacy; and Dan Iannicola, U.S. Department of Treasury deputy assistant secretary for Financial Literacy. (New York City Commissioner Jeanne Mulgrave is not pictured.)*

# NCUA awards millions in loans and grants

## Funds are available for 2006

Credit unions around the country were better able to serve low-income communities because of the nearly \$1 million in technical assistance grants (TAGs) and \$2 million in loans NCUA awarded in 2005. The amount awarded exceeds the \$1 million appropriated by Congress—\$800,000 for TAGs and \$200,000 for loans.

Credit unions used the financial assistance from NCUA to stimulate economic growth and increase income, ownership, and employment opportunities for low-income residents.

The Office of Small Credit Union Initiatives (administrator of the Community Development Revolving Loan Fund [CDRLF]) reports that more than 270 low-income designated credit unions received financial assistance last year.

Credit unions funded a variety of projects with CDRLF assistance, such as

- Technology,
- Training,
- Member services,
- Capacity building, and
- Disaster relief.

Past participants share their experiences:

*“The number of people served far exceeded our expectations. We were able to provide no-cost tax preparation to over 700 low-income individuals and families. This translates to \$434,500 in Earned Income Tax Credit and over \$673,000 in federal refunds.”* Manager Lily Lo, Northeast Community Federal Credit Union, San Francisco, Calif.

*“This grant was used to defray the start-up costs of a new service...Debit Cards. Since opening up this service on the first of September, we have issued 30 cards, 13 to new members...”* President Howard McIlrath, Table Rock Federal Credit Union, Shell Knob, Mo.

## Congress appropriated \$950,000 for TAGs in 2006

The recently announced 2006 initiative underscores the agency’s ongoing commitment to foster financial growth and empower low-income communities. In spite of many budget cuts, Congress continues to support NCUA’s grant

program by appropriating \$950,000 to be used for technical assistance grants in 2006. This year’s initiatives include both loan and technical assistance programs.

The 2006 technical assistance grant initiatives follow:

- Student internship;
- Volunteer Income Tax Assistance (VITA);
- Staff, official, and board member Training;
- Outreach and partnering; and,
- Building internal capacity.

The 2006 loan program provides an opportunity for qualified credit unions to borrow up to \$300,000 for five years at an interest rate of 1 percent. To date, eight low-income credit unions have applied and received approximately \$1.5 million in loans.

We encourage low-income credit unions to apply for these funds. Eligibility requirements and details regarding financial assistance can be found at the NCUA website <http://www.ncua.gov/CreditUnionDevelopment/Index.htm> or by contacting the Office of Small Credit Union Initiatives at 703-518-6610.



NCUA Board Member Gigi Hyland represented the agency May 21, 2006, at the inaugural meeting of President Bush’s Identity Theft Task Force in Washington, D.C.

President Bush signed an Executive Order May 10, 2006, to strengthen federal

## Board Member Hyland attends Identity Theft Task Force meeting

efforts to protect against identity theft. The Order established the Task Force, co-chaired by the Attorney General and the Federal Trade Commission Chairman. Task Force members include representatives from executive branch departments and representatives from all federal financial regulatory agencies.

Task Force goals include:

- Aggressive law enforcement actions designed to prevent, investigate and prosecute identity theft crimes;
- Improve public outreach by the federal government to better educate the public about identity theft and address how the private sector can implement measures

to protect personal data; and

- Increase safeguards that federal departments, agencies and instrumentalities can implement to better secure government-held personal data.

“I was honored to participate in the Task Force meeting on behalf of NCUA,” stated Board Member Hyland. “Credit union members and consumers need as much information as possible to protect them against this pervasive threat. The collaborative efforts of this Task Force will hopefully succeed to deter identity theft and enhance the protection of consumers’ personal data.”

# Vice Chairman Hood visits state regulators



**Colorado Springs, Colo., April 21, 2006**—Vice Chairman Rodney Hood with Chris Myklebust, Commissioner of the Colorado Department of Financial Services, the agency that examines and supervises Colorado state-chartered credit unions.

NCUA Vice Chairman Rodney Hood visited Kentucky, Colorado and Kansas state regulators in April to highlight and affirm the importance of a healthy partnership between federal and state regulators.

“After visiting these fellow regulators, I am very confident that credit unions can benefit from an enhanced relationship between their state and federal regulators working together and sharing best-practices in order to better serve their members and sustain America’s vibrant credit union system,” stated Vice Chairman Hood.

“They truly understand and appreciate the importance of a healthy partnership between federal and state government. We enjoyed a very productive discussion which highlighted our shared interest in issues that affect credit unions,” Vice Chairman Hood said.

## **Keith Morton**

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Kansas, Louisiana, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Texas and Wisconsin.

“I congratulate Keith Morton on his promotion to regional director,” Chairman JoAnn Johnson said. “He has proven to be capable of managing complex operations in stressful situations, and I would be remiss if I didn’t mention the unflappable leadership he displayed stepping in as acting Region IV director just 1 day before Hurricane Katrina struck the Gulf Coast. What’s more, during the past 20 years Keith has demonstrated flexibility, hard work and initiative that garnered the respect of everyone with whom he worked.”

Morton has served in Austin, Texas, as an associate regional director since January 2002. His career began in 1986 as a NCUA Region II examiner and he quickly progressed, first becoming a problem case officer and then a supervisory examiner. In 1994, he moved into the Region II office as director of Special Actions, and he was serving as director of Supervision when selected to become associate director in the Austin regional office.

Keith Morton has received numerous awards and was nominated for the Arthur S. Flemming Excellence in Government Award. He holds a BS in accounting from Frostburg State University, Frostburg, Md.



**Topeka, Kan., April 26, 2006**—Vice Chairman Hood visits John P. Smith, newly appointed Administrator of the Kansas Department of Credit Unions (KDCU), to discuss ways the government can work together to better serve credit union members in the state. From the left are Principal Financial Examiner Jim Burgess, Administrator John Smith, Vice Chairman Hood and Financial Examiner Administrator Jack L. Hohman.



**Frankfurt, Ky., April 14, 2005**—At the Kentucky Office of Financial Institutions (KOFI) Vice Chairman Rodney Hood with, from the left, KOFI Deputy Executive Director Keith H. Talley, Sr.; KOFI Executive Director Cordell Lawrence; Vice Chairman Hood; and Carlton Hoskins, senior policy advisor to the Vice Chairman.

## Chairman Johnson comments on the Senate's Financial Services Regulatory Relief Act of 2006

“Senate passage of the Financial Services Relief Act represents another important step forward for this legislation. If enacted into law, the legislation will modernize and improve the regulatory structure under which credit unions operate, and enable them to provide more up-to-date services to their members. It will also allow for the redefinition of net worth following the merger of two healthy credit unions, a vital and time-sensitive

change to the law. I am hopeful that the process moves ahead expeditiously in the House of Representatives, and that a bill reaches the President in the near future. We look forward to continuing to work with the next Congress on additional improvements such as prompt corrective action reform and increased member business lending flexibility,” Chairman Joann Johnson said.

Credit union provisions included in the

Senate bill would:

- Allow merging credit unions to continue to count retained earnings of both credit unions as net worth for PCA purposes after the merger;
- Permit land lease at only “nominal” cost when CUs build on DOD facilities;
- Raise the 12-year loan limit to at least 15 years; and
- Authorize FCUs to cash checks and wire funds for anyone eligible to join the credit union.

Differing provisions in House and Senate Regulatory Relief bills must be reconciled before the legislation can be finalized.



**Chicago, Ill., May 12, 2006**—Meeting with NASCUS Boards, Vice Chairman Rodney Hood is pictured with Jo Anne Fillwock, NASCUS Credit Union Advisory Council chair and president of Financial Health Credit Union in Lansing, Michigan; Mr. Hood; Linda Jekel, NASCUS chair and director of Credit Unions for Washington state; and Mary Martha Fortney, NASCUS president and CEO.

### *Chairman testifies*

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disclosures regarding conversion,” the Chairman said, pointing out the agency is currently considering changes to clarify and improve its conversion rule because “it is imperative that the voting process be transparent and fair.”