NCUA News National Credit Union Administration
April 2009 Number 4

Fryzel to Senate: Preserve NCUA and NCUSIF independence

Other regulatory improvements warranted

NCUA Chairman Michael E. Fryzel underscored the public policy benefits of a distinct federal credit union regulatory and insurance entity in testimony March 19, 2008, before the Senate Banking Committee while calling for improved federal regulatory standard setting authority.

"Credit unions are fundamentally different in structure and operation than other types of financial institutions… Our strong belief is that these unique and distinct institutions require unique and distinct regulation," stated Chairman Fryzel.

In his statement to the Senate Banking Committee, Chairman Fryzel also discussed the overall strength of the credit union industry and the statutory and regulatory differences that have provided consumers with a viable cooperative alternative in the financial services marketplace. Fryzel also underscored the solid performance of the National Credit Union Share Insurance Fund (NCUSIF), noting that "even in the face of significant stress in the corporate credit union part of the system, the Fund has proven durable."

Fryzel went on to describe the prudential benefits of an integrated credit union regulatory/insurance function at the federal level, commenting that "this consolidated approach has enabled NCUA to manage risk in an efficient manner and identify problems in a way that minimizes losses to the Fund…(It) has had significant public policy benefits, and is worth preserving."

Saying "there is a better way forward," Fryzel also suggested a federal oversight entity, charged with establishing general safety and soundness standards, issuing principles-based guidance and monitoring systemic risk. Under this proposal, NCUA and other regulators would still be responsible for enforcement, and an independent NCUA and NCUSIF would be in place to preserve the credit union regulatory structure "that has been tested and proven to work for almost 40 years."

Chairman Fryzel's testimony is available online at http://www.ncua.gov/NewsPublications/News/Testimony.aspx

NCUA approves plan to spread replenishment

The NCUA Board approved a proposal March 26, 2009, that would enable credit unions to spread the cost of the National Credit Union Share Insurance Fund (NCUSIF) replenishment over as much as a 7-year period.

The proposed legislation would create a mechanism, the Corporate Credit Union Stabilization Fund, to absorb losses associated with the corporate credit union stabilization actions and assess federally insured credit unions for associated costs over as much as a 7-year period. If enacted into law, the proposal:

- Should allow insured credit unions to expense these assessments over time;
- Is consistent with generally accepted accounting principles (GAAP); and
- Is limited in use to only pay for losses incurred by corporate credit unions.

Recently, the House of Representatives approved legislation, H.R. 1106, that would provide NCUA with the flexibility to return the premium portion of NCUSIF equity ratio to the statutory minimum of 1.20 percent over a 5-year period and increase to $6 billion the NCUSIF authority to borrow from the U.S. Treasury. Likewise, the U.S. Senate is considering similar NCUSIF provisions.

While these NCUA-supported provisions are beneficial, GAAP requires credit unions

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HIGHLIGHTS

NCUA conserves U.S. Central and WesCorp

The NCUA placed U.S. Central Federal Credit Union, Lenexa, Kansas, and Western Corporate (WesCorp) Federal Credit Union, San Dimas, California, into conservatorship March 20, 2009, to stabilize the corporate credit union system and resolve balance sheet issues. These actions are the latest NCUA efforts to assist the corporate credit union network under the Corporate Stabilization Plan.

The two corporate credit unions were placed into conservatorship to protect retail credit union deposits and the interest of the National Credit Union Share Insurance Fund (NCUSIF), as well as to remove any impediments to the Agency's ability to take appropriate mitigating actions that may be necessary. Service continues uninterrupted at both U.S. Central Corporate Federal Credit Union and WesCorp, and members are free to make deposits and access funds.

The Federal Credit Union Act authorizes the NCUA Board to appoint itself conservator when necessary to conserve the assets of a federally insured credit union, preserve member assets and protect the NCUSIF.

Corporate credit unions do not serve consumers. They are chartered to provide products and services to the credit union system. These products and services will continue uninterrupted and there is no direct impact by NCUA's actions on the 90 million credit union members nationwide. Credit unions that serve consumers remain very strong, with net worth exceeding 10 percent of assets, healthy growth in assets, membership, and loan portfolios despite the difficult economy.

U.S. Central has approximately $34 billion in assets and 26 retail corporate credit union members. WesCorp has $23 billion in assets and approximately 1,100 retail credit union members. The member accounts of both credit unions are guaranteed under provisions of the previously announced NCUA Share Guarantee Program, through December 31, 2010. The Program extends NCUSIF coverage to all funds held by the two corporate credit unions.

Following initial actions taken by the NCUA Board January 28, 2009, (see NCUA Letter to Credit Union No. 09-CU-02 http://www.ncua.gov/letters/letters.html), NCUA staff completed a detailed analysis and stress test of the mortgage and asset backed securities held by all corporate credit unions, including US Central and WesCorp. Specifically, this review determined that an unacceptably high concentration of risk resided only in the two conserved corporate credit unions. Securities held by US Central and WesCorp deteriorated further since late January 2009, contributing to diminished liquidity and payment system capacities, as well as further loss of confidence by member credit unions and other stakeholders.

Additional mortgage and asset backed security analysis and assessment of the

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PIMCO, conservatorships FAQs issued

NCUA released frequently asked questions (FAQs) in March regarding the Pacific Investment Management Company LLC (PIMCO) analysis of corporate credit union residential mortgage backed securities (RMBS) and NCUA's Conservatorship of U.S. Central and Western Corporate Federal Credit Unions.

The NCUA Board requested PIMCO perform an analysis of corporate credit union RMBS in order to receive an independent, objective assessment of potential losses resulting from holding the securities to maturity and to verify NCUA's reserve methodology for calculating the credit union premium to recapitalize the National Credit Union Share Insurance Fund.

NCUA obtained an independent review because:

- The portfolios with RMBS have highly complex structures that require considerable expertise to model and analyze.
- The growing amount of unrealized losses on investment securities and the troubling amount of rating downgrades compelled NCUA to independently determine the amount of expected credit impairment.

NCUA developed concerns about the portfolio management abilities of the largest corporate credit unions and did not want to rely solely on the institutions' own analyses.

The PIMCO action FAQs explain that taken together with other supervision and examination information, the PIMCO report augments National Credit Union Share Insurance Fund analysis of the potential losses stemming from corporate credit union portfolios.

The FAQs relating to NCUA's conservatorship of US Central and Western Corporate explain why NCUA conserved the corporate credit unions and provides a wide range of information about their liquidity, what credit unions can do to support stabilizations efforts, TARP funding, and the future structure of corporate credit unions.

The FAQs are available online at http://www.ncua.gov/CorporateStabilizationProgram.html.

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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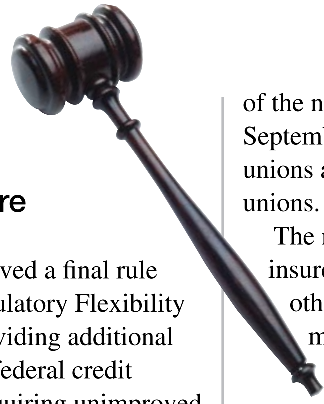
Board actions March 19, 2009



RegFlex adds more flexibility

The NCUA Board approved a final rule change to Part 742, Regulatory Flexibility Program, (RegFlex) providing additional flexibility to qualifying federal credit unions (FCUs) when acquiring unimproved land for future expansion.

Currently, when an FCU acquires unimproved land for future expansion, it must partially occupy the completed premises within three years or obtain a waiver. The amendment increases the three years to six years for RegFlex FCUs without a waiver. NCUA also is making conforming amendments to its fixed asset rule to be consistent with RegFlex changes.

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

Reporting requirement and record retention proposal issued

The NCUA Board issued a proposed rule change to Parts 741, 748, and 749 to revise credit union reporting requirements and record retention guidelines in order to implement NCUA's new, web-based data reporting system for credit unions.

NCUA is developing a secure, web-based system to allow federally insured credit unions to electronically submit financial reports, report of officials, and other information online. Implementation of the new system is projected for September 2009 for natural person credit unions and 2010 for corporate credit unions.

The new system will modernize the way insured credit unions submit reports and other important information, and it will make reporting more efficient and cost effective. Also, information accuracy will be enhanced by providing a means for updating data outside the financial reporting cycle.

The proposal also includes provisions that provide alternative reporting methods for credit unions unable to submit online reports. Comments are due within 60 days of publication in the Federal Register.

Operating fee amendment proposed

The NCUA Board issued a proposed change to Part 707, Truth in Savings, designed to modify provisions and provide guidance on electronic delivery of disclosures.

NCUA is proposing to amend the rule and the official staff commentary to require all credit unions disclose aggregate overdraft fees for the period and year-to-date on periodic statements. Currently, the year-to-date disclosure requirement only applies to credit unions that promote the payment of overdrafts. The proposed rule also addresses balance disclosures credit unions provide to members through automated systems.

Required by the Truth in Savings Act (TISA), the amendment will align NCUA's TISA rule and official staff interpretation with the Federal Reserve Board's Regulation DD. The proposal was issued with a 60-day comment period.

NCUSIF status report

NCUSIF year-to-date revenue and expense included investment income of $32.0 million, accrued recapitalization and premium income of $4.8 billion, operating expense of $12.7 million, and loss on investment—corporate—of $1 billion. Net income through February was $146.9 million.

With insurance loss expense of $3.7 billion, recoveries of $108.1 million, and charges of $10.4 million through February, the NCUSIF reserve balance was $3.98 billion February 28, 2009.

Based on year-end 2008 insured shares of $611 billion, the NCUSIF equity ratio was 1.28 percent as of February 28, 2009. Three federally insured credit unions failed through February—1 liquidation and 2 assisted mergers—at a cost of $7.6 million.

There were 269 problem code credit unions at February 28, 2009, with shares representing 2.86 percent of total insured shares—60 percent have less than $10 million in assets and 2 percent have more than $1 billion in assets.

Board votes are unanimous unless indicated.

Hyland responds to CUs' grassroots efforts

NCUA Board Member Gigi Hyland responded March 27, 2009, to the 1,400 credit unions that e-mailed her expressing their opinions about NCUA Board corporate stabilization efforts. The e-mails addressed the need to spread the costs of the stabilization efforts over a longer period of time, and they requested enhanced transparency on the information underlying the Board's corporate stabilization efforts.

"That is credit union grassroots at work," Hyland said in congratulating so many credit unions for exercising their right to contact their government and to voice their concerns and opinions.

Yesterday, March 26, the Board approved a proposal, which if enacted by Congress, would establish a Corporate Stabilization Fund and spread the costs of premiums and assessments over a period of up to 7 years. Hyland also pledged to continue reviewing other available alternatives to further mitigate the cost to credit unions.

These are difficult and challenging times for credit unions. While the agency must take appropriate supervisory action to assure the National Credit Union Share Insurance Fund is protected, we must also explore alternatives that alleviate the impact on credit unions.

Please click the following link to access the full text of Hyland's statement: http://www.ncua.gov/news/press_releases/2009/MA09-0327a.htm.

Date: Saturday, April 18, 2009
Who: Vice Chairman Rodney E. Hood
Event: South Carolina Credit Union League Annual Meeting
Location: Myrtle Beach, SC
Contact: Sally Thompson at sridgely@ncua.gov

Date: April 18, 2009
Who: Board Member Gigi Hyland
Event: NCUA Small Credit Union Workshop
Location: Albany, NY
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: April 24, 2009
Who: Board Member Gigi Hyland
Event: NAFCU Chief Executive Officer Conference
Location: Monterey, CA
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: April 27, 2009
Who: Vice Chairman Rodney E. Hood
Event: Tyndall FCU Chapter Meeting
Location: Panama City, FL
Contact: Sally Thompson at sridgely@ncua.gov

Date: May 2, 2009
Who: Board Member Gigi Hyland
Event: Alaska Credit Union League Annual Meeting
Location: Homer, AK
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: May 6, 2009
Who: Vice Chairman Rodney E. Hood
Event: NACUSO Annual Conference
Location: Las Vegas, NV
Contact: Sally Thompson at sridgely@ncua.gov

Date: May 14, 2009
Who: Board Member Gigi Hyland
Event: Montana Credit Union Network Annual Convention & Exposition
Location: Missoula, MT
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

2009 introduces online reporting

The National Credit Union Administration has developed an integrated, web-based system to capture and display credit union information. This system includes an application credit unions will use to electronically submit 5300/5310 Call Report and Report of Officials information. The application will be implemented September 1, 2009, for natural person credit unions and in 2010 for corporate credit unions.

Benefits of the new online system include:

- Increased efficiency by eliminating input of redundant information each Call Report cycle;
- Eliminates the need to install Call Report and Report of Officials software; and
- Allows multiple users to access the system simultaneously.

The Report of Officials will be integrated into the online credit union profile. The profile will contain information about a credit union that infrequently changes, including all Report of Officials data and some information currently collected in the 5300/5310 Call Reports, such as contact, disaster recovery, and information systems and technology information.

Natural person credit unions will have access to the online system September 1, 2009, and are strongly encouraged to complete their profile information before the September 30, 2009, call report cycle begins. Once profile data is entered, subsequent input will be required only for additions, deletions, or data changes.

Natural person credit unions will complete September 30, 2009, and subsequent call reports online. There is no software to install and credit unions will have secure access to update and submit data to NCUA.

All credit unions with access to the Internet will be required to use the system. Each credit union must have a computer, Internet access, Internet Explorer 6.0 or higher, a valid email address, and a login and password to be a system user. To promote efficiency, credit unions can have multiple users to ensure the profile information is updated and the call report is submitted timely. Additionally, users will be able to access the system and complete different sections of the call report simultaneously.

With NCUA eliminating the Report of Officials and 5300 Call Report software, credit unions unable to use the online system will complete two paper forms, one with profile information and one for the 5300 Call Report. Credit unions will send completed forms to their regulator. These credit unions will be identified as “manual” filers. Credit unions using the online system will be identified as “online” filers.

In May 2009, NCUA will be sending a letter to each credit union notifying them of their filing status and providing additional information about the new online system.

NCUA issued a proposed rule to revise reporting and record retention guidelines to implement the new, web-based data system. The proposal was issued with a 60-day comment period and can be accessed in Federal Register 2009-06727, published March 26, 2009. Comments are due by May 26, 2009.

Additional details are available online at www.ncua.gov/DataServices/OnlineFAQ.pdf. Also, NCUA plans to host an informational webcast for the industry in the third quarter. Webcast information will be provided in the near future.

Hood touts value of health savings accounts

NCUA Vice Chairman Rodney E. Hood addressed the Members Health Network 1st Annual Credit Union HSA Roundtable March 20 at Allegacy Federal Credit Union, one of the nation's top 100 credit unions in assets, located in Winston-Salem, N.C. The event gathered credit union leaders to discuss what is working, what challenges remain and what the future looks like for credit union leadership in the emerging HSA market. They focused specifically on the unique opportunities facing credit unions to expand member services while advancing business development through HSA programs.

"I would like to applaud the Members Health Network and Allegacy FCU for organizing this valuable dialogue, particularly during the current economic climate—this is an example of American innovation in the credit union spirit of 'People Helping People.' Despite the mounting uncertainty in today's financial arena, you are taking a proactive approach to make a difference that will not only benefit your financial institutions, but most importantly the members you serve," said Hood.

Credit unions that make HSA's available provide an exceptional advantage in that they offer a duel relevancy—to both the businesses and individual in their field of membership. Hood went on to highlight these potential benefits:

- **Businesses**—offers increased opportunity for the sale of other business services through strategic HSA programs that help the employer adopt HSA Eligible plans, HSA education, and employee satisfaction.
- **Employee/Individuals**—Increased membership to whom credit unions can offer other valuable products and services unique to that credit union.

A recent Wall Street Journal article stated: "Credit unions are more able—and willing—than most of their banking counterparts to dole out money to small businesses." The Vice Chairman also noted that CUNA statistics indicate 27 percent of credit unions in the U.S. offer business loans, up 18 percent to almost $33 billion last year. As more credit unions begin to offer HSA's, they will be better positioned to be a full service provider for businesses.

According to the U.S. Government Accountability Office, since first authorized by the federal government January 1, 2004, the number of HSA accounts has increased substantially to over 3 million nationwide. Industry experts expect that by 2010 this number will be between 10-15 million people with accumulated assets ranging from $10 to $62 billion.

Vice Chairman Hood stressed the importance of moving quickly to develop effective strategies. "Credit unions must embrace a proactive strategy to stay competitive in the marketplace while continuing to focus on education for both the credit union employees as well as the consumer. Given the close relationship between credit unions and their members, you are well-poised to spread awareness of HSA's before other larger financial institutions."

In closing, Mr. Hood directed attendees to the Members Health Network website: http://www.membershealth.net/ offering detailed information about web-based advisory tools that can be customized to meet the educational needs of individual credit unions.

March 16, 2009, Monterey, Calif.*—Vice Chairman Rodney Hood, right, joined by Bill Cheney, president and CEO(left); and Brett Martine, California League chairman at the California and Nevada Credit Union League's Annual Big Valley Conference.*

Marquis testifies on insurance fund issues

NCUA Executive Director David M. Marquis testified March 19, 2009, before the Senate Banking, Housing, and Urban Affairs Committee on deposit insurance issues—making $250,000 insurance protection permanent; extending NCUSIF replenishment to 5 years; increasing the NCUSIF borrowing authority; and providing systemic risk authority to NCUA.

“Financial institutions play a critical role in our economy, and it is vital we ensure they remain safe and sound,” Executive Director David Marquis told the committee. “It is important and timely to consider methods to improve the framework for deposit insurance coverage and the operational authorities available to the federal deposit insurers.”

“NCUA attributes the stability of credit union insured shares during the fourth quarter of 2008 to public confidence in credit unions,” Marquis said. “NCUA recommends making the $250,000 insurance increase permanent because reverting to $100,000 would likely have a destabilizing effect on public confidence and create burdens for institutions and consumers. Conversely, continuing $250,000 coverage would allow federally insured credit unions at all asset levels to better meet contemporary member needs.”

Extend NCUSIF replenishment authority to 5 years

If the NCUSIF equity ratio falls below 1.20 percent, NCUA is required to assess a premium; and, if necessary, credit unions must recapitalize their 1 percent deposit.

“NCUA believes extending the time the agency has to restore the equity ratio from one to five years would provide important flexibility for credit unions,” Marquis said. “A 5-year period is a sensible way to address this strain on credit unions without sacrificing soundness of the insurance fund. In turn, a premium assessment reduces the amount of dollars credit unions can lend to their members, which stimulates and supports the economy in a very direct way. Every dollar charged in premiums translates to $10 unavailable for credit union member loans.”

NCUA also requests increasing the maximum cap when premiums may be charged from 1.30 percent to 1.35 percent to provide another anti-cyclical tool and thereby reduce the likelihood of charging premiums in adverse times.

Increase NCUSIF borrowing authority

Congress established the NCUSIF in 1970, and provided authority for the Fund to borrow a maximum $100 million from the Treasury. Over time, the size of the credit union system, the amount of insured shares, and the size of the NCUSIF have grown significantly.

“To keep pace and help position NCUSIF for challenges to the economy and the financial system, NCUA believes Congress should increase the maximum amount the NCUSIF may borrow from the Treasury to $6 billion,” Marquis said. “Additionally, NCUA requests adding temporary NCUSIF emergency borrowing authority, similar to that proposed for the FDIC, not to exceed $30 billion. Maintaining public confidence if an extraordinary event should occur strongly suggests the Congress update the NCUSIF figure to a more realistic number based on the size of the industry today versus the early 1970s.”

Systemic risk authority

“In its role as share insurer, NCUA functions much like the Federal Deposit Insurance Corporation (FDIC) insuring bank deposits,” Marquis said. “However, the Federal Deposit Insurance Act (FDIA) provides FDIC with statutory authority related to bank insurance called “systemic risk” authority, which NCUA is without. NCUA believes the Federal Credit Union Act (FCUA) should be amended to provide NCUA with systemic risk authority similar to that of FDIC.”

In the past year, the FDIC employed its systemic risk authority. The NCUA Board considered taking similar action, but lacking authority was unable to do so.

“In order to quickly, effectively respond, NCUA needs authority that enables it to take action in response to systemic risk,” Marquis said, “The problems facing financial markets and the institutions that serve them are real. But so is the safety and stability provided by a sound, well-functioning deposit insurance regime”.

Access Executive Director Marquis’ testimony online at http://www.ncua.gov/news/speeches/Testimony.htm.

Operating fee and NCUSIF adjustment invoices issued

Invoices for the annual operating fee and the one percent capitalization deposit adjustment, based on insured shares as of December 2008, were mailed the week of March 15 and payment is due on April 15. Refunds were mailed or deposited by ACH on March 25.

This billing cycle does not take into account recent NCUA Board actions to stabilize the corporate credit union system. NCUA will bill credit unions for the required recapitalization and premium later this year. NCUA continues to review expected loss exposure, as well as possible funding alternatives to lessen the financial burden on credit unions in one year.

Please direct questions to ncusif@ncua.gov or call toll free 1.877.452.1463.

NCUA HISTORY AND FUTURE

Massachusetts, New Hampshire adopt initial CU laws

When the Federal Credit Union Act was signed into law June 26, 1934, many credit unions were already organized and operating. *The Credit Union Movement*, by J. Carroll Moody and Gilbert C. Fite, details the formation of North American credit unions. New Hampshire passed the first credit union law April 6, 1909, enabling the already open and operating Saint Mary's Cooperative Credit Union Association to gain the distinction of being the nation's first legally sanctioned credit union. A few days later, April 15, 1909, Massachusetts adopted a statute allowing credit unions to incorporate.

Statues providing for formation of sanctioned credit unions followed years of effort by numerous people. Alphonse Desjardins, a Canadian journalist with a passion for community affairs, used the bully pulpit to "preach the gospel of cooperation," introducing credit unions to Canada in 1900. He devoted himself to creation of "caisse populaire," or credit societies in Canada and the U.S. to promote human values, combat usury, provide capital for individual enterprises, and help borrowers achieve economic independence through self help.

Meanwhile, the Unites States saw the unifying force of several visionaries whose combined efforts would coalesce to mark the same achievement.

Wealthy Boston merchant Edward A. Filene became interested in cooperative credit during a trip to India in 1907. A well connected world traveler, lecturer, philanthropist and enlightened employer, Filene provided employees good wages, paid holidays and free medical care. He believed knowledge and money could improve the lives of all and contributed money and influence to achieve the ideals of good government and model economic, social and physical conditions.

Ironically, another influential, wealthy Bostonian, the former bank vice-president and current Massachusetts Bank Commissioner Pierre Jay was researching cooperative credit and initiated correspondence with Desjardins. Concerned with the plight of the many low-income and unbanked who were forced to borrow from loan sharks and pawnbrokers, Jay visited Desjardins in Canada and invited him to Boston when Desjardins was in Manchester, N.H., helping organize St. Mary's Cooperative Credit Association.

In November 1908, Desjardins and Jay discussed how legislation should be created to provide financial institutions where people of modest means and good charter could stimulate thrift and borrow at reasonable rates. Banking Commissioner Jay and Desjardins drafted a credit union bill, and at Jay's recommendation, Desjardin was invited to testify before the Massachusetts Banking Committee in February 1909. Several commercial and savings banks also testified that they did not oppose credit union legislation. With Massachusetts Banking Committee support, Jay revised the draft legislation and he asked well-known, influential Edward Filene to write letters to Massachusetts senators and representatives endorsing it.

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Register for NCUA's 75th Anniversary Symposium

NCUA Board Member Gigi Hyland has announced registration is open for the 75th Anniversary Symposium of the Federal Credit Union Act. The program will be held June 9 and 10, 2009, at the Hyatt Regency Washington D.C. on Capitol Hill.

The free, two-day event will celebrate 75 years of federal credit union history while providing a forum to discuss the future of federal credit unions in the 21st century. The agenda will feature panel and open discussions on topics including:

- Is the cooperative financial system still relevant?
- The Future of the Corporate Credit Union System – A Facilitated Discussion
- Crafting a vision for the next 75 years: Sustainability, Collaboration, and Growth

To register, please follow the link http://webapps.ncua.gov/BoardRegistrationForm/. Registration is limited. Confirmation of registration will be e-mailed within 10 days.

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

Hyatt Regency Washington on Capital Hill
400 New Jersey Ave NW
Washington D.C. 20001
202-737-1234
http://washingtonregency.hyatt.com

Albin testifies on credit card and overdraft protection

NCUA Associate General Counsel Sheila Albin testified March 19, 2009, before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit addressing legislation designed to aid consumers: H.R. 627, the Credit Cardholders' Bill of Rights Act of 2009; and H.R 1456, the Consumer Overdraft Protection Fair Practices Act of 2009.

Crafted to level the playing field and stop or restrict unfair, deceptive and anti-competitive consumer credit card practices (UDAP), the credit card bill would act to protect cardholders against arbitrary interest rate hikes, being unfairly penalized when an account is current, due-date gimmicks, misleading terms, and excessive fees. The bill would also prevent card issuers from providing subprime cards to those who cannot afford them.

Citing results of a 2005 Woodstock Institute research report Albin said, "Federally insured credit union credit card products tend to have fewer fees, lower fees, and clearer disclosures. The study concluded there is a clear difference between credit cards issued by banks and those issued by federally insured credit unions. Federally insured credit union credit card programs show credit card lending is sustainable without exorbitant penalties and misleading terms and conditions."

The overdraft protection bill would extend protections of the Truth In Lending Act to overdraft protection programs and services provided by financial institutions.

NCUA's general lending regulations require credit union boards to establish a policy and fees for overdraft protection programs and NCUA examiners consider the reasonableness of fee income when reviewing credit union programs.

"The NCUA believes the UDAP rule addresses most of the practices and problems to which H.R. 627 is directed," Albin said. "To the extent areas of concern remain, the NCUA is prepared to work with its sister agencies to address those problems."

Concerning overdraft protection, recent changes in the Truth in Savings Act rule and a Federal Reserve Board regulatory proposal address key areas of concern within H.R. 946.

"Credit cards and overdraft protection programs are useful member services," Albin said. "NCUA believes it has the proper controls and oversight in place to ensure abuse is appropriately identified and addressed. NCUA will continue to monitor credit union credit card programs to ensure unfair and deceptive practices do not materialize."

The testimony is available online at http://www.ncua.gov/news/speeches/Testimony.htm.

Initial CU laws continued from page 7

Filene responded, "I have long felt that some provision should be made by which people of small means can…borrow at reasonable rates of interest and under thoroughly honest and fair conditions." Moody and Fite states Filene told Jay that if the law was enacted, he was "going to see to it that the advantages of such associations are made know throughout the state."

Primarily adopted by the efforts of a banker, a retailer and a journalist, the 1909 Massachusetts Credit Union Act described a credit union as a cooperative association formed to promote thrift among its members.

Forming a structure that endures 100 years later, the Massachusetts Act required at least seven people to apply for a charter to organize a credit union. Each credit union could receive the savings of members in the form of shares and offer loans. Credit unions were to be democratically governed—one member, one vote. Most society bylaws required members to pay a small entrance fee and buy one $5 share of stock. Members elected an unpaid, volunteer board of directors from within the membership, and credit committees and supervision committees were part of the original structure.

U.S. Central and WesCorp continued from page 2

two credit unions by NCUA staff enabled NCUA to refine NCUSIF's required reserve for potential loss. The findings indicated the overall estimated reserve level, previously announced by NCUA, had increased from $4.7 to $5.9 billion. The specific computation and the impact of the refined reserve level are addressed in NCUA Letter No: 09-CU-06, which is posted online at http://www.ncua.gov/letters/letters.html.

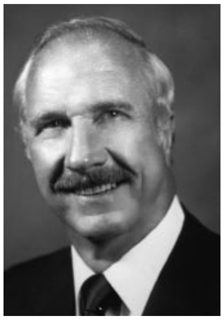
NCUA hosted a webcast Monday, March 23 providing 5,658 credit union community participants with an update on the corporate credit union stabilization program. The webcast is available to view online at http://www.ncua.gov/CorporateStabilizationProgram.html.

The central short-term objective of NCUA's Corporate Stabilization Program has been to increase liquidity in corporate credit unions. Since the NCUA Board first began taking stabilization actions, liquidity has demonstrated marked improvement. The reliance on external borrowing has declined from $11.8 billion to $2.1 billion.

NCUA believes the actions to conserve the two corporates, in tandem with established plans to enhance liquidity and generally stabilize the corporate network, represent the most cost effective and prudent alternative available to the credit union industry. The final stage in the overall stabilization program involves the Advanced Notice of Proposed Rulemaking initiated by the NCUA Board in January. The credit union industry is expected to provide suggestions on possible future regulatory reforms to the corporate credit union network.

NCUA will continue to take any and all steps necessary to preserve a well-functioning system of corporate credit unions and to protect the assets of natural person credit unions and their members during the ongoing broader financial market dislocation.

Edgar F. Callahan passes away



Former NCUA Chairman Edgar F. Callahan passed away March 18, 2009, in Sacramento, California, following a long illness.

Edgar Callahan served as NCUA chairman from October 22, 1981, to May 3, 1985. During his less than four year tenure, change was effluent at NCUA and credit unions, much the result of Callahan's initiatives and the influence of close associates Wendell (Bucky) Sebastian and Charles (Chip) Filson, who joined him at NCUA as general counsel and director of supervision and insurance respectively.

Under Callahan's leadership, federal credit union operating fees were reduced dramatically as the agency was streamlined and decentralized resulting in reductions in headquarters staff and increases in field staff. A 12-month examination cycle was enacted to ensure every federal credit union was examined every year for the first time since the mid-1970s.

"Ed Callahan was a modern day pioneer in the credit union movement," said NCUA Chairman Michael E. Fryzel. "He showed his concern and passion for credit unions as a regulator in Illinois, as Chairman of NCUA, the founder of Callahan and Associates, CEO of Patelco Credit Union and as a philosopher, a visionary, and a doer. There is not a single aspect of day-to-day NCUA or credit union operations that does not bear his mark. My prayers and condolences go out to his wife, Linda, and his entire family. Above all else, he was my friend and I will miss him."

Callahan took the NCUA Board on the road, holding monthly board meetings across the country and bringing the NCUA regulatory process to the credit union community. Perhaps most important, Callahan led a widespread grassroots campaign encouraging credit unions to overwhelmingly support capitalizing the National Credit Union Share Insurance Fund, which had dropped below a .30 percent equity ratio as the result of record closures in the wake of widespread economic instability.

To forestall credit union closures, Callahan introduced a field of membership expansion policy and a merger policy enabling credit unions to expand beyond weakening industries and businesses stifled by pockets of decline in the auto industry and manufacturing.

As a result, the recapitalized and restructured NCUSIF became a model federal fund and credit unions gained the ability to expand and evolve when faced with sponsor closures and membership declines.

Callahan was inducted in the Cooperative Hall of Fame in 2000, which was established by the National Cooperative Business Association to honor those individuals whose contributions to cooperative business have been genuinely heroic, and he won the Herb Wagner award presented by the National Credit Union Foundation in 2003.

Edgar F. Callahan is survived by his wife, Linda, and six of his eight children.

NCUA approves plan continued from page 1

to recognize the impairment of the NCUSIF deposit in the accounting period in which it occurred through the income statement as an expense.

Though the 5-year restoration provision is highly beneficial in that it would allow NCUA to assess premiums to rebuild the fund's retained earnings over time (and allow credit unions to expense this when billed), it will not enable credit unions to spread out the expense for the deposit impairment. Today's NCUA proposal would allow for spreading the entire replenishment over as much as a 7-year period, as established by the NCUA Board.

Unprecedented liquidity and capital strains on the corporate credit union system have compelled NCUA to take a series of actions in recent months to stabilize the corporate credit union network and shield natural person credit unions from greater losses.

"The credit union system and the share insurance fund remain strong overall in the face of unprecedented economic stress. Nonetheless, while the credit union system on the whole has the net worth to absorb these costs and remain well capitalized, the combination of these expenses taken all at once would undoubtedly result in a contraction of lending and other member services," commented NCUA Chairman Michael E. Fryzel. "I encourage credit unions to do whatever they can to assist NCUA in securing passage of this plan into law, as soon as possible."

The proposed Corporate Credit Union Stabilization Fund legislation is available online at http://www.ncua.gov/CorporateStabilizationProgram.html.

CU SIP initivative successful

NCUA reports that due to the success of the three succeeding Credit Union System Investment Programs (CU SIP) there will not be an April CU SIP offering. Over $8.2 billion was issued in the first three subscriptions. Corporate credit unions used the funds to pay down external borrowings, freeing collateral for future contingency liquidity needs.

CU SIP remains open and available for subsequent offerings should it be needed.

Jenny Chanpagne / NASCUS

March 9, 2009, Chicago, Ill.*—Chairman Fryzel with NASCUS President Mary Martha Fortney at the NCUA/NASCUS annual conference.*

NCUA unveils share insurance advertising campaign

Financial journalist Jane Bryant Quinn promotes NCUA insurance protection

NCUA is partnering with nationally respected finance expert Jane Bryant Quinn to promote National Credit Union Share Insurance Fund (NCUSIF) coverage and remind consumers that federally insured credit unions are a safe place to keep your money at a time of market turmoil. During a 5-month video, print ad and electronic campaign, television, Internet, and transit buses will spread the word that member accounts in federally insured credit unions are safe and secure.

Beginning in March, a 10-week video campaign features finance expert Jane Bryant Quinn in a 30-second television advertisement. The ad, touting the safety and security of federally insured credit union funds, is being aired on CBS TV stations in the major media markets of New York, Chicago, Los Angeles, Sacramento, San Diego, San Francisco, Tampa, and Washington, D.C.

Credit unions are encouraged to download the commercial, available in standard and HD video, from NCUA's website—http://www.ncua.gov/ShareInsurance/Index.htm— to post on their website and broadcast in the lobby. Leagues and credit unions can also use the video and buy advertising space that targets your members, local area or state.

The NCUA-Quinn commercial initially aired during the NCAA men's basketball tournament finals in late March. It can be seen weekly during award-winning Sunday Morning with Charles Osgood or Face the Nation broadcasts. From April 30 through May 29, the NCUA-Quinn commercial will also appear on the CBS early morning news between 5 a.m. and 9 a.m. Monday through Friday.

In addition, for the entire 10 weeks, related CBS TV station websites will host a 15 second rotating NCUA insurance banner. The promotion, appearing on CBS Internet Home, business, sports, and news pages, will enable viewers to link to www.ncua.gov. CBS TV online websites are among the leading TV station sites in the market.

NCUA also placed the share insurance commercial on YouTube. Link to the YouTube advertisement online at: http://www.youtube.com/watch?v=4BB04N7UoVQ. The video was viewed nearly 2,600 times and earned a 5 star viewer rating during the first week it was posted on YouTube.

As the television campaign concludes, NCUA will launch a summer transit bus advertisement campaign. From June 1 through August 31, 2009, local transit

buses will advertise NCUA share insurance ads in nine major metropolitan areas in three states—Arizona, California, and Florida—and the District of Columbia. Adapted from NCUA's successful Uncle Sam/NCUSIF poster, the bus advertisement reaffirms the security of member deposits in federally insured credit unions. The 27 X 12 ads will be displayed on the interior of 1,700 transit buses, spread over the nine markets.

"This multi-media campaign demonstrates NCUA's commitment to consumers at a very difficult and uncertain time. I am confident this highly visible advertisement, employing one of the most well-respected, prominent voices in financial journalism, Jane Bryant Quinn, will underscore the safe alternative that is NCUSIF insurance," stated NCUA Chairman Michael E. Fryzel.

NCUA News National Credit Union Administration

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