

Credit unions exhibit strong growth

The nation's federally insured credit unions reported strong 12.1 percent annualized loan growth and delinquent loans remained below 2004 levels during the first nine months of 2005 according to third quarter 2005 Call Report data submitted by the nation's 8,795 federally insured credit unions.

"I commend America's federally insured credit unions for their solid performance," said NCUA Chairman JoAnn Johnson. "The consistent strong performance reflects a robust economy and the good work of the nation's credit unions in extending access to affordable financial services."

The loan to share ratio climbed to 78.3 percent as loan growth of \$17.3 billion in the third quarter pushed the year-to-date increase in loans to \$37.5 billion while loan delinquencies of 0.67 percent remain below 2004 levels.

Earnings also remain strong, with credit unions reporting a 0.93 percent

annualized return on average assets. Improving yields on investments and loans helped stabilize the net interest margin at 3.26 percent. These strong earnings resulted in annualized net worth growth of 8.6 percent and increased the overall net worth ratio to 11.15 percent.

The major balance sheet categories and membership growth at federally insured credit unions between January 1 and September 30, 2005 follows:

- Assets increased 4.6 percent, to \$677.0 billion from \$647.0 billion;
- Loans increased 9.1 percent, to \$451.8 billion from \$414.3 billion;
- Shares increased 3.8 percent, to \$577.1 billion from \$556.1 billion;
- Investments decreased 3.26 percent, to \$154.5 billion from \$159.7 billion;
- Net worth increased 6.5 percent, to \$75.5 billion from \$70.9 billion; and
- Membership increased 1.7 percent, to 85.0 million members.

Examining specifics, real estate continues to lead expansion among income producing loans. First mortgage loans grew 9.0 percent, up to \$141.7 billion from \$130.0 billion, while other real estate loans, such as second mortgage and home equity loans, showed even higher 14.4 percent growth, increasing to \$70.8 billion from \$61.9 billion. Combined, all real estate loans now comprise 47.0 percent of total loans, up from 46.3 percent at December 2004.

Vehicle loans continue to demonstrate strong growth. New auto loans grew by a substantial 17.0 percent, up to \$83.4 billion from \$71.3 billion, while used auto loans grew 3.8 percent, up to \$87.9 billion from \$84.7 billion.

While the dollar amount of delinquent loans reflects a 1.6 percent increase over December 2004 levels, the ratio of delinquent loans to total loans declined to 0.67 percent from the year end 2004 level

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December 15, 2005, U.S. Capitol—NCUA Vice Chairman Rodney Hood and Board Member Gigi Hyland greet Mississippi Senator Trent Lott at the reception held for NCUA's new Board members. (See event pictorial on page 8)

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NCUA provides board meeting and election guidance

Hurricane Katrina CUs have flexible options for board meetings and officer elections

The NCUA Office of General Counsel recently issued Opinion Letter 05-1216 providing guidance and detailing the flexible procedures in place for conducting board meetings and member elections in response to concerns expressed by federal credit unions (FCU) affected by Hurricane Katrina.

The relevant Federal Credit Union Bylaw provisions and NCUA Office of General Counsel opinions attached to the letter provide the specifics of authorized flexibility for federal credit union board and member meetings and for election procedures.

Board meetings

Standard FCU bylaws require only one face-to-face board of directors meeting per year. Other meetings may be conducted by video or teleconference. The one in-person meeting requires the actual presence of a quorum of directors, not every director. Absent directors may also

participate by video or teleconference. Credit union boards may act without a meeting, if the vote is unanimous and each board member's position is documented in writing or email.

Also, standard FCU bylaws permit directors to appoint temporary directors and supervisory and credit committee members to serve in place of those who may need to step aside.

Notice of member meetings and elections

Affected credit unions should follow usual procedures and send information about meetings and elections to members' last recorded address. Members are responsible for notifying the credit union of address changes. While some addresses may no longer exist, members may have provided mail forwarding instructions.

There are four options for conducting elections, and if a credit union's board or

management feels that a different option would be more convenient, they may amend the credit union's bylaws with a vote by two-thirds of the directors.

An FCU may also delay its annual member meeting for a few months. While an FCU is required to conduct an annual meeting and hold elections, there is nothing in the FCU Act or FCU Bylaws to prohibit a change in the date of the annual meeting.

Proxy voting

The FCU bylaws prohibit proxy voting by credit union members. However, credit union boards may act without a meeting as long as all directors participate in a unanimous vote, which may be submitted in writing via email.

GC Opinion Letter 05-1216 is available online at http://www.ncua.gov/RegulationsOpinionsLaws/opinion_letters/opinion_letters.html

NCUA News

National Credit Union Administration

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JoAnn Johnson, *Chairman*
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About investments

Adequately measure exposure to rising rates

Interest rates have been rising and credit unions should have an appropriate process to identify, measure, monitor and control exposure to changes in interest rates.

A credit union should identify which assets have embedded options causing exposure to rising rate risk. For example, mortgage loans and mortgage-backed securities have embedded options that permit prepayment. As interest rates rise, prepayments slow and expected average loan lives extend. Variable rate instruments, such as adjustable rate mortgages and floating rate securities, may have periodic caps that limit how much the rate can increase on reset dates as well as lifetime caps that limit the maximum rate.

A credit union with a significant amount of these assets should adequately measure exposure to rising rates. A credit

union should use progressively more sophisticated measures with greater levels of risk.

Some models may poorly measure risk by failing to compute the impact of embedded options correctly and/or requiring significant manual input. For example, a model that permits variable rate instruments to receive rates above the cap in a rising rate scenario would incorrectly understate risk exposure. In other cases, credit unions must manually update prepayment rate tables for mortgages under different interest rate scenarios, which may lead to either input error or an invalid assumption of prepayments. Therefore, credit unions should periodically evaluate the adequacy of their risk measurement tools.

Board Actions December 15, 2005

Board meeting results

2006 NCUSIF normal operating level is 1.30 percent

The NCUA Board voted to retain the current 1.3 percent National Credit Union Share Insurance Fund (NCUSIF) normal operating level for 2006. The normal operating level, also referred to as the equity ratio, was set at 1.30 percent for 2006 based on a projected outlook of minimal credit union problems, the well-capitalized position of credit unions and a healthy NCUSIF.

The Credit Union Membership Access Act of 1998 mandates the NCUA Board annually establish a normal operating level between 1.2 and 1.5 percent based on critical elements affecting the operating level, which include:

- Fluctuation in insured shares;
- Semiannual insured credit union deposit adjustments;
- Reserves established to cover potential and actual insurance losses;
- Problem code credit unions; and
- Credit union failures.

The NCUSIF normal operating level is defined as the ratio of fund equity less unreserved contingent liabilities divided by insured shares.

Member business loan rule finalized

The NCUA Board approved final revisions to Part 723, Member Business Loans (MBLs), clarifying capital requirements for making certain unsecured MBLs, revising definitions for consistency and practical application, and clarifying NCUA's position regarding rescission of state member business loan rules.

The final rule clarifies the minimum capital requirements a federally insured corporate credit union must meet to make unsecured MBLs to members that are not member credit unions or corporate credit union service organizations. Adopted as proposed, federally insured corporate

credit unions must comply with the capital requirements noted in Part 704 of NCUA's regulations.

The definition of net worth was amended to be more consistent with how that phrase is defined in the Federal Credit Union Act and Prompt Corrective Action regulation.

The definition of construction or development loans was amended to include certain loans to borrowers who have already acquired a piece of property. Examples are provided to offer guidance.

The final rule notes NCUA has entered into a memorandum of understanding with the United States Department of Agriculture to identify and promote appropriate USDA Rural Development programs to credit unions and a similar memorandum of cooperation with the Export-Import Bank of the U.S. The rule indicates it would take into account comments received supporting expanding opportunities for credit unions to more fully participate in government guaranteed loan programs when considering future amendments to the MBL rule.

Indirect vehicle loan servicing proposal issued

The NCUA Board issued proposed rule Part 701.21(h) to regulate federally insured credit unions' purchase of indirect vehicle loans serviced by third-parties.

Issued with a 60-day comment period, the proposal would act to limit the aggregate amount of indirect vehicle loans serviced by any single third-party to a percentage of the credit union's net worth. NCUA proposes a two-step regulatory limit for these indirect, outsourced loan programs. For the first 30 months of a new relationship, the limit would be 50 percent of a credit union's net worth. After 30 months of experience, the credit union could increase its participation in the vendor's program to 100 percent of net worth.

A credit union able to demonstrate appropriate initial and ongoing due diligence may apply to NCUA for a waiver to obtain higher limits.

Purchase and assumption rule finalized

The NCUA Board approved final rule Section 741.8 to clarify which asset or account transfers require NCUA Board approval.

The final rule adds transactions involving the sale or purchase of loans or other assets between federally insured credit unions to the list of transactions exempt from the NCUA approval requirement. For transactions that require approval, the amendment describes the process for submitting the approval request.

Board votes are unanimous unless indicated

Legislative update

The House of Representatives and Senate approved the deficit reduction bill before adjourning for a holiday break, sending the bill that includes deposit and share insurance reforms to the President for signature.

The relevant insurance related provisions include:

- Increase deposit and share insurance coverage beginning April 1, 2010, and every five years thereafter. The FDIC and NCUA "will jointly determine" coverage above \$100,000 based on a specified inflation index, rounding down to the nearest \$10,000. At the same time and also to be indexed, certain retirement account coverage will increase to \$250,000. Pass-through insurance is also included for (individual coverage of group pension deposits).
- Merge the Federal Deposit Insurance Corporation (FDIC) Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) into the single Deposit Insurance Fund (DIF). Other FDIC issues include establishing an equity ratio range of 1.15 to 1.5 percent for DIF and providing risk-based refunds.

NCUA's first webinar "town meeting" features Board Member Hyland



The first webinar hosted by NCUA is available for viewing. The webinar "town meeting" held December 20, 2005, featured new Board Member Gigi Hyland and applied the latest in Internet webcasting technology. To view the webinar, please access the following link: <http://w.on24.com/r.htm?e=18689&s=1&k=2AE75D7B6692F975E2B1927A8D09DCDC>

During the one hour town meeting, Board Member Hyland discussed her professional background, thoughts on key issues, and she answered questions from participants.

"I appreciate the opportunity to visit with credit union volunteers and officials across the country through this web town

meeting," said Board Member Hyland. "Public comment and input is a vital way for NCUA to ensure the safety, and soundness of the credit union system, and the latest in webcast technology provides exciting opportunities to maintain an open dialogue with those in the credit union community."

Board Member Hyland discussed her background in the credit union system as well as recognition of challenges facing the nation's credit union system.

The discussion of key issues and questions asked in the webinar included:

- Board Member Hyland's emphasis on serving as a deliberative and effective regulator without creating unnecessary, burdensome regulations;
- Challenges facing small credit unions and the role NCUA's Office of Small Credit Union Initiatives (OSCU) has in addressing those challenges;
- Credit union field of membership and charter expansion;
- The growth of credit unions providing member business lending;
- Tax exemption for credit unions;
- The conversion of credit unions to mutual savings banks; and
- The NCUA's working group is currently discussing effective ways for credit unions to tell their stories of service to the underserved.



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



Who and What: Board Member Gigi Hyland will address the Northern Virginia Chapter of Credit Unions.

When: Thursday, January 12, 2006

Where: Fairfax, Va.

Why: To discuss regulatory issues and listen to credit union concerns.

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

Who and What: Board Member Gigi Hyland will address the American Association of Credit Union Leagues.

When: Friday, January 20, 2006

Where: Naples, Fla.

Why: To discuss important regulatory issues with league officials affecting their member credit unions.

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

Who and What: Vice Chairman Rodney E. Hood will address the American Association of Credit Unions.

When: Saturday, January 21, 2006

Where: Naples, Fla.

Why: To continue his "listening tour" and to discuss the role of credit unions in today's marketplace.

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

Who and What: Board Member Gigi Hyland will address the Connecticut CU Association, Inc.

When: Thursday, January 26, 2006

Where: Hartford, Conn.

Why: To address the 2006 Government Affairs Conference.

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

National Credit Union Administration Publication List

The publications listed below may be ordered by contacting National Credit Union Administration Publications, 1775 Duke Street, Alexandria, VA 22314-3428, telephone: 703-518-6340, or fax: 703-518-6417. Numerous publications, including this Publication List, are available on the NCUA website <http://www.ncua.gov>.

Prepayment is required by check, money order, Visa, MasterCard, Discover/Novus, Diner's Club or American Express.

TITLE	(Pub No/Issue Date)	QTY	PRICE	TOTAL
Accounting Manual for FCU	8022 (01/03)		\$35.00	
Annual Report of the NCUA	8000 (2004)		\$5.00	
Chartering and Field of Membership Manual	8007 (03/03)		\$6.50	
Consumer Compliance Self Assessment Guide	8059 (12/04)		\$5.00	
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Federal Credit Union Act	8002 (10/98)		\$3.00	
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Guide to HMDA Reporting	9003 (12/03)		\$5.00	
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NCUA Credit Union Directory	8602 (2005)		\$15.00	
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Subscription to NCUA Publications	9001 (01/06-12/06)		\$125.00	
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Supervisory Committee Manual for FCU's	8023 (12/99)		\$12.00	
Supervisory Committee Manual for FCU's Change 1	8023A (03/03)		\$ 3.00	
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A subscription begins when payment is received, and back issues of publications are not provided. To receive all publications issued in 2006, payment must be received by Dec. 31, 2005.

Subscriptions may be purchased at any time and cost as follows:

- 2006 subscription request received before June 30, 2006, is \$125.
- 2006 subscription request received between July 1, and December 31 is \$62.50.

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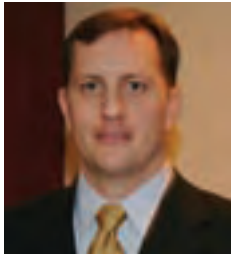
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Vice Chairman appoints senior policy advisor



NCUA Board Vice Chairman Rodney E. Hood has appointed Carlton L. Hoskins as his senior policy advisor. In this position, Hoskins

will be advising the vice chairman on policy and regulatory matters.

“I am extremely pleased to welcome Carlton Hoskins to NCUA, as he has extensive public and private sector experience, which will be a valued asset

to the agency,” said Vice Chairman Hood. “Carlton has been a trusted advisor and will be instrumental in the agency’s success.”

Hoskins possesses over 11 years of U.S. government and private sector experience, most recently as a management consultant with Booz Allen Hamilton. Prior to joining the international consulting firm, he served as the senior legislative assistant to U.S. Senator Arlen Specter. Hoskins also has served as a military aide at the White House and chief of counterintelligence for the Defense Special Weapons Agency.

“It is an honor to join the Administration and I look forward to serving at NCUA,” said Hoskins, who is a native of Owensboro, Kentucky. “I have always appreciated the role of credit unions and look forward to being a part of advancing safe and sound credit union policy.”

Hoskins earned a B.S. in Political Science from the United States Air Force Academy and completed the Defense Intelligence Agency’s post-graduate Intelligence Program.

NCUA issues moratorium limiting underserved area expansions

The NCUA announced in December that effective immediately the agency decided to withdraw the authority of **America First Federal Credit Union**, located in Utah, to serve underserved areas it was recently permitted to add to its field of membership and to impose a moratorium on the addition of underserved areas to all non-multiple common-bond federal credit unions.

In November, the American Bankers Association filed a lawsuit in U.S. District Court in Utah challenging the addition of certain underserved areas to the field of membership of America First FCU, a community credit union serving Salt Lake County.

The credit union had requested and received permission from NCUA to serve these areas pursuant to the agency’s policy of permitting all federal credit unions, regardless of their membership type, to serve underserved areas. The lawsuit alleges that only multiple common-bond federal credit unions may serve underserved areas.

Providing financial services to people of modest means has always been an essential mission of credit unions. The

NCUA Board continues to believe that a credit union’s ability to provide service to underserved areas and to persons without access to financial services is critical to accomplishing this mission.

Nevertheless, under existing circumstances, the NCUA Board believes it prudent to withdraw these areas from America First’s field of membership and to impose a moratorium on the addition of underserved areas to all non-multiple common-bond federal credit unions.

America First is authorized to continue to provide service to all its existing members.

This moratorium applies only to the addition of underserved areas to single common-bond and community federal credit unions. Multiple common-bond credit unions may continue to add underserved areas, and all federal credit unions may continue to serve and add new members from their existing underserved areas. This moratorium will remain in place pending completion of an NCUA review of field of membership rules related to underserved areas and further action by the NCUA Board.

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of 0.72 percent. The net charge-off ratio has remained constant in 2005 at 0.52 percent.

Regular shares showed a slight decline of \$1.9 billion, or 0.95 percent through September 2005, while total shares increased \$21 billion. This, along with the increase in the cost of funds, appears to reflect a continued shift toward higher costing share types such as share certificates.

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

The following data is now available for request on the NCUA website at <http://webapps.ncua.gov/ncuafpr/>:

- Financial Performance Reports (FPRs) for single charters that include the September 2005 peer average ratios;
- Aggregated FPRs for user-defined groups of credit unions as of September 2005; and
- Two-pages (financial summary and ratio analysis) of a September 2005 FPR for a single charter can be viewed online.

U.S. Capitol, December 15, 2005

New NCUA Board Members' Reception



Board Member Gigi Hyland and her father, Gerald W. Hyland, a member of the Fairfax County Virginia Board of Supervisors, greet Virginia Senator John Warner.



Vice Chairman Rodney Hood (right) with North Carolina League President John Radebaugh (left) and North Carolina Congressman Howard Coble.



Board Member Gigi Hyland with U.S. Treasury Deputy Assistant Secretary of Financial Education Dan Iannicola, Jr.



Vice Chairman Rodney Hood with North Carolina Congressman Patrick McHenry.

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