

Board meeting results November 16, 2006

NCUA slightly increases 2007 budget, reduces operating fee and NCUSIF overhead transfer

2007/2008 NCUA operating budget approved

The NCUA Board approved a 2007 agency operating budget of \$152,016,840, which represents a modest 0.81 percent increase over the 2006 budget. The NCUA budget is based on actual historical spending and is aligned with the agency's strategic goals.

NCUA staffing remains unchanged at the 2006 level of 958 full-time equivalent (FTE) positions. NCUA has reduced

FTE positions by 91 or 8.7 percent since 2000. While the number of credit unions is declining, expanded regulatory and supervision requirements impacts staffing requirements.

The most significant budget increase in 2007 is attributed to an average 3.1 percent pay adjustment for staff costing \$2,649,000. Much of this expense will be offset by a \$1,957,000 decrease in salaries as higher grade employees retire and are replaced by new, lower grade employees.

Another significant expenditure, 2007 capital acquisitions and leases total \$1,712,600 and primarily relate to information system voice, data and hardware upgrades and central office and regional office infrastructure upgrades.

In fiscal year 2008, the projected budget is \$157,678,517, which would represent a 3.72 percent budget increase.

2007 NCUSIF overhead transfer rate reduced

The NCUA Board reduced the National Credit Union Share Insurance Fund (NCUSIF) overhead transfer rate to 53.3 in 2007 from 57 percent in 2006. The transfer covers agency expenses

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NCUA

National Credit Union Administration, a U.S. Government Agency

NCUA insurance sign revised

The NCUA Board, complying with statutory requirements, revised the share insurance sign to reflect recent insurance increases and to include a statement that NCUA insured share accounts are backed by the full faith and credit of the U.S. Government.

Federally insured credit unions are required to post the new sign within six months at each location where it normally receives funds or opens accounts—teller windows and on the Internet—and within

one year credit unions must use the new sign on all materials using the NCUA insurance sign.

NCUA posted a downloadable graphic on the website <http://www.ncua.gov> and mailed an initial supply of new signs to each federally insured credit union. NCUA's revised *Your Insured Funds* brochure was issued via Express and additional printed copies will be available within 6 to 8 weeks.

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NCUA issues member service assessment results

NCUA released results of its Member Service Assessment Pilot Program (MSAP) November 15. The agency initiated the MSAP in response to questions raised by Congress and the Government Accountability Office regarding the income distribution of federal credit union (FCU) members, the types of services FCUs provide their members, and the transparency of FCU executive compensation.

MSAP collected data on the membership profile of FCUs, the types of services provided to their members, and the total compensation of FCU executives. The process entailed analysis of 14 million member account records from 448 randomly selected FCUs. The data provide statistically valid results for the entire FCU system and for FCUs grouped by asset size (FCUs with less than \$50 million in assets, and greater than or equal to \$50 million in assets). MSAP also allows for descriptive analyses of the different FCU charters (occupational, associational, and community).

MSAP provides the most conclusive data available on the membership profiles of FCUs. MSAP:

- Demonstrates FCUs are serving those they are chartered to serve within their authorized field of membership (FOM), typically working individuals.
- Confirms FCUs designated as low income, with underserved areas, or with a community base have more diverse membership profiles as compared to FCUs with more restrictive common bonds and FOM.
- Strengthens NCUA's contention that changes in membership profiles do not occur immediately—they occur over time.

MSAP bolsters NCUA's view that the FCU common bond limitation is the overriding factor that impacts membership demographics. Interpreting MSAP data is best understood and applied within the context of whom FCUs can legally serve. Who FCUs can serve is a critical factor that must be considered with other available data in assessing whether FCUs continue to serve their mission and purpose.

The MSAP data suggest that FCUs are also making progress in achieving congressional intent to serve low-income individuals and groups. This is most evident in those FCUs that have added underserved areas, are low-income designated, or those who serve a community. Congressional intent would be fully realized by a statutory change allowing all FCUs, not just those designated as multiple common bond, to add underserved areas.

MSAP review of FCU executive compensation indicates:

- In 2005, average chief executive officer (CEO) compensation (salary and benefits) was \$77,490 and, median compensation was \$58,860.
- Sixty-six percent of FCUs in the MSAP had total CEO compensation of \$75,000 or less, while 80 percent had total CEO compensation of \$100,000 or less.

The MSAP report is available on NCUA's website <http://www.ncua.gov/ReportsAndPlans/MSAP/MSAP-Pilot.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*

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Balance sheet management

Housing and balance sheet management

Credit unions will face an unusual set of challenges as housing sales slow, prices decline, and demand for interest only and payment option mortgages rises even more, as recent trends have shown.

Even with sales and prices falling, aggressive financing remains popular. Mid-year 2006 single family home sales fell nationwide by 8.7 percent, the largest year-over-year drop since April 1995. Futures markets imply a fall in home prices of 5 percent in the next year. Interest only mortgages comprised 24 percent of fixed mortgages in the first half of the year, compared to 13 percent in the second half of 2005. Payment option

mortgages also nearly doubled, rising to 15 percent from 8 percent.

Credit unions will need to pro-actively manage the risks presented by these new developments. Alternative mortgage products with as yet untested risks are rising in popularity, while the housing market is undergoing significant shifts. This calls for careful credit union strategy, recognizing that each credit union is faced with its own unique marketplace and member demands. The need to maintain both asset quality and earnings, while meeting these demands, will be a dominant issue going forward.

2007 Budget

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associated with insurance-related functions performed.

The Federal Credit Union Act authorizes NCUA to use funds from the NCUSIF for expenses related to federal share insurance. An overhead transfer from the NCUSIF is applied to actual expenses incurred each month.

A significant factor in the overhead transfer rate is NCUA's 12-month examination time survey. For the survey ending June 2006, examiners reported spending 61.7 percent of combined examination and supervision time on insurance-related procedures. The June 2006 results break down to 61.3 percent and 63.4 percent for examination and supervision time respectively. As the survey reflects, examiners are spending a greater percentage of examination and supervision time on non-insurance related issues such as compliance, regulatory, and legal issues than during the previous survey cycle.

While the overhead transfer rate is one funding source for the budget, it does not affect the amount of the budget. The NCUA Board approves the budget separately without regard to the overhead transfer rate. The calculation for the 2007 overhead transfer rate is available online at <http://www.ncua.gov>.

2007 operating fee scale reduced 1.54 percent

The NCUA Board approved a 1.54 percent decrease in federal credit union operating fees for 2007 based on the agency's operating fee budget requirement of \$63.59 million.

While the operating fee scale was reduced, the dividing points for the operating fee scale increased by 3.25 percent reflecting estimated 2006 federal credit union asset growth. Asset dividing points fluctuate yearly in relation to the average annual asset growth rate.

In 2007, 85 federal credit unions remain eligible for an operating fee reduction

based on assets related to property or losses associated with Hurricanes Rita and Katrina. Operating fees will be due in April 2007.

2007 Annual Performance Budget approved

The NCUA Board approved the agency's 2007 Annual Performance Budget, which directly supports NCUA Strategic Plan 2006-2011. It states the overall conceptual guidance and objectives necessary to achieve the agency mission of oversight of the credit union system as the system provides financial services to all eligible members, especially those of modest means, in a safe and sound manner.

After considering internal and external factors likely to impact NCUA and credit unions, the following four objectives were identified as focus areas for 2007:

- Manage risks to control losses to NCUSIF;
- Encourage credit union partnerships to improve access to services;
- Enhance the view of NCUA and the credit union system held by external stakeholders; and
- Enhance NCUA's succession plan.

NCUA Annual Performance Budget 2007, available online at <http://www.ncua.gov>, highlights these objectives and includes strategies designed to help accomplish each objective.

Board votes are unanimous unless indicated

September 2007 NCUA Board meeting change

The National Credit Union Administration Board has changed the date for the September 2007 Board meeting. The NCUA Board will meet September 27 rather than September 20.

Chairman addresses "unbanked" conference

Chairman JoAnn Johnson is a featured speaker at the free, one day regional conference on Reaching Unbanked People Monday, December 4, in Edinburg, Texas, at the University of Texas—Pan American.

At this event, the second of four regional conferences organized in conjunction with The National Strategy for Financial Literacy adapted by the Financial Literacy and Education Commission, Chairman Johnson joins government officials, including U.S. Treasurer Anna Escobedo Cabral, and private sector officials discussing innovative ways financial institutions can serve the unbanked. Panelist discussions include:

- Remittances and reaching the unbanked;
- Innovative products and strategies for reaching the unbanked;
- Asset building;
- Financial education; and
- Reaching unbanked youth.

"Over 10 million families living in America have little or no experience with traditional financial institutions," Chairman Johnson said. "The vast majority of our unbanked population lacks basic understanding and the tools necessary to manage and save money.

"Promoting the financial education of the unbanked will not only help millions enter the financial mainstream, but will also strengthen our society as a whole. I am very proud of the progress credit unions have made in this area, but there is considerably more work to be done. While financial education is an excellent starting point, I encourage credit unions to seek opportunities to reach the unbanked by offering much needed check cashing and money transfer services and by exploring resources available through NCUA, including technical assistance grants," Chairman Johnson said.

Conversations with AMERICA



My Government Listens

Date: Monday, December 4, 2006

Who: Chairman JoAnn Johnson

Event: Department of Treasury—
Unbanked Conference

Location: McAllen, TX

Contact: Linda Queen at
lqueen@ncua.gov or 703-518-6309

Date: Tuesday, December 5, 2006

Who: Chairman JoAnn Johnson

Event: CUNA's Supervisory Committee
& Internal Audit Conference

Location: Las Vegas, NV

Contact: Linda Queen at
lqueen@ncua.gov or 703-518-6309

Date: Wednesday, December 6, 2006

Who: Chairman JoAnn Johnson

Event: CUES Director's Conference

Location: Phoenix, AZ

Contact: Linda Queen at
lqueen@ncua.gov or 703-518-6309

Date: Friday, December 15, 2006

Who: Board Member Hyland

Event: Credit Union Times & EEI's Bank
Secrecy Act Conference

Location: Las Vegas, NV

Contact: Nina Bullard at
nbullard@ncua.gov or 703-518-6318

Date: December 28, 2006–January 1, 2007

Who: Vice Chairman Hood

Event: Renaissance Weekend

Location: Charleston, SC

Contact: Sally Ridgely at
sridgely@ncua.gov or 703-518-6307



Chairman Johnson chairs MyMoney website

Chairman JoAnn Johnson has been appointed chair of

the <http://www.MyMoney.gov> website subcommittee by the U.S. Financial Literacy and Education Commission (FLEC) coordinating the efforts of 20 federal agencies to improve financial education across America.

Launched during a ceremony at NCUA in Alexandria October 12, 2004, the MyMoney.gov website was created to provide easy access to financial education tools and resources to empower people to save, invest and manage their money wisely to meet personal goals. The U.S. General Services Administration's Federal Citizen Information Center developed the MyMoney.gov website and manages its day-to-day operation.

"Chairman Johnson has been a valuable member of the Commission from the start. We are very pleased she will help the Commission in this new and important

role," said Dan Iannicola Jr., deputy assistant secretary of Financial Education at the Treasury. "I've seen firsthand the Chairman's personal commitment to the issue of financial literacy. She knows financial knowledge can change lives for the better. I'm confident she'll do a great job helping Americans get the information they need through the MyMoney website."

"I am honored to be selected to chair this important subcommittee," said Chairman Johnson. "The website is a proven, valuable financial education resource. I look forward to building upon the excellent work already done in this area, and will continue to enhance the partnership and commitment of the 20 federal agencies in achieving the common goal of improving financial education across the country. The credit union experience has been extraordinarily positive in the area of financial education, and I am confident that this success will translate into even greater results for MyMoney.gov."

For more information, please visit <http://www.treasury.gov/financialeducation>.

Chairman attends Treasury Under Secretary Steel swearing-in

Chairman JoAnn Johnson watched U.S. Treasury Secretary Henry M. Paulson administer the oath of office to Robert K. Steel as new Under Secretary for Domestic Finance October 27, 2006, at the U.S. Treasury Department.

The Under Secretary for Domestic Finance serves as the principal adviser to the Secretary on matters of domestic finance and leads Treasury's activities regarding the domestic financial system, fiscal policy and operations, governmental assets and liabilities, and related economic and financial matters.

"Robert Steel comes to this post with impeccable credentials and the kind of

experience that sends a very positive signal to the financial institution community," said Chairman Johnson, congratulating Under Secretary Steel. "I look forward to building on the excellent relationship that NCUA enjoyed with Under Secretary Steel's predecessor, Randal Quarles, and continuing a substantive dialogue on matters of common interest such as reform of prompt corrective action for credit unions."

Chairman Johnson met with Under Secretary Steel early in November for a private policy discussion.

Board Member Hyland encourages results-oriented financial literacy

NCUA Board Member Gigi Hyland encouraged credit unions to be results-oriented in their financial literacy efforts at the 5th Annual Financial Literacy Day in New York City November 14, and she congratulated the event sponsor, National Federation of Community Development Credit Unions (NFCDCU), for being an active participant in the national effort to highlight the importance of financial literacy as an economic empowerment tool for individuals and communities.

Credit union representatives, New York City officials, as well as community activists attended the conference, which focused on the importance of financial literacy, the role of credit unions, and

progress made in the five years the Federation has sponsored the event. In addition to noting that financial literacy is an economic empowerment tool, speakers recognized that it can help people avoid becoming victims of predatory lending practices.

“The best approach to financial literacy is results-oriented, when credit unions connect their financial literacy outreach efforts to the products and services that meet their members’ particular needs,” Hyland suggested to the attendees. “An example is credit unions’ involvement in the VITA program,” where credit unions assist members to maximize their tax options, including the Earned Income

Tax Credit (EITC).

Board Member Hyland detailed NCUA efforts in facilitating credit unions’ use of financial literacy as an important tool in adhering to their social mission. She highlighted the extent of the agency’s Community Development Revolving Loan Fund (CDRLF) technical assistance grants and loan fund programs, the role of

Chairman JoAnn Johnson as chairman of the <http://www.MyMoney.gov> initiative, and other outreach programs.



Photo by Brian Gately, NFCDCU

November 14, 2006, New York City—NCUA Board Member Gigi Hyland with NFCDCU Director Clifford Rosenthal.

Vice Chairman hosting Risk Mitigation Summit



The Honorable Susan Schmidt Bies, a member of the Board of Governors of the Federal Reserve System, will serve as the keynote speaker at the

upcoming free, one-day Risk Mitigation Summit Vice Chairman Hood is hosting January 11, 2007, at the United States Chamber of Commerce in Washington, D.C.

“This summit of natural person and corporate credit unions will dialogue on the most current and sophisticated tools available to mitigate balance sheet risks and explore alternative investment opportunities for credit unions of all asset levels,” said Vice Chairman Hood, who has made risk mitigation a priority during his term.

The summit will highlight the latest trends in risk management and analysis. Leaders from the U.S. Department of Treasury, Federal Reserve, corporate credit unions and others from the financial services community will attend.

Vice Chairman researches emergency readiness

Vice Chairman Rodney E. Hood sought emergency readiness best practices during the Federal Deposit Insurance Corporation’s (FDIC) symposium “Protecting the Financial Sector—A Public and Private Partnership.” Held at George Washington University, the event provided expert advice from multiple government agencies. Among those represented were the Department of Homeland Security and the Department of the Treasury; both of whom focused

on infrastructure protection and disaster readiness.

Hood’s participation in the session was part of his effort to learn of innovative methods used to manage risk in preparation for his upcoming Risk Mitigation Summit scheduled January 11 at the U.S. Chamber of Commerce in Washington, D.C.

“I am dedicated to ensuring that the industry leaders who attend the summit are presented with the most effective

risk mitigation concepts available,” Vice Chairman Hood said.

In addition to the symposium, the vice chairman visited the offices of the FDIC Federal Credit Union.

“I applaud FDIC FCU for their long and successful history within the credit union industry. It is one of the oldest charters and is still vibrant more than 70 years later. FDIC FCU is a well-managed and well-capitalized credit union with a very competent board,” Vice Chairman Hood said.



Hyland leads new NCUA Outreach Task Force



Chairman JoAnn Johnson announced in mid-November the creation of a new task force to be headed by Board Member Gigi Hyland

that will provide a better understanding of and evaluation of NCUA's outreach efforts. Creating the Outreach Task Force is an outgrowth of the agency's *Member Service Assessment Pilot Program: A Study of Federal Credit Union Service (MSAP)*, which was compiled in response to a request from the Government Accountability Office (GAO) and the House Ways and Means Committee.

The MSAP specifically recommended the NCUA Board:

1. Evaluate the effectiveness of NCUA programs focused on assisting low- and moderate-income individuals;
2. Consider the enhancement and full utilization of the system to monitor FCUs receiving benefits under the CDRLF program; and
3. Consider reassessment of NCUA's formula for determining if an FCU qualifies for low-income designation.

In addition, the Task Force will be assessing the agency's current role and efforts with respect to credit union service to their members, including financial literacy and alternatives to predatory lending practices.

"Board Member Hyland's background in the credit union industry will be crucial in helping her provide the full Board with guidance on these very important issues," Chairman Johnson said. "The MSAP offered the Board the opportunity to view a picture of how the agency and credit unions are doing with respect to serving members and communities. I view the Task Force as the next step in trying to complete this picture."



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

"I want to thank Chairman Johnson for the opportunity to head this important Task Force," Board Member Hyland said. "Its results could help paint a road map for credit unions in their efforts to provide their members the best service possible and to ensure that they are serving all segments of their particular fields of membership," said Hyland, who is completing her first year of service on the Board.

Details on the composition of the Task Force and issues regarding its scope and timing are still under consideration.



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