

Fryzel urges unity, action in resolving corporate issues

First speech since conservatorships calls for passage of stabilization plan



In his first public speech since the March conservatorship of two corporate credit unions, NCUA Chairman Michael E. Fryzel called on credit unions to gain

legislative support for the NCUA plan to replenish the National Credit Union Share Insurance Fund (NCUSIF) and described the ongoing efforts by the Agency to stabilize and improve the corporate network. Chairman Fryzel sounded a note of determination and forward-looking optimism during his address to the Texas

Credit Union League's 75th Annual Meeting in Austin April 15, 2009.

"These are difficult days and the industry has been put under serious stress due to corporate dislocations," Chairman Michael Fryzel said. "NCUA has been, and will continue to be, interested in hearing from any and all responsible voices with ideas about how to mitigate cost and renew the corporate network. Working together, we will show that all of us are smarter than any one of us. There's a saying that tough times don't last, but tough people do. I would modify that slightly to suggest that tough times test us and reveal things about the vision, the knowledge and the abilities of all of us who are being tested. Moving forward, I am confident that the

industry will emerge a great deal savvier about what works and what doesn't work in the advocacy arena. I have personally gone to Capitol Hill and will do so again expressing my strong belief that this proposal is not only workable, but also desirable. It is completely consistent with the admirable credit union tradition of taking care of our own problems. And our credit union friends in Congress are indicating their approval of its prudent use of NCUA borrowing authority to spread your costs over a more manageable period.

"The Corporate Stabilization Plan is what we need for credit unions today.

continued on page 6

Fryzel on Senate passage of legislation to aid corporate financial stabilization

"The Senate's approval of NCUA's Corporate Credit Union Stabilization Fund and accompanying provisions such as increased borrowing authority is unmistakable affirmation by lawmakers that the credit union industry can and will take care of its own problems. I am gratified by the speed with which the Senate acted, as well as their willingness to work closely with NCUA in crafting a proposal that is both workable and sound.

I am also pleased by the strong support given to the Stabilization Program by the credit union industry. As the legislation moves to the House, I encourage a similar level of activism by credit union leaders across the country. We need to remain united and focused as NCUA and the industry continue our cooperative efforts to reform the corporate credit union network. Ninety million credit union members deserve nothing less."

Key legislative provisions

- Establish a Corporate Stabilization Fund enabling credit unions to pay the cost of corporate stabilization over up to 7 years.
- Extend \$250,000 federal deposit insurance protection to 2013.
- Extend NCUA's ability to replenish NCUSIF through premiums to 8 years.
- Increase NCUA borrowing authority to \$6 billion.
- Establish emergency NCUA borrowing authority to \$30 billion.

HIGHLIGHTS

- 2 Hyland discusses corporate stabilization .
Corporate share guarantee program revised .
- 3 Board actions .

- 4 Conversations with America .
Hood encourages affordable, sustainable mortgage lending .

- 5 NCUA History and Future .
The FCU Act endures rough passage .
75th Anniversary Symposium agenda set .
- 6 Credit card rule clarifications proposed .

Hyland discusses corporate stabilization

NCUA Board Member Gigi Hyland spoke with 60 credit union volunteers attending the CUNA Roundtable for Board Leadership in Henderson, Nev., March 30, 2009, and she urged them to communicate with their colleagues about issues pertaining to NCUA's Corporate Stabilization Plan.



Hyland acknowledged that “while I urge credit unions to be transparent to their members, I expect the NCUA to also be as transparent as possible. That is why I am here—to tell you as much as I can about what the agency is doing and to answer your many legitimate questions about these actions.”

Many attendee questions focused on gaining details of the agency's independent analysis of credit losses at corporate credit unions and the rationale for placing WesCorp and U.S. Central FCU into conservatorship. Specifically, attendees questioned when and how much the agency would share about the independent analysis conducted by PIMCO. Hyland explained the PIMCO evaluation was used to affirm NCUA's analysis indicating further corporate stabilization actions

were necessary. She urged the volunteers to read the conservatorship and PIMCO FAQs on NCUA's website and indicated a summary of the PIMCO report is available at <http://www.ncua.gov/CorporateStabilizationProgram.html>.

“Now that I have answered your questions, our deal is that each of you go back to your

credit union and tell your colleagues what you've heard, Hyland said after answering questions for nearly 90 minutes. “Let them know the actions taken by NCUA were not hasty—they were well thought-out, many options were considered, and the actions taken were driven by the intent to find the least costly solution for credit unions. Tell your colleagues that NCUA continues to be committed to exploring all viable alternatives, including the recently proposed legislation to spread the costs over 7 years to mitigate a single payment by credit unions.”

Hyland indicated that while neither NCUA nor the credit union system had any control over the economy, that credit unions do have the ability to contribute to the outcome of NCUA's actions.

“I strongly urge you to do two things”, she said. “First and foremost, keep liquidity, your deposits, in your corporate credit union, especially WesCorp. Withdrawals will weaken the system's

liquidity position and may force NCUA to prematurely sell the bonds, causing much greater losses than we have already seen. Our golden rule of stabilizing the corporate system has been to hold the bonds to maturity in order to avoid selling them in this illiquid market. Second, continue using your grassroots efforts in favor of NCUA's legislative proposal to allow credit unions up to 7 years to pay the cost of assessments.”

Corporate share guarantee program revised, extended

The reopened program enables all corporate credit unions to participate

The NCUA Board modified the terms of the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) to extend the program to accommodate a 2-year rolling expiration date and provide the option of quarterly extensions through December 2012. If the option to extend each quarter is fully utilized, the final guarantee would expire December 31, 2014.

With 23 corporate credit unions currently participating, the board also reopened the program until May 15, 2009, to provide all corporate credit unions the opportunity to participate in the revised TCCUSGP. Today's action includes revisions to TCCUSGP agreements with corporate credit unions to eliminate ambiguities, provide greater flexibility and improve operations.

“The action of the NCUA Board sends a clear signal to natural person credit unions that their investments in corporate credit unions are not only safe, but also meet sound asset liability management principals by providing for orderly laddering of these investments. It is important that

continued on page 3

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.

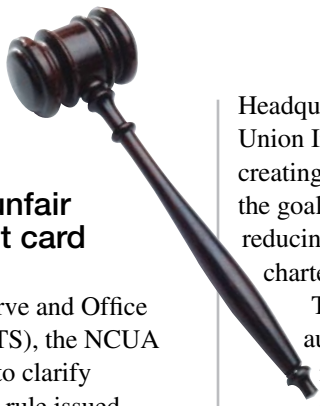
Michael E. Fryzel, *Chairman*
Rodney E. Hood, *Vice Chairman*
Christiane Gigi Hyland, *Board Member*

Information about NCUA and its services may be secured by contacting 703-518-6330.

Office of Public & Congressional Affairs
Cherie Umbel, *Editor*

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428





NCUA considers unfair or deceptive credit card practice revisions

Joining the Federal Reserve and Office of Thrift Supervision (OTS), the NCUA Board issued a proposal to clarify provisions in a joint final rule issued December 2008, prohibiting institutions from engaging in unfair or deceptive acts or practices related to consumer credit card accounts. See 74 Fed. Reg. 5498 (January 29, 2009).

The NCUA Part 706 rule proposal includes clarifying amendments and additional examples in the official staff interpretations covering treatment of deferred interest and promotion programs, and application of the Servicemembers Civil Relief Act to consumer credit card accounts.

Issued with a 30-day comment period, the proposal is designed to ensure institutions can comply with the joint final rule on or before July 1, 2010. (On page 6, *Agencies propose clarifications to credit card rules* article contains additional information.)

Centralized chartering authorities revised

The NCUA Board finalized actions to centralize NCUA's chartering within the

Headquarter's Office of Small Credit Union Initiatives (OSCUI); thereby, creating a national chartering program with the goal of meeting agency objectives and reducing regulatory burden on credit union charter applicants.

The revisions delegate OSCUI authority to approve and disapprove new charters, require OSCUI's concurrence to revoke new charters, and add authority to accommodate issuing Letters of Understanding and Agreement as necessary.

The NCUA Board approved the centralized chartering program last year, and OSCUI assumed responsibility for the new chartering program effective April 1, 2009.

Creditor claim appeal denied

The NCUA Board denied the creditor claim appeal of Centre Tech III. The former landlord of liquidated Norlarco Credit Union was seeking compensation for costs over and above contractual rent due.

OCMP budget, staff adjustments approved

The NCUA Board approved budget and staff changes for the Office of Capital Markets and Planning's Division of Capital Markets and the Central Liquidity Facility (CLF).

The request included the upgrade of two currently vacant capital markets positions as well as the approval of two new CLF positions.

NCUSIF status report

Through March 31, 2009, NCUSIF year-to-date revenue and expense included investment income of \$49.3 million, accrued recapitalization and premium income of \$6.08 billion, operating expense of \$22 million, and loss on investment -corporate- of \$1 billion. Net income through March was \$146.4 million.

With insurance loss expense of \$4.97 billion, recoveries of \$2.9 million, and charges of \$19.2 million through March, the NCUSIF reserve balance was \$5.23 billion March 31, 2009—approximately \$5.0 billion in specific reserves and \$230 million in non-specific reserves.

Based on year-end 2008 insured shares of \$611.6 billion, the NCUSIF equity ratio was 1.30 percent as of March 31, 2009. Four federally insured credit unions failed through March—1 liquidation and 3 assisted mergers—at a cost of \$15.4 million.

There were 279 problem code credit unions March 31, 2009, with shares representing 2.95 percent of total insured shares—58.1 percent had less than \$10 million in total shares and 1.4 percent had more than \$1 billion in total shares.

Board votes are unanimous unless otherwise indicated

guarantee program

continued from page 2

they continue to provide the liquidity that is needed to maintain corporate stability. The Board is committed to the safety and soundness of all credit unions and the protection of deposits of 90 million credit union members, and we will continue to take the necessary action to instill confidence in the system," Chairman Michael E. Fryzel stated.

The NCUA Board created TCCUSGP January 28, 2009, as part of its effort to stabilize the corporate credit union system. TCCUSGP included an immediate, temporary guarantee of all shares (excluding paid-in-capital, membership

capital accounts, and other NCUA liquidity programs) until February 28, 2009. The guarantee extends through December 31, 2010, for all corporate credit unions electing to participate in the voluntary share guarantee program.

To stabilize cash flows and allow for an orderly laddering of investments, the Board approved a recommended rolling 2-year term for the guarantee program that will operate as follows:

- Maximum 2-year maturity for new share deposits is covered under the guarantee. Existing deposits maturing before the expiration date are covered by the guarantee, regardless of the original term.
- Initial extension of the December 31, 2010, expiration date to September 30, 2011.

- At least 30 days prior to the end of each calendar quarter, starting September 2009, the Office of Corporate Credit Unions will evaluate the need to extend the expiration date; and, with concurrence of the director of Examination and Insurance, request the NCUA executive director approve and announce extension of the guarantee to two years beyond the end of the following quarter. Thus, if an extension is approved in September 2009, the guarantee would extend to December 31, 2011. The executive director will announce expiration date extensions at least 15 days before each quarter ends.

Hood encourages affordable, sustainable mortgage lending

NCUA Vice Chairman Rodney E. Hood stressed that credit unions should seize the opportunity to engage in responsible mortgage lending and he emphasized the importance of pre- and post-purchase counseling and rent-to-own strategies in an address to the American Credit Union Mortgage Association (ACUMA) Spring Conference in San Francisco, Calif., April 2, 2009.



Reports reporting mortgage fraud. Credit unions filed 541 Suspicious Activity Reports for this same period, a 167 percent increase over the prior year.” Detailed information is available at: <http://www.fincen.gov/>.

In addition to fraud risk, Hood discussed the importance of mitigating both interest rate risk and balance sheet risk.

In an effort to help mitigate balance sheet risks, the Vice Chairman drew attention to Fannie Mae, Freddie Mac products and FHA loans.

“Fannie Mae and Freddie Mac buy mortgages while allowing you to retain servicing rights, which ensures that you continue to make money and remain tied to the member owner,” Hood said. “FHA loans are also insured and offer advantages such as: low fixed-rate loans, no pre-payment penalties, simple organization process, low down payments, and simple and straightforward qualifications.

“While the financial industry makes efforts to increase mortgage lending, it is also important to focus on keeping families in their homes when times are difficult,” said Hood. “We must focus on efforts that help refinance mortgages and use other tools to assist homeowners.”

Vice Chairman Hood noted that the Federal Home Loan Bank (FHLB) offers various affordable housing programs and he encouraged participation in programs such as Affordable Housing Competitive Program (AHP), IDEA/WISH Program, Homeownership Preservation Subsidy, and Access to Housing and Economic Assistance for Development (AHEAD) Program. For more information regarding the FHLB Community Investment Programs, please visit their website: <http://www.fhlbanks.com/>.

In closing, Mr. Hood congratulated the National Association of Realtors FCU on their new charter—“I am delighted that our industry continues to grow and

While credit unions did not cause the problems permeating the American economy, they are well positioned to be part of the solution for economic recovery.

“NCUA Call Report data for 2008 shows that loan volume grew 7.7 percent during 2008, with real estate loan volume comprising 54 percent of total loans, Vice Chairman Hood, said. “While lending expanded in most categories, the largest 14.5 percent increase was recorded in first mortgage real estate loans and lines of credit.”

Hood emphasized the critical importance of financial education to help member-owners understand the responsibilities of homeownership.

“It is imperative that mortgage programs be tailored to inform people of the transition from renting to ownership. I would like to ask you to fine tune your training efforts to provide follow-up training to homebuyers to discuss budgeting, maintenance and repair issues.” Mr. Hood suggested credit unions pursue partnerships with results-oriented non-profit organizations that can provide resources for training outreach efforts—such as the Neighborhood Reinvestment Corporation.

A proponent of risk mitigation, the Vice Chairman underscored the necessity for proactive risk strategies. Citing a recently released Financial Crimes Enforcement Network (FinCen) report, *Filing Trends in Mortgage Loan Fraud*, Hood stated, “From July 1, 2007, to June 30, 2008, financial institutions filed 62,084 Suspicious Activity



My Government Listens

Date: May 11, 2009

Who: Board Member Gigi Hyland
Event: Bridgeport Chapter of Credit Unions Meeting

Location: Bridgeport, CT

Contact: Jessica Vogel at jvogel@ncua.gov or 703-518-6318

Date: May 14, 2009

Who: Board Member Gigi Hyland
Event: Montana Credit Union Network Annual Convention and Expo

Location: Missoula, MT

Contact: Jessica Vogel at jvogel@ncua.gov or 703 518-6318

Date: June 9–10, 2009

Who: Board Member Gigi Hyland
Event: NCUA 75th Anniversary Symposium

Location: Hyatt Regency on Capitol Hill

Contact: Jessica Vogel at jvogel@ncua.gov or 703-518-6318

Date: Tuesday, June 23, 2009

Who: Vice Chairman Rodney E. Hood
Event: CUREN Event
Location: Denver, CO

Contact: Sally Thompson at sridgely@ncua.gov

thrive with institutions such as the newly chartered National Association of Realtors FCU... I applaud the efforts of everyone here today—your desire to improve your institutions while sharing knowledge to help others make progress truly exhibits the credit union mission of People Helping People.”



NCUA HISTORY AND FUTURE

The Federal Credit Union Act endures rough passage

By 1933, over 20 years after the first credit union was organized in New Hampshire, many states had laws authorizing credit union chartering according to Moody and Fite's *The Credit Union Movement*. At least five states had operating league organizations and hundreds of credit unions were being organized annually. While the country languished in a nationwide depression, the Bureau of Labor Statistics reported the number of credit unions was growing—from 974 in 1929 to 1,612 in 1932.

After working diligently for several decades to expand credit union growth, activist Roy Bergengren recommended widely recognized humanitarian, credit union proponent and wealthy merchant Edward Filene undertake a Midwest tour that saw interest in the credit union ideals expand exponentially. Giving 36 speeches in 21 days in 12 cities in early 1933, Filene created enthusiasm and gained support for a national credit union association according to Moody and Fite.

Filene and Bergengren were spurred on by the belief credit unions could supply an important part of the nation's consumer credit needs; in particular, helping those of small means establish credit and have a safe place to save and borrow at reasonable rates. Worthwhile to note, when President Roosevelt declared a banking holiday and financial institutions were permitted to reopen provided they were sound, Bergengren reported that every credit union resumed normal operations.

Bergengren strongly believed the major priority was a federal law enabling credit union chartering in every state or territory. "A federal credit union law would be a sort of blanket insurance policy for all ... giving us an alternative

method of organization," Bergengren wrote.

May 1, 1933, Senator Morris Sheppard of Texas introduced S. 1639, which would provide for chartering federal credit unions, Bergengren and Sheppard both testified on behalf of S. 1639 on June 1. When Congress adjourned in mid-June, Bergengren was assured the measure would be considered when Congress reconvened in January 1934.

The idea of federal credit unions was strongly supported by Morris Sheppard, a Senator committed to providing personal credit for farmers. Union members from across the country and many state credit union leagues also supported the measure. March 20, 1934, the Senate Committee on Banking and Currency issued a favorable report on S. 1639. A few days later, on March 29 Senator Sheppard succeeded in eliminating a provision within the bill that called for taxing credit unions.

When Colorado Senator Alva B. Adams successfully postponed considering the bill April 25 because "exemplary State legislation" already existed, Senator Sheppard told his colleagues that the measure was designed "to solve a great national problem in the only way it can be solved—by making available to people of small means credit for provident purposes through a national system of cooperative credit."

Adam's union constituents inundated him with messages urging approval of the legislation, as Bergengren and Sheppard secured the location and amended the bill to indicate the Farm Credit Administration would be home to a new federal credit union agency.

The Senate passed the measure by unanimous consent without debate May 10, 1935. The next day, the bill was sent to the House Committee on Banking for consideration. *To be continued.*

75th Anniversary Symposium agenda set

NCUA Board Member Gigi Hyland issued the agenda for the symposium marking the 75th anniversary of the Federal Credit Union Act being held June 9 - 10, 2009, at the Hyatt Regency Washington D.C., hotel on Capitol Hill.

The free, two-day event celebrating 75 years of federal credit union history will provide a forum to discuss the future of federal credit unions in the 21st century. Credit union advocate Pennsylvania Congressman Paul Kanjorski will be keynote speaker and Operation HOPE CEO John Hope Bryant

is the invited luncheon speaker.

View the agenda: 75th Anniversary Symposium Agenda

Register for this event: <http://webapps.ncua.gov/BoardRegistrationForm/>

Registration is limited. Registration confirmation will be e-mailed within 10 days of receipt. Participants are responsible for hotel accommodations. Contact the Hyatt Regency Washington on Capitol Hill by phone: 202-737-1234; or email: www.washingtonregency.hyatt.com.



Agencies propose clarifications to credit card rules

The Federal Reserve Board, the Office of Thrift Supervision and the National Credit Union Administration have proposed clarifications to aspects of their December 2008 final rules under the Federal Trade Commission Act (FTC Act) prohibiting certain unfair credit card practices. The Federal Reserve Board also proposed clarifications to its December 2008 final rule under the Truth in Lending Act (TILA) amending Regulation Z to improve the disclosures consumers receive in connection with credit card accounts and other revolving credit plans.

The proposals are intended to facilitate compliance with the December 2008 final rules without reducing protections for

consumers. They would resolve areas of uncertainty and make technical corrections to ensure that institutions are able to come into compliance with the rules on or before the July 1, 2010, effective date. In particular, the proposals would clarify that:

- Key protections in the final rules would continue to apply to balances on a consumer credit card account when the account is closed or acquired by a different institution, or when the balances are transferred to another account issued by the same institution. For example, an institution would not be permitted to increase the rate on a credit card balance because the account has been closed.
- Institutions and retailers may continue

to offer deferred interest and similar programs, but these programs are subject to all protections in the final rules.

For example, if a consumer makes a purchase under this type of program, the terms governing interest charges on that purchase cannot be changed through a “hair trigger” or “universal default” rate increase. In addition, institutions and retailers must comply with enhanced disclosure requirements.

The NCUA Part 706 proposal is available online at http://www.ncua.gov/RegulationsOpinionsLaws/proposed_regs/proposed_regs.html. Comments on the proposal must be submitted within 30 days of publication in the Federal Register.

corporate issues

continued from page 1

I need you to roll up your sleeves and in that great credit union tradition of grassroots activism, get it enacted into law so we can mitigate the cost to the system and allow credit unions to continue to serve their members. When this stabilization proposal becomes law, our job will not be finished. I have made a commitment to the Administration, to Congress and

to you in the industry that NCUA would undertake a broad, comprehensive reform of the corporate system. We have initiated a rulemaking process that I promise will yield results.”

Chairman Fryzel also encouraged the over 800 Texas credit union leaders to stay focused on future service to members as they assess the challenges presented by the difficulties in the corporate network.

“Whenever there are problems, the easiest thing to do is place blame and point fingers, Fryzel said. “With the corporate

situation, there is enough blame for everyone to share. Rather than looking in the rear view mirror, I would prefer if everyone learned from past mistakes and set their vision forward. My goal as chairman has always been to protect the funds of the 90 million Americans who are credit union members and to maintain a safe, sound credit union system. The corporate structure is part of the system. It needs to be reformed and NCUA is doing what needs to be done.”