

NCUA News

July 2003 Number 3

Chairman Dollar testifies on credit unions serving the underserved

NCUA Chairman Dennis Dollar testified June 26, 2003, before the Subcommittee on Financial Institutions and



Photo by John Cooke
Courtesy of Credit Union Times

Consumer Credit concerning NCUA initiatives to broaden access to the financial mainstream.

In highlighting the agency's successful Access Across America initiative, Chairman Dollar informed the subcommittee of NCUA's and America's credit unions efforts to facilitate access to affordable financial services through credit union expansion into underserved areas.

"We consider the extension of access to credit union services to more "un-banked" or underserved individuals within the fields of membership of America's credit unions to be a high priority in

our agency's strategic efforts to keep credit unions safe, sound and diversified in their risk and also successful in reaching out to make a greater difference in the financial lives of their members from all walks of life," stated Dollar.

Dollar discussed three initiatives which offer a results-oriented model of how NCUA's Access Across America program is making a difference:

- Underserved Area Adoption Program,
- Inter-agency and Credit Union Partnership, and
- Community Development Revolving Loan Fund.

According to NCUA data, the membership growth rate for federal credit unions that adopt underserved areas is 93 percent greater than the average annual growth rate for all federal credit unions.

"This NCUA call report data is significant evidence that credit unions are not merely expanding into underserved areas, they are adopting those communities and making a positive difference in the lives of the residents there," said Dollar.

HIGHLIGHTS

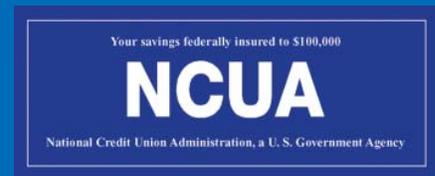
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Love moves to Region VI, Veghts named acting Region IV director

Melinda Love became the Region VI director in Concord, California, effective July 1, 2003, and with her departure, Region VI Associate Regional Director Nicholas Veghts becomes acting Region IV director effective August 1, 2003.



Check out NCUA's new **Share Insurance Estimator** accessible at www.ncua.gov. Credit unions and their members can now calculate the amount of insurance protection the NCUSIF provides and learn more about account types and structures that offer members additional coverage.



News briefs

2003 Regulatory Relief Act – *The Financial Services Regulatory Relief Act of 2003* (HR 1375) was approved by the full House Financial Services Committee, including five NCUA provisions and 30 technical corrections to the *Federal Credit Union Act*. The full House is expected to take action on the legislation before the August recess.

Financial Contracts Bankruptcy Reform Act of 2003 – HR 2120 was approved by the full House Financial Services Committee. It includes new provisions addressing NCUA recommendations to amend liquidating qualified financial contracts within the *FCU Act*.

Electronic FOM expansions updated – Field of membership chartering manual revisions enabling federal credit unions to submit Internet applications to add occupational or associational groups of up to 2,999 members are now available on NCUA's Web site at <http://www.ncua.gov/org/NCUAGovLink.htm>

Examiner guidance on SBA lending – NCUA is developing examiner guidance

on Small Business Administration (SBA) lending. A NCUA working committee has met with SBA and credit union SBA lenders and final guidance is expected later this year.

Insurance losses – Reserves for potential losses were increased by \$1.5 million during June to cover anticipated losses to the NCUSIF. The \$1.5 million was expensed to increase the National Pool Reserve.

NCUSIF equity level – The NCUSIF equity level decreased to 1.23 percent based on estimated insured shares of \$473.5 billion at June 30, 2003.

Credit union failures – Through June, seven credit unions have failed during 2003. Two were assisted mergers and five were involuntary liquidations. Of the five involuntary liquidations, three are purchase and assumptions. Losses to date are \$3.2 million.

Board actions expected in July

- Mid-session budget reprogramming
- NCUSIF quarterly update

Upcoming Letters to Credit Unions –

NCUA is preparing a *Letter to Federal Credit Unions* on brokered CD transactions involving possible misrepresentation of terms. The letter addresses “custodialized CD” transactions with unregistered deposit brokers.

NCUA is also creating a *Letter to Credit Unions* on non-maturity shares.

Publications

2002 NCUA Annual Report released – NCUA issued its 2002 annual report in late June reporting on operations within NCUA and including a comprehensive 10-year summary of federally insured credit union activity and a summary of federal credit union activity since 1934.

2002 Year-End Statistical Report available online – NCUA placed its *2002 Year-End Statistical Report* online at <http://www.ncua.gov/ref/statistics/statistics.html>. The report contains financial and statistical tables compiled from yearend 5300 call reports submitted by federally insured credit unions. The tables present data in various formats, including by state and type, and the report includes the list of 100 largest federal and federally insured credit unions.

Examiner's Guide – NCUA is currently updating the *Examiner's Guide* in the areas of incidental powers, consumer leasing, member business services, state report review, debt cancellation/suspension agreements, reverse mortgages, SAS guidance and report writing.

Federal Credit Union Handbook – The *Federal Credit Union Handbook* is being revised and will be available in late 2003.

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Dennis Dollar, Chairman
JoAnn Johnson, Vice Chair
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

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Community Development Revolving Loan Fund statistics June 30, 2003

Sixty-eight CDRLF loans totaled \$6,495,622 at month end

Number of technical assistance grants approved in June	30
Amount approved in June	\$77,705
Number of grants disbursed year-to-date	53
Amount of grants disbursed year-to-date	\$108,275.94



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Board actions – June 26, 2003

CUs asked to identify outdated, unnecessary or overly burdensome regulations and statutory requirements

The NCUA Board initiated the first phase of its effort under the *Economic Growth and Regulatory Paperwork Reduction Act of 1996* (EGRPRA) to reduce regulatory burden on credit unions by asking for comments to identify outdated, unnecessary or unduly burdensome areas of regulations and statutory requirements pertaining to “applications and reporting” and “powers and activities.”

EGRPRA requires NCUA, and fellow financial regulators, to organize their regulations into categories, such as *consumer regulations*, then issue one or more of these categories for public review and comment at regular intervals within a ten-year cycle. The current publication cycle ends September 2006. NCUA, although it participated with the other financial regulators in an interagency working group to draft the notice, is issuing a separate notice that takes into account the uniqueness of credit unions.

This regulatory review requires that NCUA publish, in the *Federal Register*, a summary of the comments received, identifying issues raised and a discussion of those issues. NCUA must also “eliminate unnecessary regulations to the extent that such action is appropriate.”

The remaining eight categories of regulations will be issued within the next three years. Comments are due 90 days after the proposal appears in the *Federal Register*.

Proposed amendments simplify and clarify share insurance rules and provide parity with FDIC rules

The NCUA Board issued a proposal to update, simplify and clarify Part 745, the share insurance rules, and provide parity with the deposit insurance rules of

the Federal Deposit Insurance Corporation.

Proposed amendments include:

- Clarify how revocable trust accounts are established and insured;
- Continue insurance coverage following the death of a member or after an insured credit union merger to allow members six months to restructure their accounts to maximize share insurance coverage; and
- Explain coverage on Coverdell Education Savings accounts, formerly Education IRAs.

Comments are due within 60 days after the proposal appears in the *Federal Register*.

Added flexibility proposed for loan participations

The NCUA Board issued a proposal designed to update and clarify certain definitions within the loan participation rule, Part 701.22, to conform to the credit union service organization (CUSO) rule and to add greater flexibility for credit unions to engage in loan participations.

The proposed rule updates the definition of “*credit union organization*” to conform to NCUA’s interpretation of the term in the CUSO rule.

Congress granted federal credit unions the ability to engage in loan participations in 1977 to enhance their ability to serve members’ loan demands.

NCUA is proposing to expand the definition of “*financial organization*,” currently limited to “any federally chartered or federally insured financial institution,” to include state and federal government agencies. This would give FCUs greater flexibility in choosing appropriate participation partners.

Comments are due within 60 days after the proposal appears in the *Federal Register*.

Votes are unanimous unless otherwise indicated.

Computer security tips Hard drive retrieval highlights reputation risk

A recent incident involving improper disposal of a credit union hard drive demonstrates the compliance, transaction and reputation risks associated with disposal of an electronic medium. The incident occurred as follows:

- A credit union disposed of an old hard drive by sending it to a recycling company. The drive was reformatted before released.
- The recycling company reformatted the drive again and sold it.
- A local news station purchased it along with three other drives for an in-depth news story on identity theft.
- The news station computer technician ran restoration software commonly available on the Internet on the hard drives and restored much of the credit union data in less than four minutes. Data recovered included member account information.
- The station’s ability to access the information and the credit union’s name were featured in news spots for several days.

In response, the credit union enacted policies to prevent a repeat occurrence. All members were asked to change their account access passwords for all accounts, not just those using online access. They also asked members to set-up a secure Q&A response to further protect accounts when a member can’t remember his or her password.

NCUA’s current guidance addressing disposal of hardware is included in the recently released *FFIEC Information Security Booklet*. NCUA Letter to Credit Unions 03-CU-07 discusses the booklet, which is available at www.ffiec.gov/ffiecinfobase/html_pages/it_01.html#infosec.

This example highlights the latent risks of operating in a technology-rich environment. Credit union management should keep in mind there are also similar risks in the physical realm. Focusing on protection measures for electronic data is vital, but must be done in conjunction with physical controls that, if ignored, can leave credit unions vulnerable to “dumpster-diving.”

Be alert to dumpster-diving

Dumpster-diving is the act of finding credit card numbers, passwords and

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Who and What: Chairman Dennis Dollar will speak at the 26th Annual National Directors' Conference.

When: Thursday, August 7, 2003

Where: The Venetian, Las Vegas, Nev.

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

Contact: Nicholas Owens at 703 518-6336 or nowens@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the African American Credit Union Coalition.

When: Friday, August 8, 2003

Where: Detroit, Mich.

Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Who and What: Chairman Dennis Dollar will speak at the Defense Credit Union Council meeting.

When: Monday, August 18, 2003

Where: Marriott Hotel, San Diego, Calif.

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

Contact: Nicholas Owens at 703 518-6307 or nowens@ncua.gov.

Who and What: Chairman Dennis Dollar will speak to CUNA's leadership council.

When: 11 a.m., Friday, August 22, 2003

Where: Credit Union House, 403 C Street NE, Washington, DC

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q & A with participants is scheduled.

Contact: Nicholas Owens at 703 518-6336 or nowens@ncua.gov.

Who and What: Vice Chair JoAnn Johnson will address the Allied Solutions Summer Networking Conference.

When: Monday, August 25, 2003

Where: Colorado Springs, Col.

Why: Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Successful PALS workshop focuses on Latino outreach



Over 150 credit union officials attended the July 8 Partnering and Leadership Successes (PALS) workshop, "Making the Latino Connection," initiated by NCUA Board Member Debbie Matz.

Twenty-two speakers shared successful ways to reach out and serve Latinos, America's largest and fastest-growing minority.

"The Latino population in the U.S. is growing nearly four times faster than the general population," Matz said in her opening remarks. "Over the past two years, the Latino population has grown nearly 10 percent to 40 million people. Latinos are approaching \$600 billion in purchasing power – but only half have relationships with formal financial institutions.

"Serving Latinos is an opportunity to reach millions of new members without

competing for members who are already enrolled at other credit unions," Matz pointed out.

"Latinos currently spend billions of dollars at check cashers and payday lenders. That's billions of dollars that could be deposited in credit unions. . . Billions of dollars in loans that could be made by credit unions," Matz emphasized.

To attract those deposits and loans, credit unions need to overcome language and cultural challenges. This PALS workshop shared ideas from many credit unions that have successfully implemented Latino outreach programs.

The next PALS workshop, now scheduled for Oct. 16 in Washington, D.C., will focus on serving the millions of small business owners who could use capital from credit unions.



Durham, N.C., July 8, 2003 – NCUA Board Member Debbie Matz (center) thanks leaders of the four state credit union leagues that co-sponsored her second PALS workshop: Larry Johnson, North Carolina Credit Union Network; Gary Wolter, Alabama Credit Union League; Mike Mercer, Georgia Credit Union Affiliates; and Ed Culpepper, South Carolina Credit Union League.

Computer security tips

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other valuable computer data that credit unions may discard. What happens to trash after it leaves your office receptacle? A case was reported of a cleaning service that was offered money in exchange for garbage bags to gain trade secrets from the discarded trash.

NCUA Letter to Credit Unions 00-CU-02 discusses physical disposal of member information. Access the letter at www.ncua.gov/ref/letters/00-CU-02.pdf.

To mitigate risks, credit unions should also consider possible weaknesses, electronic or physical, regarding disposal of sensitive member and credit union information when evaluating security and privacy practices.

About investments

Commercial mortgage security risks



In May, the Board approved revisions to Parts 703 and 742 of the *NCUA Rules and Regulations*. One change permits RegFlex federal credit unions, and some state-chartered credit unions through “wild card” provisions, to invest in commercial mortgage related securities (commercial MRS) subject to certain conditions. While NCUA believes these investments may be appropriate for some credit unions, they have risks that must be addressed.

Commercial MRS are similar to residential mortgage related securities. Principal and interest payments of the underlying mortgages are passed through to the investor. However, there are several important differences.

Residential MRS typically consist of hundreds of loans geographically dis-

persed, each secured by a 1- to 4-family residence. Commercial MRS may consist of far fewer loans and even a single loan. For these reasons, commercial MRS may not be as well-diversified as residential MRS. The revised regulations permit the purchase of commercial MRS that consist of 50 or more loans, with no single loan representing more than 10 percent of the loan pool.

Residential loans are generally written to standard practices and conventions, facilitating analysis of the loan pool. Commercial loans are not subject to standardized procedures. Commercial MRS may be secured by several different property types including offices, retail space, hotels and apartment buildings. This makes it more difficult to understand the payment, prepayment and credit behavior of the commercial MRS.

Residential MRS have greater liquidity than commercial MRS. Price

volatility has periodically disrupted liquidity in the Commercial MRS market due to reductions in the supply of securities, questions about the creditworthiness of the underlying loans and lack of a large investor base. Lower liquidity can inhibit the quick sale of an investment and result in wider bid/ask spreads.

Commercial MRS, however, typically provide investors a measure of prepayment protection. Due to contractual provisions, commercial borrowers are deterred or prevented from refinancing their loans when rates fall. A credit union should investigate the prepayment protection for underlying loans because it will likely vary from loan to loan and typically expires prior to the maturity of the loan.

In summary, while commercial MRS will provide some credit unions another investment alternative for their portfolios, take care to understand the potential risks. As with any investment, if risks are not completely understood, an investment should not be purchased.

Vice Chair Johnson emphasizes MBLs



Albuquerque, N.M., June 13, 2003 – Vice Chair JoAnn Johnson with members of the New Mexico Credit Union League at their Annual Meeting and Convention. From the left are William Jacobs, White Sands Federal Credit Union; Francis Lee, Southwest Corporate Credit Union; Vice Chair Johnson; Ruth Gaon, Del Norte Credit Union; Jeff McDaniel, First Financial Credit Union; and George Bennett, U.S. New Mexico Federal Credit Union.

Vice Chair Johnson was in Memphis and Albuquerque in June and is scheduled to visit Montana, Boston and San Antonio in July to meet credit union community leaders and address the member business loan (MBL) proposal. With the comment period just ended on MBL, Mrs. Johnson has been striving to ensure people understand the rule and encouraging them to share their comments with NCUA.

Hunt named Region II operations chief

Scott Hunt has been selected as the Region II associate director of operations (ARDO) in Alexandria, Va., effective July 14, 2003.

As ARDO, Hunt is responsible for managing the Region II divisions of Insurance, Supervision, Special Actions, and Management Services.

Hunt most recently served as a senior investment officer in NCUA’s Office of Strategic Program Support and Planning. His NCUA career began 14 years ago as a Region II field examiner in Washington, DC. He was an examiner for six years and subsequently held positions as supervision analyst and director of Insurance in Region II before becoming a headquarters investment officer more than three years ago.

Hunt earned an undergraduate degree from Penn State University, and he holds an MBA from George Mason University in Virginia. He is a CPA and is working to complete a chartered financial analyst designation.

Chairman Dollar recommends to Senate Banking: Reduce regulatory burden and improve FCU productivity

Responding to Chairman Richard Shelby's request for recommendations to remove unnecessary regulatory burden and improve productivity for federal credit unions, Chairman Dennis Dollar made numerous recommendations to the Senate Banking, Housing and Urban Affairs Committee in a June 26, 2003, letter.

"These proposals are consistent with the mission of credit unions and the principles of safety and soundness. They address statutory restrictions that now act to frustrate the delivery of financial services because of technological advances, current public policy priorities, or market conditions," Chairman Dollar's letter stated.

His primary recommendations include:

- Authorize FCUs to provide check cashing and money transfer services to anyone eligible to become a member, which will result in a lower-fee alternative for many underserved and un-banked individuals.
- Remove the outdated and unnecessarily restrictive 12-year maturity limit on loans and allow NCUA to establish appropriate maturity limits based on safety and soundness constraints.
- Eliminate the unrealistically low 1 percent CUSO investment limit thereby allowing credit unions to retain control over the quality of services offered and the prices paid by credit unions or their members.
- Remove the branch and service facility "reasonable proximity" statutory mandate. With most services now provided electronically,

geographic limitations impose unnecessary restrictions in today's financial marketplace.

- Remove restrictive limitations on FCU investment authority and provide the NCUA Board regulatory authority to approve investments to enhance FCUs ability to remain competitive in a rapidly changing financial marketplace.
- Remove FCU merger restrictions that require

NCUA to consider a spin-off of any group over 3,000 members in a merging credit union thus enabling two healthy FCUs to combine their financial strength and improve service to their members, if they so desire, without unnecessary regulatory hurdles.

Many of these recommendations are also included in H.R. 1375 currently under consideration in the House of Representatives.



Birmingham, Ala., June 20, 2003 – NCUA Chairman Dollar addresses the participants in the HUD "Homeownership Express" bus tour stop. To his left is Steven B. Nesmith, HUD's Assistant Secretary for Congressional Affairs.

NATIONAL CREDIT UNION ADMINISTRATION

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