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**May 3, 2010**

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## NAFCU: No artificial caps on interchange

John Blum of Chartway FCU informed lawmakers last week of NAFCU's opposition to federal price controls on credit card interchange fees such as those likely under H.R. 2695, the Credit Card Fair Fee Act.



Blum provided NAFCU's views on the bill during a House Judiciary Committee hearing. Panel Chairman

*Blum urged lawmakers not to change interchange fee system. (NAFCU photo)*

John Conyers, D-Mich., is the sponsor of H.R. 2695.

"NAFCU strongly opposes H.R. 2695 in its current form," Blum said. "If mandatory negotiations force new caps on interchange fees, they will enrich merchants while

harming credit unions and consumers." He added that the current system has worked well for consumers and merchants while allowing credit unions to compete with even the largest banks.

H.R. 2695 would allow merchants to negotiate in an anti-competitive manner that would shift pay-

ment card acceptance costs to consumers, credit unions, community banks and other financial institutions.

Blum added that it's not clear whether merchants would pass on cost savings to consumers.

## CU action urged as reg reform is debated

The Senate on Thursday began debate on S. 3217, the Restoring American Financial Stability Act, and may continue that for the next couple weeks – time that NAFCU will use to press for limits on the bill's negative impact on credit unions.

The debate began following three days in which as many votes were taken on cloture, each failing to garner the 60 affirmative votes necessary to prevent a filibuster. After more negotiations – much focusing on a proposed fund for the wind-down of large firms – Senate leaders announced an agreement to proceed.

The first action Thursday was the introduction of a substitute amendment by Sens. Chris Dodd, D-Conn., and Blanche Lincoln, D-Ark., combining the Senate Banking Committee-approved bill and a derivatives bill recently cleared by the Senate Agriculture Committee. Debate on amendments is expected to begin Tuesday.

NAFCU President Fred Becker wrote credit unions Thursday encouraging them to keep pressing lawmakers.

"While NAFCU has had a number of victories throughout this process and has been successful in obtaining an exemption for all but three credit unions from the examination and enforcement authority of the Bureau of Consumer Financial Protection, as currently written, the legislation could still negatively impact your credit union," he wrote.

He urged credit unions to press for an outright exemption for credit unions (or all non-profits) from authority of the proposed CFPB; removal of any artificial asset-size dividing line among credit unions; and preservation of NCUA's current authority to preempt state law on credit union operations.

NAFCU has also urged against inclusion of interchange fee legislation in S.3217.

## NAFCU at-large director ballots mailed

NAFCU-member credit unions were mailed official election ballots last week for two at-large seats up for grabs in this year's board of director elections, and they have until May 24 to return the completed ballots.

Four candidates, including the incumbents, are competing this year. They are:

- ◆ Ed Templeton (incumbent), president and CEO of SRP FCU (S.C.);
- ◆ Bob Marquette (incumbent), president and CEO of Members 1st FCU (Pa.);
- ◆ Kenneth Herrera, a volunteer at U.S. New Mexico FCU (N.M.);
- ◆ Kevin McMahon, a volunteer at Sandia Laboratory FCU (N.M.).

Results will be determined May 24, the day completed ballots are due back to the NAFCU secretary.

This year's regional elections were completed April 13. Charlie Thomas, a volunteer at Mid-Atlantic FCU (Md.), won reelection to a second term as Region II director. Richard Harris, president and CEO of Caltech Employees FCU (Calif.), won election to his first term as Region V director. (He will succeed Brad Beal, who is

completing his third consecutive, three-year term.)

For more on the elections, visit [www.nafcu.org/2010elections](http://www.nafcu.org/2010elections).

### 4 HMDA hearings slated

Credit unions and other interested parties are invited to participate in four public hearings the Federal Reserve Board is planning to address potential changes to its Home Mortgage Disclosure Act regulation.

The Fed Board said the hearings will help it determine whether 2002 revisions to Regulation C, which implements HMDA, helped provide useful and accurate information about the mortgage market.

The hearings will take place as follows:

- ◆ July 15 at the Federal Reserve Bank of Atlanta;
- ◆ Aug. 5 at the Federal Reserve Bank of San Francisco;
- ◆ Sept. 16 at the Federal Reserve Bank of Chicago; and
- ◆ Sept. 24 at the Federal Reserve Board in Washington.

For more, visit [www.federalreserve.gov](http://www.federalreserve.gov).

## House panel clears FHA, flood insurance bills

Bills to implement reforms for the Federal Housing Administration and National Flood Insurance Program were cleared last week by the House Financial Services Committee and await House action.

NAFCU is monitoring both measures for their impact on credit unions.

H.R. 5072, the FHA Reform Act of 2010, is intended to help FHA restore its reserves, which have dropped below the statutory 2 percent minimum. It permits the FHA to adjust its premium structure for new borrowers, increases its authority to terminate lenders' approval in response to evidence of fraud or noncompliance and requires the FHA to improve internal reporting systems so it can manage risk better and be more transparent in its reporting.

H.R. 5072 also requires two Government Accountability Office reports to Congress on FHA and Ginnie Mae as well as regular reports to Congress by the Secretary of Housing and Urban Development on trends in mortgage default rates.

H.R. 5114, the Flood Insurance Reform

Priorities Act of 2010, reauthorizes the NFIP for five years (through September 2015), phases in actuarial rates, increases maximum coverages and phases out premium subsidies for second homes and vacation homes.

The measure also delays implementation of new rate maps so those in areas newly classified as flood zones will not have to purchase coverage immediately.

### Panel clears green, rural housing bills

The House Financial Services Committee recently cleared two bills of interest to NAFCU and credit unions.

H.R. 2336, the Green Resources and Energy Efficient Neighborhoods Act, would provide financial institutions with incentives to help homeowners become more energy-efficient. H.R. 5017, the Rural Housing Preservation and Stabilization Act, would extend the single-family housing loan guarantee (section 502) portion of the Department of Agriculture's Rural Housing Service.

The bills await further action.

## Employee benefits on tap for webcast

**Credit unions that want to see if their employee benefit programs are meeting objectives** will want to participate in NAFCU's May 5 webcast.

During the webcast, credit unions will learn why implementing effective employee benefit programs is essential and how to design a plan to meet their needs.

The webcast speakers are:

- ◆ Joan Moran, CEO of Department of Labor FCU;
- ◆ Kirk Sherman, an attorney for Sherman & Patterson Ltd.;
- ◆ Sharon Camper, director of human resources at State Department FCU; and
- ◆ Richard Brock, a principal at Burns-Fazzi, Brock.

For more information, visit [www.nafcu.org/webcasts](http://www.nafcu.org/webcasts).

## Out just 10 weeks, calculators a hit

**More than 75 NAFCU member CUs were using CULookup.com's online calculators** as of April 10 and had facilitated 65,000 calculations for more than 16,000 consumer-members.

The credit union locator site, maintained by NAFCU Services, makes a total of 30 personal finance calculators available for credit unions to deploy on their own websites. For more, go to [www.CULookup.com/calculators](http://www.CULookup.com/calculators).

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## 28% APR cap proposed for some small loans

A proposed rule that would allow federal credit unions to make closed-end, small-dollar, short-term loans with a 28 percent annual percentage rate and \$20 maximum application fee was released for a 60-day comment period Thursday by the NCUA Board.

The proposal, an initiative of agency Chairman Debbie Matz, is aimed at providing credit unions the ability to break even on loans they offer as an alternative to payday products. NCUA hopes to get feedback from FCUs already providing such alternatives regarding the specifics of the proposal and on best practices.

The staff looked to a recent FDIC pilot program for banks. The pilot program allowed an APR of 36 percent, inclusive of all fees, for micro loans.

NCUA's specific APR limit for this program is 1,000 basis points above the approved usury limit, which is 18 percent currently. The application fee should reflect costs of processing each loan, not to exceed \$20.

Loans available would:

- ◆ be limited to amounts from \$200 to \$1,000;



*NCUA Board Chairman Debbie Matz (right) and Board Member Michael Fryzel question NCUA staff on small-dollar loans.*

- ◆ mature after one to six months;
- ◆ be limited to three per borrower in any rolling six-month period;
- ◆ be made one at a time; and
- ◆ may not be rolled over.

The proposal would require FCUs offering such loans to include in written loan policies limits on the aggregate number and dollar amount of loans and set underwriting guidelines to minimize risk.

Staff and the board members noted that while application fees would be capped at \$20, they should reflect only the cost of processing. A member taking out additional loans of this type after the first should probably be charged less since certain information has already been processed, they said. And fees exceeding processing

costs may be considered finance charges under Regulation Z, resulting in a violation of the interest-rate ceiling.

NAFCU is preparing a Regulatory Alert seeking members' input to the association's official comment.

### □ Part 704 waiver has 11 months more

The board also extended a waiver allowing corporate credit unions to use an alternative capital level to comply with rules affecting services to natural person credit unions.

Since April 2009, corporates have been able to use their capital levels as of Nov. 30, 2008 – before they took so many losses related to mortgage-backed securities – in meeting regulatory requirements affecting their ability to provide loan and payment services. This waiver (which NCUA can modify, case by case) was due to end upon the effective date of final amendments to the corporate regulation; it now continues for one year following the final rule's publication in the *Federal Register* – the same date new capital requirements would begin to kick in.

NCUA Chairman Debbie Matz said the final rules are expected in September.

## Stabilization fund loss reserves up \$1 billion

The share insurance fund added slightly to its loss reserve in March, but the provision for corporate credit union losses at the Temporary Corporate Credit Union Stabilization Fund rose more than \$1 billion following a reevaluation of corporates' investments, NCUA reported last week.

Stabilization fund liabilities grew from a total of \$6.059 billion in February to \$7.094 billion, according to the fund's preliminary balance sheet for March, released during Thursday's open NCUA Board meeting. The increase is seen in the provision for corporate credit union losses.

To contribute to the provision account, the stabilization fund posted negative net income of the same amount. The provision account represents expected losses in corporate credit unions.

The National Credit Union Share Insurance Fund, meanwhile, ended March with a 1.26 percent equity level, according to preliminary data. The fund had \$5.6 million in insurance loss expense in March;

year to date, that total is \$7.1 million. Its provision for credit union losses grew about \$0.7 million.

The number of CAMEL code 4 and 5 credit unions rose by 12, and code 3s rose by 25. Code 4/5 credit unions held 5.68 percent of all NCUSIF-insured shares, and code 3s held 13.86 percent (down slightly from February).

### Revised BSA/AML exam manual out

Federal regulators last week released a revised Bank Secrecy Act/Anti-Money Laundering Examination Manual, which clarifies supervisory expectations since the Aug. 24, 2007, update.

The revised manual was released Thursday by the Federal Financial Institutions Examination Council, which includes NCUA and other financial services regulators.

To access it, go to [www.ffiec.gov/bsa\\_aml\\_infobase/default.htm](http://www.ffiec.gov/bsa_aml_infobase/default.htm).

## NCUA liquidates FCU

**NCUA liquidated the \$25.4-million-in-assets Tracy FCU** of Tracy, Calif., and accepted Valley First CU's offer to purchase and assume its assets, loans and shares. Valley First CU, in Modesto, Calif., has \$317.1 million in assets.

NCUA said Tracy FCU's declining financial condition led to its closure and the subsequent P&A. It was placed in conservatorship in March.

NCUA also recently conserved St. Paul Croatian FCU in Eastlake, Ohio. The credit union has about \$238.8 million in assets and nearly 5,400 members.

## 7 banks fail

**The FDIC recently announced the closure of seven banks in Illinois**, which brings the total number of failed banks this year to 57.

The latest are expected to cost the agency's Deposit Insurance Fund an aggregate \$974 million.

## Guidance warns against HECM schemes

Guidance issued last week by the Financial Crimes Enforcement Network alerted financial institutions to recent trends in schemes against senior citizens who use the Federal Housing Administration's Home Equity Conversion Mortgage program.

The HECM is a form of reverse mortgage, and as its popularity has grown to account for nearly 100 percent of the reverse-mortgage market, crimes against participating seniors have become more prevalent, according to FinCEN.

In the guidance, FinCEN notes recent schemes that law enforcement and

Department of Housing and Urban Development officials have identified involving thefts from seniors by family members, loan officers and others. In addition, the advisory points out that unsuspecting seniors have been victimized by property flipping and other HECM-related fraud schemes.

The guidance also urges financial institutions to use certain key words when filing their suspicious activity reports in order to assist law enforcement in identifying and prosecuting these crimes.

To download the guidance, visit [www.fincen.gov](http://www.fincen.gov).

## MyMoney.gov gets makeover, new resources

The federally run financial education website [www.MyMoney.gov](http://www.MyMoney.gov) has been redesigned to provide consumers more of the information they need to make personal financial decisions, the Financial Literacy and Education Commission said last week.

Through the new MyMoney.gov, consumers will have access to financial information from the 21 federal agencies, departments and bureaus – including NCUA and others – that comprise the FLEC. Resources on the website can help users plan financially for a host of life events, such as owning a home or retiring.

Also, MyMoney.gov now includes

money management tools including a financial savings calculator and worksheets for establishing a household budget. All of these tools are available in Spanish.

NAFCU President Fred Becker recently touted credit unions as a favored source of consumer financial services and urged people to visit [CULookup.com](http://CULookup.com) to find one in their area. The association also participated in a Financial Literacy Day fair held April 27 on Capitol Hill and has unveiled three new statement inserts credit unions can use to educate members about planning for their middle years through retirement.

For more, visit [www.nafcu.org/inserts](http://www.nafcu.org/inserts).

## National fiscal commission holds first meeting

With credit unions' interests in mind, NAFCU will be watching for findings later this year of the National Commission on Fiscal Responsibility and Reform, a group seeking ways to achieve long-term fiscal sustainability for the U.S.

This bipartisan panel, which held its first meeting last week, was established by executive order this February. It has 10 Democrats and eight Republicans: six members appointed by the president (two Republican, four Democrat); and three each selected by the House and Senate leaderships. The co-chairs are Erskine Bowles, White House chief of staff during the Clinton administration; and former Senate Republican whip Alan Cranston.

NAFCU President Fred Becker said the association looks forward to seeing the commission's final report.

Noting that the association appreciates

efforts toward achieving national fiscal sustainability, he said NAFCU wants to ensure the credit union industry remains strong and responsive to its 92 million members. "To that end, NAFCU will remain focused on ensuring credit unions' continued federal tax exemption and to preserve their independent federal and share insurance structure, neither of which are paid for by tax dollars," said Becker.

President Obama said last week that there are no preconceptions about what measures will be addressed in the commission's final recommendations.

The current deficit stands at \$1.3 trillion and is expected to grow \$8 trillion over the next decade. Of that, the president attributes \$1 trillion to emergency measures addressing the recession.

For more on the commission, visit [www.fiscalcommission.gov](http://www.fiscalcommission.gov).

## NAFCU, FHFA discuss key issues

**NAFCU's push for a viable secondary mortgage market for federal credit unions was aided Thursday** in an in-person meeting between key association staff and Federal Housing Finance Agency Acting Director Ed DeMarco.

NAFCU President Fred Becker, Senior Counsel and Director of Regulatory Affairs Carrie Hunt and Associate Director of Regulatory Affairs Tessema Tefferi attended the meeting, and DeMarco was accompanied by several senior staff members. A variety of issues was discussed, but the secondary mortgage market and future of the housing-related, government-sponsored enterprises were key.

The association emphasized that from a holistic standpoint, the GSEs and Federal Home Loan Banks play an important liquidity function that must be preserved; both the GSEs and the FHLBs should be made available to credit unions as liquidity sources. It added that credit unions' commitment to high lending standards should make them more appealing to do business with than traditional mortgage lenders.

Other topics discussed included the state of the credit union industry, including corporate stabilization and the National Credit Union Share Insurance Fund; and proposed legislation on financial regulatory reform.

"We welcomed the opportunity to draw attention to the importance of credit unions on the financial landscape and have a discussion about the issues of vital significance to the industry," said Becker. "We look forward to continuing to work with the Obama administration to promote our nation's economic recovery."

## LUA published

**NCUA recently published a June 2009 Letter of Understanding** with Kappa Alpha Psi FCU.

The LUA cited recordkeeping and loan document problems and set a strict schedule for correcting those. The longest deadline provided in the table of required actions was 30 days following receipt of the LUA.