

Looking Beyond Stress Testing: NASCUS Assessing How Proposed Rule Will Impact State Charters

Rule applies to only those credit unions with assets of \$10 billion or more, but NASCUS asks the entire credit union system to pay attention to this proposed rule

On November 1, 2013, NCUA published a proposed rule addressing credit union capital. One of the changes the proposed rule would make would be to require natural person credit unions with assets of \$10 billion or more to be stress tested by NCUA, and it is this provision that has captured the discussion of what has become known, in shorthand, as the “Proposed Stress Testing Rule.” Stress testing is a major issue, and NASCUS filed extensive comments with NCUA on stress testing and the entire proposed rule. However, a look beyond stress testing reveals other significant



aspects of the proposed rule that are equally deserving of the credit union system’s attention.

First, some background to put NCUA’s proposal in context. In 2010, as part of the response to the economic crisis, Congress passed, and the president signed into law, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Section 165 of the Dodd-Frank Act directed federal bank regulators, but not NCUA, to develop

enhanced rules, including stress testing and formal capital adequacy planning, for the nation’s largest banks. Congress did not include credit unions in the enhanced supervision requirements of §165. In 2011 and 2012, the Office of the Comptroller of the

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NASCUS Regulatory Affairs Department at Work

NASCUS closely monitors issues and regulations of importance to its members and advocates on behalf of the state credit union system. NASCUS’ Regulatory Affairs Department submitted several comment letters and worked diligently to ensure the views of its members were clearly and effectively communicated in 2013. Among the many issues for which NASCUS filed comments were a proposal by NCUA to preempt state derivatives authority, NCUA’s 2013 Rule Review, and an NCUA proposal to stress test the largest credit unions.

Visit the regulatory resources page at www.nascus.org for access to our comment letters and summaries of 2013 regulations of importance to state charters.

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NASCUS Looks Forward to Keeping the State Charter Strong and Innovative in 2014

By Mary Martha Fortney, NASCUS President and CEO

As we end 2013 and begin looking ahead to 2014, I wanted to update NASCUS’ membership on some of what the association has accomplished this year and how we plan to continue the important work of advocating for a strong state credit union charter.



Mary Martha Fortney

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President's Message

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Throughout the year, NASCUS has met with many of our members to discuss what the association can do to maximize value to state credit unions. Overwhelmingly, the response has been to amplify our advocacy efforts on behalf of the membership.

We have pushed back strongly against NCUA's efforts to prohibit states from allowing their state credit unions to engage in derivatives transactions pursuant to state law. We continued our efforts to preserve state authority over investments. We have continued to caution NCUA for restraint in rulemaking related to CUSOs and consistently preserved exemptions for state-chartered credit unions from NCUA governance and field of membership rules. We worked to facilitate the ability of state charters to avail themselves of NCUA's low-income designation and its regulatory benefits where allowed by state law.

Our focus is not limited to the NCUA. NASCUS has been actively engaged with the CFPB on the effect of its rulemaking on credit unions. We have stressed to the CFPB the need to recognize that credit unions did not contribute to the abuses of the financial sector and should be carved out rulemaking intended to fix the transgressions of others. We have encouraged CFPB to develop compliance guides for smaller institutions, telling the agency that requiring an entity to sift through 900+ pages of rules to determine if it is exempt or not represents a sizeable regulatory burden.

NASCUS continues to develop and deliver high-quality training to credit union executives, staff, and directors. Our training is designed to help credit unions understand the view of the regulators and examiners on issues critical to their day-to-day operations.

NASCUS remains the only organization dedicated solely to the defense and advancement of a vibrant, safe and sound state credit union system. We believe that

Stress Test

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Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System (Federal Reserve) completed rulemaking to implement stress testing and capital adequacy planning for banks and bank holding companies with assets of more than \$50 billion and stress testing for banks with assets of between \$10 billion and \$50 billion.

Then, in November, 2013, NCUA proposed rules that in some respects copy the bank rules and in other respects are unique creations of NCUA. While all of what NCUA has proposed only applies, for now, to natural person credit unions with assets of \$10 billion or more, the entire credit union system would be wise to pay attention to this proposed rule.

NCUA has proposed placing the capital planning and stress testing requirements within Part 702, the current Prompt Corrective Action (PCA), and then renaming the entire section "Capital Adequacy," as "Prompt Corrective Action". Of course we know NCUA is developing higher capital requirements for all federally insured credit unions through a risk-based capital system with new rules likely proposed in early 2014. And there is no guarantee that additional rules such as the submission of capital plans to NCUA and stress testing will remain restricted to only the \$10 billion dollar credit unions.

In the preamble to the proposed rule, NCUA cites the concentration of the NCUSIF exposure in the four natural person credit unions with assets greater than \$10 billion. Those four credit unions had combined assets that were more than 10 times greater than the \$11.2 billion equity in the NCUSIF. But, that logic also applies below the \$10 billion threshold. In fact, the four largest credit unions with assets of less than

the state charter is the charter of choice and its survival is essential for the well being of the U.S. financial sector and the millions of credit union members that have



SAVE THE DATE
State Regulators for the
2014 NASCUS/NCUA National Meeting

When: March 10-12, 2014
Where: Pittsburgh, PA
Hotel: Omni William Penn Hotel

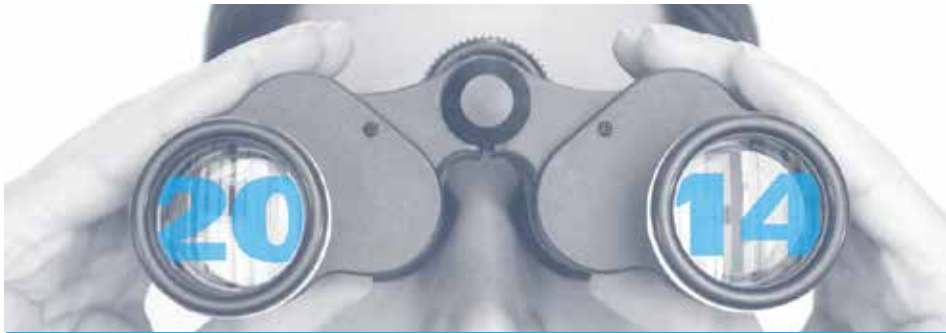
\$10 billion have more than three times the size of the NCUSIF. As you can see, it is not difficult to envision an increasing expansion of the rule to cover more and more credit unions.

Ultimately, NCUA's evolution of Part 702 and its adoption of rules intended for the nation's largest banks is a development the entire credit union system should be watching. There is no doubt that when bank regulators discuss Systemically Important Financial Institutions (SIFIs), the regulators are referring to entities whose failure could imperil the U.S. financial system. Generally, NCUA uses the term, and borrows the related regulations, for credit unions that are large enough to represent a material risk to the NCUSIF, but not nearly large enough to present any risk to the U.S. financial sector. It is here, at the nexus between U.S. systemic oversight and its implications on the global economy, and credit union systemic oversight, that the need to balance supervision and regulatory burden is most crucial. NCUA's recent proposed rule regarding capital adequacy goes beyond stress testing and invites the credit union system to enter the dialogue on these issues.

NASCUS is pondering the many questions raised by this rulemaking. Please share your thoughts with us by emailing Brian Knight, NASCUS' General Counsel, at brian@nascus.org.

entrusted their financial well being to you, our members.

We look forward to working with you to continuing to advance the charter in 2014.



Legislative Recap: What to Watch in 2014

NASCUS will continue to push for meaningful regulatory relief and advocate for credit union access to the secondary mortgage market in 2014.

Housing Finance Reform

The Senate Committee on Banking, Housing, and Urban Affairs set a public goal of marking-up a bill on housing finance reform by the end of 2013. Unfortunately, despite holding 10 hearings over the last six months on different elements of the reform process, it does not appear that the committee will be able to meet its goal. Chairman Tim Johnson (D-S.D.) has



Senate Committee Chairman Tim Johnson (D-SD)

indicated that the committee is dedicated to ensuring that the reforms are done correctly, and will not rush the process in order to conform with an artificial timetable. Consequently, the Senate will likely continue to wrestle with this issue well into 2014. Once a bill

is marked up and passed out of committee, the full Senate must approve, reject, or change all committee amendments before conducting a final passage vote. If the Senate passes a bill it will most likely be sent to a conference committee, where members of the House and Senate will be tasked with reconciling the differences between the two chambers' bills. The House

bill on Housing Finance Reform, the PATH Act (H.R. 2767), would remove all government guarantees from the secondary market. NASCUS has filed comments with the Senate Banking Committee regarding the importance of maintaining small lender access to the secondary market and will continue to advocate for a system that works for credit unions as the final version of this legislation takes shape.

Regulatory Relief

Providing regulatory relief for small community financial institutions has been a recurring focus of legislators this year, especially in the House Financial Services Committee and Committee on Small Business. Several pieces of legislation have been introduced regarding this issue, and both committees held hearings to examine regulatory burdens on small financial institutions in December. Legislation has focused primarily on ensuring that community financial institutions continue to be able to provide credit to consumers and small businesses, especially in rural and underserved areas. A few of the bills considered thus far include the CFPB Rural Designation and Petition Act (H.R. 2672), the Capital Access for Small Community Financial Institutions Act of 2013 (H.R. 3584), and the Community Lending Enhancement and Regulatory Relief Act of 2013 (CLEAR Relief Act, H.R. 1750). NASCUS is committed to ensuring that regulatory relief efforts maintain momentum in 2014, and that the committees pursue meaningful and substantial reforms including providing supplemental capital to credit unions, raising the member business lending cap, improving governance at NCUA, and creating appropriate regulatory carve-outs for small credit unions.



Please continue to check www.nascus.org for legislative updates impacting credit unions and the state system.

NISCUE Trustees Elect Jeff Dahlstrom as NISCUE Chairman

The National Institute of State Credit Union Examination recently elected Jeff Dahlstrom, co-president and CEO of Southeast Financial Credit Union in Tennessee. Dahlstrom succeeds John Kolhoff, NASCUS Chairman and Director, Michigan Office of Credit Unions. NISCUE is NASCUS' Educational Foundation.



Jeff Dahlstrom, co-president and CEO of Southeast Financial Credit Union in Tennessee

NISCUE sponsors professional training programs specifically designed by and for state credit union department examiners and senior staff. Through these programs, state credit union departments can receive quality training at an affordable cost. This training is offered regionally and addresses different needs

between states. NASCUS credit union members contribute funds to NISCUE to underwrite the cost of examiner training. This funding structure ensures that training can still be offered regardless of economic conditions.

"A well-trained credit union examination staff is a prerequisite for effective financial institution regulatory agencies and for a dynamic and healthy credit union system," Dahlstrom said.

The NISCUE Trustees are as follows:

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Jeff Dahlstrom

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Secretary/Treasurer
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Patty Idol

Mountain Credit Union, Tennessee

Mary Martha Fortney

NASCUS President and CEO



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Scenes from

NASCUS SUMMIT 2013

COEUR D'ALENE IDAHO · SEPTEMBER 18-20, 2013



The state credit union system's leaders, state and federal regulators, and dual-chartering supporters joined NASCUS for its annual State System Summit, which was held September 18-20, 2013, in Coeur D'Alene, Idaho. Discussions at the NASCUS Summit focused on how regulators and credit unions can continue to operate and thrive in this complex economic environment. Pictured at the 2013 summit, from top left, are: NCUA Chairman Debbie Matz, and NASCUS President and CEO Mary Martha Fortney, and Gavin Gee, Director of the Idaho Department of Finance. Below, the NASCUS Credit Union Advisory Council gathered for a group photo during the NASCUS Credit Union Annual Meeting.





CLOCKWISE FROM TOP: NASCUS State Regulators and NCUA Management and Officials Participate in the NASCUS/NCUA Interagency Dialogue.

Northwest Credit Union Association president and CEO and NASCUS member Troy Stang discussed capital and other issues at the NASCUS Credit Union "Coffee with the CEO."

Parker Cann, BECU's General Counsel and a NASCUS Advisory Council member, received the 2013 Pierre Jay Award, which recognizes individuals whose contributions have benefited the state credit union system in a significant way.

Frank Drake, partner with Raleigh, N.C., law firm Smith Debnam LLP, discusses bankruptcy issues with NASCUS members.



ALL PHOTOS BY ALAN BISSON



NASCUS Thanks 2013 NISCUE Donors

The National Institute of State Credit Union Examination (NISCUE), through the generosity of NASCUS Credit Union Advisory Council members, funds training programs designed specifically for state credit union examiners. These programs are offered throughout the year at locations convenient to state credit union agencies and online to ensure that training is available when examiners in your state need it.

In 2013, NISCUE sponsored training focused on enhancing examiners' skill levels in several states, concentrating on critical examination areas including asset/liability management, information technology, member business lending and consumer compliance.

NASCUS thanks the following credit union members who donated in 2013 to fund programs for state examiners through donations to NISCUE:

Alabama Telco Credit Union, AL
 Alabama Teachers Credit Union, AL
 Arizona State Credit Union, AZ
 Colorado Credit Union, CO
 Sooper Credit Union, CO
 Flowers Employees Credit League Credit Union, GA
 Combined Employees Credit Union, GA
 Pinnacle Credit Union, GA
 Mutual Savings Credit Union, GA
 Delta Community Credit Union, GA
 Idaho Central Credit Union, ID
 Motorola Employees Credit Union, IL
 First Security Credit Union, IL
 Forum Credit Union, IN
 Bluestem Community Credit Union, KS
 New Century Credit Union, KS
 Tangipahoa Parish Teachers Credit Union, LA
 Michoud Credit Union, LA
 River Cities Credit Union, LA
 Astera Credit Union, MI
 Chippewa County Credit Union, MI
 My Postal Credit Union, MI
 Kalsee Credit Union, MI
 Total Community Credit Union, MI
 Co-Op Services Credit Union, MI
 Great Lakes Members Credit Union, MI
 Bear Paw Credit Union, MT
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 Members Credit Union, NC
 Hanesbrands Credit Union, NC
 Blue Flame Credit Union, NC
 Charlotte Fire Department Credit Union, NC
 Credit Union of New Jersey, NJ
 GROhio Community Credit Union, OH
 Greater Cincinnati Credit Union, Inc., OH
 Genesis Employees Credit Union, OH
 Universal 1 Credit Union, OH
 Kemba Credit Union, OH
 Millstream Area Credit Union, OH
 Postal Family Credit Union, OH
 BSE Credit Union, OH

Akron Firefighters Credit Union, OH
 Credit Union One Inc., OH
 Unitus Community Credit Union, OR
 Benton County Schools Credit Union, OR
 White Rose Credit Union, PA
 Community Regional Credit Union, PA
 Bowater Employees Credit Union, TN
 Kimberly Clark Credit Union, TN
 The Tennessee Credit Union, TN
 Knoxville News Sentinel Employees Credit Union, TN

TNConnect Credit Union, TN
 Life Credit Union, TN
 Southeast Financial Credit Union, TN
 Mountain State Credit Union, TN
 Southern Star Credit Union, TX
 Texas Workforce Credit Union, TX
 Linkage Credit Union, TX
 Amarillo Postal Employees Credit Union, TX
 Memorial Credit Union, TX
 San Juan Credit Union, UT
 P&S Credit Union, UT
 Old Dominion University Credit Union, VA

See NISCUE DONORS Page 8



NASCUS' Florida Directors College attendees gather for a group photo at Suncoast Schools Federal Credit Union in Tampa, Fla.

Close to 3000 Directors Trained in NASCUS Directors College Series

NASCUS will continue successful directors training in 2014

Enhancing state credit union corporate governance is a NASCUS priority. With the help of the state regulators and leagues, NASCUS has for the past several years traveled the country to provide continuing education for directors concentrating on directors' understanding of the critical statutory, fiduciary and regulatory responsibilities of a director.

NASCUS has worked with state regulators and state leagues to provide training to close to 3,000 credit union directors and other volunteers in Virginia, Washington, North Carolina, Michigan, Utah, Wisconsin, Texas, Tennessee, Massachusetts, Vermont, New Hampshire, Connecticut, Florida, California, Colorado and Missouri.

The goals of NASCUS' Directors Colleges

are to provide a forum to connect directors with regulators in their respective states; to increase directors' understanding of the expectations regulators have of them; and to enhance directors' knowledge of their essential compliance and regulatory obligations.

NASCUS Directors Colleges are targeted to all levels, from the new volunteer to the seasoned director. Our colleges have become annual events in several states, including Tennessee, Colorado, Wisconsin, Florida and North Carolina.

NASCUS looks forward to working with NASCUS regulators, along with our system partners at the state credit union leagues, to make 2014 another banner year for the state credit union director of education. Contact Isaida Woo at isaida@nascus.org with your questions about NASCUS Directors Colleges.

NASCUS Upcoming Educational Events

Email isaida@nascus.org with your questions

Register online for all events
at www.nascus.org.

NASCUS CT Board of Directors College

*Hartford, CT
January 31, 2014*

The National Association of State Credit Union Supervisors (NASCUS), the Connecticut Department of Banking Financial Institutions Division, and the Connecticut Credit Union League invite you to participate in the First Annual NASCUS Connecticut Directors Colleges, scheduled for January 31, 2014. The college will take place at The University of Hartford.

The day will feature sessions on national issues impacting credit unions – a vision for the future – marketing and succession planning and BSA for board members.

The cost of the NASCUS Directors College is \$75. This includes registration, a continental breakfast, and lunch. For more information please contact Isaida Woo at isaida@nascus.org.

NASCUS Regulatory Roundtable

*San Francisco, CA
May 6-8, 2014*

The Examiners Forum is scheduled for May 6-8, 2014, in San Francisco, CA. The Examiners Forum is open to both examiners and credit unions.

Some of our topics include employee and internal fraud, external fraud, and plastic card, wire transfer and EFT fraud. Attendees will also discuss Asset Liability management and member-business lending.

NASCUS Washington Examiners Forum

*Seattle, WA
May 2014*

The National Association of State Credit Union Supervisors (NASCUS), and the state of Washington, Division of Credit Unions, invites you to participate in a two-and-a-half-day session focusing on

asset liability management. We will focus on private student loans, loan participations, subprime lending, and concluding with an update on compliance.

NASCUS/NCUA Regulators 2014 National Meeting

*Pittsburgh, PA
March 10-12, 2014*

The annual NCUA/NASCUS National Meeting will be held Tuesday, March 11, and Wednesday 12, 2014. Monday and Thursday will be the official travel days. The meeting will take place at the Omni William Penn Hotel in Pittsburgh. Registration instructions and travel information will be forwarded to state regulators soon.

NASCUS Summit 2014

*Nashville, TN
Omni Hotel
September 10-12, 2014*

Save the date! The NASCUS Summit is scheduled for September 10-12, 2014, in Nashville, TN.

Hotel Information:

Omni Hotel
250 5th Avenue South
Nashville, TN 37203
Phone: (800) 843-6664,
Fax: (615) 743-6002

NASCUS Michigan Industry Day

October 2014

The National Association of State Credit Union Supervisors (NASCUS) and the Michigan Office of Financial and Insurance Regulation (OFIR) invite you to participate in the Credit Union Examiner Conference. The session is open to Michigan directors and executive management. The event will provide an opportunity for the industry and examiners to jointly discuss the current Michigan financial environment and changes in credit union regulations, as well as industry and examination-related issues.

NASCUS/CUNA BSA Conference

*Las Vegas, NV
October 26-29, 2014*

In partnership with NASCUS, the CUNA Bank Secrecy Act (BSA) Conference brings together BSA compliance officers, state and federal examiners, industry experts and regulators for discussion, networking, and education on BSA compliance issues. This annual conference covers all of the BSA statutory and regulatory training requirements that compliance professionals need in order to comprehend and comply with the complex federal BSA law.

NASCUS Archived Webinars

NASCUS offers previously recorded webinars to credit unions and regulators. Access to each recording is \$199 for members, and is offered on an on-demand basis, allowing NASCUS members the flexibility to access the presentations at times convenient to them. For more information, contact Isaida Woo a isaida@nascus.org.



North Carolina Credit Union Administrator Rose Conner discusses examination issues with North Carolina Credit Union Board members at the Fifth Annual North Carolina Directors College.



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NASCUS Accreditation

Focus on Excellence

The NASCUS mission is to enhance state credit union supervision and advocate for a safe and sound credit union system. As part of this mission, the NASCUS Accreditation Program was established in 1987 under the direction of the NASCUS Performance Standards Committee. The Accreditation Program is specifically designed to recognize and promote excellence in state credit union regulation and supervision. While evolving over the years in response to changes in the financial services industry and regulatory environment, the NASCUS Accreditation Program remains solidly focused on strengthening the state credit union regulatory system.

In practice, the NASCUS Accreditation Program involves a comprehensive review and assessment of the critical elements considered fundamental in operating a highly effective state credit union regulatory department. Each NASCUS accreditation review documents and evaluates the state regulatory agency's administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures and systems, and legislative powers. The high standards required to earn and maintain NASCUS accreditation support public interest goals by identifying highly competent state credit union regulatory agencies and strengthening credit union regulation overall. If you have any questions please contact Roger Little, NASCUS' accreditation administrator, at roger@nascus.org.

NASCUS Accredited States	
State	Year Accredited
Alabama	1998
Arizona	1996
California	1999
Colorado	1996
Connecticut	1990
Florida	2004
Georgia	1996
Idaho	1990
Indiana	1990
Kansas	1995
Kentucky	1992
Louisiana	1995
Massachusetts	1996

NASCUS Accredited States	
State	Year Accredited
Michigan	1989
Missouri	1990
North Carolina	1992
North Dakota	2000
Ohio	2001
Pennsylvania	2001
Tennessee	1995
Texas	1996
Utah	1995
Vermont	1996
Virginia	2002
Washington	1999
Wisconsin	2001



Thanks to NASCUS Credit Union and Regulator Members for Participation in Joint Teleconference

NASCUS thanks our credit unions and regulator members for joining us Dec. 18, 2013, for the first quarterly teleconference of NASCUS state credit unions and state regulators.

During this call, members discussed NCUA's derivatives proposal and final CUSO rule, and how these may impact state charters and state regulation. Also discussed was NCUA's overhead transfer rate (OTR).

The OTR is the mechanism by which the Federal Credit Union Act allows NCUA to use monies from the shared insurance fund for its administration. At its November board meeting, the NCUA increased the OTR to 69.2 percent from the previous year's 59.1 percent. NASCUS continues to believe NCUA's methodology for calculating the OTR is flawed. NCUA counts virtually all of its safety and soundness work for federal credit unions toward the overhead transfer. As a result, FCUs pay an operating fee that does not reflect the true cost of examinations. The difference between the operating fee and the true cost of examining federal credit unions is being taken from the NCUSIF, and therefore the state system is subsidizing the federal system. This subsidization of federal credit union examinations is inconsistent with a plain reading of the Federal Credit Union Act.

Thanks for providing feedback on these issues. We look forward to the next call, which will be held in the first quarter of 2014.

Though we meet regularly in person at our summit, during educational sessions, and throughout the year via phone with our committees, NASCUS wants to provide our state credit unions and state regulators more opportunities to discuss issues impacting the state charter today.

National Association of State Credit Union Supervisors

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Contact NASCUS' Communications department by emailing elizabeth@nascus.org.

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NISCUE Donors

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