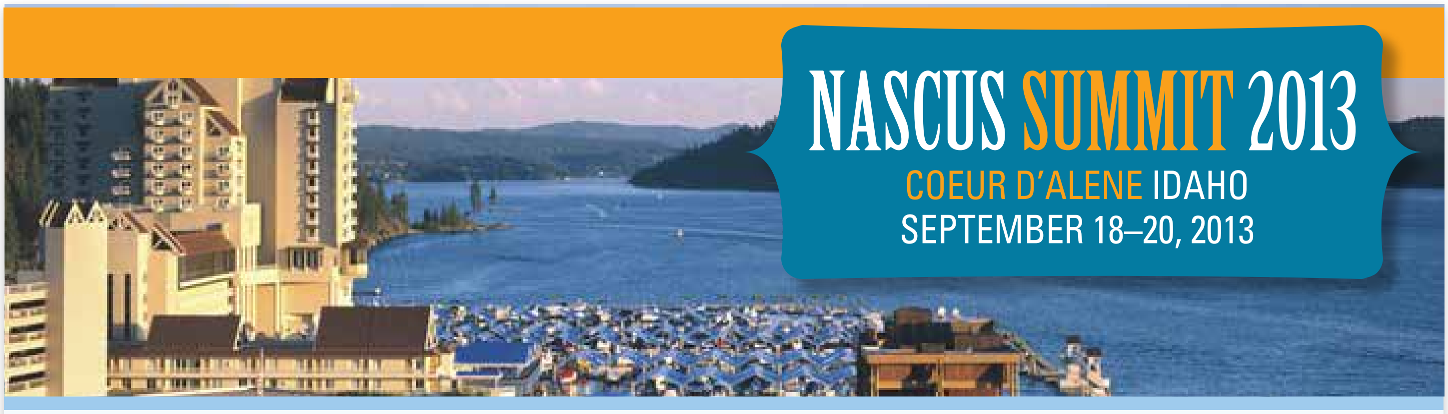
NASCUS Stateline

THIRD QUARTER 2013

The Official Publication of the National Association of State Credit Union Supervisors



NASCUS' 2013 Summit Focuses on Strengthening State Regulatory Agencies and Credit Unions

Our annual conference features state system leaders and experts as well as opportunity for dialogue

This year's NASCUS Summit, Sept. 18-20, 2013 in Coeur d'Alene, Idaho is a forum for collaboration on the most critical economic, regulatory, legislative and examination issues facing the state credit union system today. The agenda features state and federal regulators, policymakers, credit union leaders and other system experts discussing how state credit unions can thrive in today's challenging regulatory, economic and legislative climate.

During the opening general session on Wednesday, National Credit Union Administration (NCUA) Chairman Debbie Matz will focus on the agency's priorities for the coming year. CUNA Mutual Group's President and CEO Jeff Post is scheduled to discuss the need for system collaboration to fight the increasingly sophisticated fraud activity credit

See 2013 SUMMIT Page 3

NASCUS Participates in Congressional Briefing on Supplemental Capital

NASCUS' Fortney Stresses Safety and Soundness

The Coalition for Credit Union Access hosted a Congressional Briefing on July 18 on H.R. 719, the credit union supplemental capital bill. The Briefing was a success, with standing room only turnout. Approximately 45 Congressional staffers and several members of the media were in attendance. The Briefing provided an opportunity to raise awareness on the need for supplemental capital and how supplemental capital could help credit unions meet member demands and support communities in their economic and jobs recovery.

Congressman Peter King (R-NY) and Congressman Brad Sherman (D-CA), the lead sponsors of H.R. 719, provided keynote remarks. Notably, Congressman King said that he is actively working to advance H.R. 719 by having it included in a moving legislative vehicle. Congressman Sherman indicated that he was pleased with the momentum of the bill.

See SUPPLEMENTAL CAPITAL Page 3

IN THIS ISSUE

Supplemental Capital: A Tool for Safety and Soundness

By Mary Martha Fortney, NASCUS President and CEO


Mary Martha Fortney

Regulators have a very specific mission: to provide oversight in the best interest of American consumers. So why are America's state credit union supervisors — those who work to ensure the stability

See PRESIDENTS MESSAGE Page 2

President's Message

continued from page 1

of state credit unions across the country — voicing our support for HR 719, the Capital Access for Small Businesses and Jobs Act? Because it would provide the credit union system with more safety and soundness by allowing them access to new sources of capital.

> Why are America's state credit union supervisors — those who work to ensure the stability of state credit unions across the country — voicing our support for HR 719, the Capital Access for Small Businesses and Jobs Act? Because it would provide the credit union system with more safety and soundness by allowing them access to new sources of capital.

This is crucial, because more than 95 million Americans currently use credit unions for their financial services needs. By making credit unions more secure, HR 719 would provide added protection for the consumers who are their members, as well. This is the ultimate goal for us as regulators.

Right now, credit union access to capital is limited to the retained earnings from their net income; in other words, their savings. Supplemental capital, quite simply, would act as a buffer to share insurance for a credit union in the rare occasion in which it is needed. It is already used as a resource by corporate credit unions and low-income credit unions in the U.S. It is even available to credit unions outside of the U.S.

Now, it is time to provide healthy and well-managed credit unions with the same tools to protect their members — and, in so doing, to protect their members' financial futures.

This access to supplemental capital would not be an unlimited cash cow for credit unions. America's state credit union regulators take seriously their commitment to the consumers whose financial stability depends on the soundness of their credit unions.

First and foremost, any access to supplemental capital must maintain the cooperative nature of credit unions; importantly, HR 719 does that.

Other essential regulatory principles include full investor protection and robust safeguards, prudent safety and soundness requirements, and regulatory approval of supplemental capital plans.

In other words, credit unions that accept supplemental capital must remain credit unions: reliable, cooperative, not-for-profit financial services providers that are subject to vigorous oversight. The regulatory oversight would be robust for those credit unions that obtain this authority. Access to supplemental capital would be subject to prudent safeguards and risk parameters.

It is also important to note that passage of HR 719 would simply make this capital tool available to eligible credit unions, rather than automatically distributing capital; supplemental capital would not be appropriate for all credit unions, nor would every credit unions need access to it. But as a soundness measure, access to supplemental capital would help some credit unions, when they need it.

Credit unions are reliable, secure financial institutions; the need for access to supplemental capital is not meant to suggest an impending threat to their stability.

However, we have all seen how rapidly our economy can change. Allowing credit unions access to supplemental capital with regulatory approval and robust oversight will improve their ability to react quickly to changing market conditions, protect their members safely into the future, and weather economic challenges that might loom on the horizon.

America's consumers work hard to prepare for their futures by, for example, saving money and buying homes. By seeking access to capital, credit unions are trying to do the same thing.

In providing that access to credit unions, Congress has the opportunity to give credit unions an important tool for security that is both regulated and safeguarded. In the end, HR 719 would enable credit unions to build quality capital, both strengthening them and benefiting their members.

NASCUS Installs New Leaders, Extends Deep Appreciation to Former Leadership

At the 2013 NASCUS Summit, NASCUS will welcome a new Chairman for a two-year term; Advisory Council Chairman continues term.

This year's State System Summit marks the beginning of a new term for the NASCUS Chairmanship.

John Kolhoff, the new NASCUS Chairman

At the 2013 NASCUS Annual Meeting on Sept. 18, the successful tenure of NASCUS Chairman Orla Beth Peck (UT) will come to an end and the NASCUS chairmanship will be assumed by John Kolhoff from Michigan for a two-year term. Community First Credit Unions President and CEO Catherine Tierney will begin another year as the NASCUS Credit Union Advisory Council Chairman.

"NASCUS is grateful for Orla Beth's and Cathie's strong leadership of NASCUS over the past two years, as they both made lasting contributions to NASCUS in a particularly challenging economic time" said NASCUS President and CEO Mary Martha Fortney. "We deeply appreciate Cathie's willingness to serve as the NASCUS Advisory Council Chair for another year and continue to raise credit union awareness of how NASCUS strengthens state credit unions."

Catherine Tierney, NASCUS Advisory Council Chairman

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

NASCUS Summit 2013

continued from page 1

unions are dealing with today. The session will close with the credit union leadership forum. Here, those at the helms of the national credit union associations -Mary Martha Fortney, NASCUS; Dan Berger, NAFCU; and Bill Cheney, CUNA — will discuss how the organizations are working on the credit union system's priorities. The Summit's Wednesday agenda also includes the Annual Meetings of NASCUS regulators and NASCUS credit union members, as well as educational breakouts. The opening day will close with a special NASCUS Chairmen's dinner cruise.

NASCUS regulators will meet with NCUA for the annual Interagency Dialogue for state and federal regulators on Thursday. During the Credit Union Issues Briefing at the same time, credit union attendees will discuss the economy with Bill Berg, League of Southeastern Credit Unions and Payday Lending Issues with Heather Morton of NCSL. Also on Thursday afternoon, former NASCUS staffer, Michael Scanlon, currently with K&L Gates, LLP and Steve Farrar from NCUA will discuss the future of regulatory capital.

NCUA Board Member Rick Metsger will address attendees during a bonus session on Friday morning. The Summit will close on Friday with presentations on director compensation, information technology and cyber crimes.

NASCUS thanks this year's Summit's participants and speakers. We ask you to mark your calendars and plan to be with us in Nashville, Tennessee for the 2014 Summit, September 10-12, 2014.

NASCUS Welcomes Sabrina Cotter as Regulatory and Public Policy Counsel

NASCUS is pleased to announce Sabrina Cotter joined NASCUS in August, 2013. She holds a law degree from the George Mason University School of Law, and is currently a candidate for admission to the Virginia Bar. Prior to law school, Ms. Cotter was an Operations Analyst in the Investment Bank for JPMorgan Chase & Co. for three years. During law school, she held internships with the enforcement departments at FINRA and the FDIC, and served as the Editor-in-Chief of the George Mason Journal of International Commercial Law. As Regulatory and Public Policy Counsel for NASCUS, Ms. Cotter will focus on state and federal regulatory analysis, policy development, and compliance guidance.

She holds a Bachelor of Arts degree in International Affairs from George Washington University, with honors.

Sabrina Cotter, NASCUS' new Regulatory and Public Policy Counsel

Bill Cheney, President and CEO of CUNA; Bill Mellin, President and CEO of CUANY; and Mary Martha Fortney advocate for Supplemental Capital at Congressional Briefing.

Supplemental Capital

continued from page 1

NASCUS President and CEO Mary Martha Fortney, CUNA President and CEO Bill Cheney, NAFCU President and CEO Fred Becker, and Bill Mellin, President and CEO of CUANY served on a panel which addressed how Supplemental Capital can enable credit unions to more fully serve credit unions members and potential members. Providing the state regulatory perspective, NASCUS' Fortney stressed that regulators will set parameters so that credit union safety and soundness is not just preserved, but enhanced.

"NASCUS and state regulators have long recognized that credit unions are disadvantaged by a capital structure limited to retained earnings, and this legislation would provide the solution to this problem. We are pleased to be a part of this important Congressional Briefing," said NASCUS President and CEO Mary Martha Fortney.

NASCUS is currently meeting with members of the United States Senate and House of Representatives to continue the work of making Supplemental Capital a reality for credit unions.

Follow NASCUS on Twitter

NASCUS can be found on Twitter as TheNASCUS. Follow us for NASCUS news and announcements. Contact Jenny Champagne at jenny@nascus.org with your questions.

Stateline Extra:

CU Commentary from Summit Speakers

Editors Note: The following articles are contributions from some of our 2013 State System Summit faculty on hot topics in credit union regulation, operations and compliance issues.

Mitigating Risks on the Horizon

By Debbie Matz
National Credit Union Administration

As regulators, we often get asked what our main concerns are for the future. I know each of the state regulators has their own list; here's mine:

1) Interest Rate Risk

Interest rates are beginning to rise. Now it's a question of by how much, and how quickly.

Debbie Matz

Typically, when we think of interest rate risk, we think about loans — credit unions making 30-year mortgages at 3%, for instance. That is a huge concern.

But now, on top of that, many credit unions have rate sensitivity in a majority of deposits. The share of "non-core deposits" (money market accounts, share certificates, and other interest-sensitive deposits) has climbed from 44% to 56%.

Still, credit unions are not reducing concentrations of fixed-rate real estate loans and long-term investments. In fact, credit unions' concentration of fixed-rate real estate has nearly doubled from 11% to 20%.

A rapid reversal of recent record-low rates would rock the foundation of many credit unions' balance sheets. The average credit union with this risk exposure could find their net worth reduced by 20%. Thousands of credit unions would realize negative earnings.

All federally insured credit unions over $50 million in assets are required to have a plan to mitigate interest rate risk. Now it's imperative for these credit unions to review their plans and make the necessary adjustments to account for a changing interest rate environment.

2) Reaching for Higher Yields

As a result of the record-long period of low interest rates, some credit unions are reaching for higher yields by taking risks on less established products.

The fastest-growing of these products is private student loans, which have nearly doubled on credit union balance sheets in less than two years.

Of course, student loans are a very important service. They can help diversify the portfolio and build member loyalty while providing higher education.

But credit union officials need to be aware that private student loans are not backed by the full faith and credit of the US government.

In many cases, student loans are originated by a third party and are privately guaranteed. Credit unions booking these loans are expected to carefully investigate the financials of the originator and the insurer. It's especially important to verify that the insurer has the experience and the capacity to repay when loans default.

While student loans appear as an asset on the books, they may not generate any significant cash flow for four years or more, until the student graduates—and that is also when defaults begin.

Credit unions that offer private student loans through third parties should be aware of the risks, do their due diligence, and limit their exposure.

These are critical steps that credit unions are expected to take with all third parties.

3) Third-Party Risks

Credit unions are increasingly partnering with third parties in almost every area of operations.

We certainly understand why: Third parties can help credit unions gain economies of scale, control costs, and enhance member services.

However, third-party relationships also invite a wide variety of risks:

- **Credit Risks**—poorly underwritten real estate, business loans and participations;
- **Reputation Risks**—fraudulent mortgage sales and breaches of confidential member records;
- **Compliance Risks**—violations of laws and regulations, and non-compliance with credit union policies and procedures;
- **Operational Risks**—failed processes and systems; and
- **Transaction Risks**—problems with service delivery to members.

Performing due diligence and setting sound external controls are more important than ever to stay on top of third-party risks.

Before entering into any arrangement with a third party, credit unions are expected to conduct thorough due diligence. This means verifying that all third parties (including CUSOs and even other credit unions) are in sound financial condition and meet the highest standards for underwriting, security, and service delivery.

Many third parties also sub-contract to other third parties. So credit unions are expected to conduct due diligence not only on the third parties, but also on their subcontractors.

As soon a credit union begins or renews a relationship with a third party, that's the time to establish external controls:

- Set limits on certain third-party activity;
- Arrange for regular monitoring and reporting of third parties' performance; and
- Regularly evaluate whether the third party is meeting its responsibilities, and also whether the relationship is meeting the credit union's expectations.

See SUMMIT SPEAKERS Page 5

Stateline Extra: Summit Speakers

continued from page 4

4) Cyber-Security Risks

Attacks through the Internet have compromised credit unions' web applications, computer systems, and databases.

The most common types of attacks have become more frequent and more complex:

- **Distributed Denial-of-Service (DDoS)**—attacks that paralyze a credit union's website by bombarding it with thousands of automated requests at the same time. NCUA recently issued a Risk Alert providing credit unions with DDoS mitigation strategies. These strategies include risk assessments to determine the impact of an attack, as well as incident response programs with procedures to respond to an attack.
- **Computer Malware**—software programmed by attackers to access private systems, disrupt operations, and gain sensitive information.
- **Social Engineering**—a new term for an old con game that often preys on the elderly: A con artist tricks a trusting person into revealing their account number, user ID and password.

NCUA also suggests strategies for credit unions to reduce the risk of account takeovers and unauthorized funds transfers: Update existing risk assessments annually to reflect changes in services and threats; implement strong authentication controls; and improve transaction monitoring for fraudulent activity.

Our intent at NCUA, as at state regulatory agencies, is to help credit unions succeed. Working together with state regulators and credit unions, we have succeeded in helping the industry survive the economic downturn and thrive through a steady recovery.

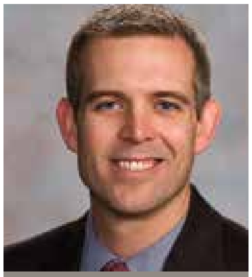
Now the risks on the horizon can be mitigated if all of us—regulators and credit unions—remain vigilant. If NCUA and state regulators set high standards, and if credit unions follow these strategies for success, the future horizon will look even brighter than the rear-view mirror.

Debbie Matz is Chairman of the National Credit Union Administration (NCUA). She can be reached at 703-518-6301 or dmatz@ncua.gov.

Three Emerging Fraud Trends

By John Wallace
Vice President of Commerical Products, CUNA Mutual Group

Defaults and delinquencies continue to decrease in the credit union industry as the U.S. economy continues its slow recovery. But losses attributed to fraud—by employees and by outsiders—appear to be as great a risk as ever.



John Wallace

Three emerging types of fraud, according to CUNA Mutual Group claims experience, are employee dishonesty, HELOC funds transfer scams, and other electronic crimes such as account takeovers

Investing in technology can help thwart fraud, but even more important are staff training and strong internal controls.

Employee Dishonesty: The "It Can't Happen Here" Syndrome

Severity, not frequency, is what makes employee dishonesty so dangerous. Over a five-year period ending in 2012, employee dishonesty claims represented only 14% of the total number of claims submitted by CUNA Mutual Group fidelity bond holders—*but 45% of the total claim dollars paid*. The claims were mainly attributed to cash theft, fraudulent loans, or general ledger manipulation.

According to the Association of Certified Fraud Examiners' (ACFE) 2012 study on occupational fraud, the banking/financial services industry was the most frequently victimized of the 23 industries surveyed. Employee fraud schemes lasted a median of 18 months before being detected. And the median loss was higher for longer-tenured employees: $100,000 for those employed one to five years, $200,000 for six to 10 years, and $229,000 for more than 10 years.

The ACFE report measured which internal controls appear to catch perpetrators sooner. The top controls were:

- **Job rotation and mandatory vacation.**
- **Rewards for whistleblowers.**
- **Surprise internal audits.**
- **Having a written "code of conduct" or a fraud policy.**

At credit unions, fraud is often the result of one person having too much control over a given process. For example, one employee shouldn't have the authority to originate, approve, and disburse the same loan. Segregating duties is a basic safeguard.

A written fraud policy and detailed cash handling procedures are a must. But they won't work if staff members at every level aren't trained regularly.

Callbacks Don't Deter HELOC Funds Transfer Scams

Thieves have been aggressively targeting HELOC funds in perpetrating wire transfer fraud. From 2007 through 2012, credit unions reported more than$25 million in this type of loss. The median loss reported in 2012 was $175,000, including some of nearly $1 million.

A typical scam works like this:

- A fraudster uses public mortgage records to find HELOCs with high credit limits.
- By hacking a victim's computer and/or accessing public databases, the fraudster gathers information and uses it to impersonate the victim.
- The fraudster has the victim's home phone forwarded to the fraudster's untraceable cell phone, or calls the credit union and convinces an employee to change the victim's phone number, and possibly also reset the victim's online banking password.
- The fraudster submits a request to transfer HELOC funds to the victim's checking or savings account, then initiates a wire transfer.
- To verify the transfer, the credit union calls the member, using the new phone number that is controlled by the fraudster, who approves the transfer.

Scammers have learned other methods of impersonating members and initiating bogus fund transfers. The point is, callbacks aren't enough anymore. One option is simply not to accept remote requests for wire transfers above a set threshold. For remote requests below the threshold, your

See SUMMIT SPEAKERS Page 6

Richard Metsger Sworn in as NCUA Board Member

The Honorable Richard T. Metsger was sworn on August 23 at a private swearing-in ceremony in the Senate Banking Committee hearing room. Metsger provided attendees with comments about his vision as the newest board member, noting that regulators need to be sure credit unions can be innovators. “My vision is for NCUA to be recognized as an agency that manages its own fiscal house well, proposes regulatory action that is effectively targeted to achieve the desired outcome without placing unnecessary burdens on the credit unions themselves and, above all, maintains the confidence and trust the American public places in their local credit union,” Metsger said.

NASCUS President and CEO Mary Martha Fortney attended the ceremony and the celebratory luncheon which followed in Metsger’s honor. “I offer congratulations to you from the NASCUS Board, Credit Union Advisory Council, NASCUS regulators and state credit unions,” Fortney said. “We look forward to working with you in the coming months on matters of concern and interest,” she added.

NCUA General Counsel Mike McKenna administered the oath of office. Metsger is the 20th Board Member of the NCUA.

Mary Martha Fortney and new NCUA Board member Rick Metsger at Confirmation Hearing on Aug. 23.

2013 NASCUS/CUNA BSA Conference to be held November 3-6, Orlando, Florida

This year’s conference once again features a full agenda of important information for BSA examiners and compliance professionals. Presentations from NCUA, FinCEN, OFAC and the State of Florida will provide attendees a broad cross section of the views of the regulators. Panel discussions will provide insight into the future of BSA as well as the changing role of, and expectations for, compliance officers. Other experts will share insight into critical topics such the pending obligations under FATCA, the growing role of AML in combating elder fraud, and conducting enterprise wide risk assessments. Attendees will also learn what happens when credit unions come under scrutiny for significant violations and survey the future of financial services.

CUNA

NASCUS

Of course, the 2013 Conference will also provide ample opportunity for networking with peers and conclude with the immensely popular Open Forum with our panel of experts.

NASCUS members registering for this event will receive a $100 dollar discount on the registration fee by entering the code NASCUS100 on the registration page!!

For more information on this event, see the NASCUS website.

Stateline Extra: Summit Speakers

continued from page 5

credit union could deploy account passwords in the verification process, and/or use an identity verification service.

Whichever method you choose, it’s critical to make your staff aware of these scams and how to spot them.

Members Need Help Securing Accounts Against Takeovers

A 2013 white paper by ThreatMatrix cites research that estimates half of all malware strains are designed to compromise consumers’ account credentials (identity theft), and that 50% of e-commerce merchants report a “significant increase” in account takeover.

ThreatMatrix attributes part of the increase in takeovers to techniques thieves have honed by infiltrating financial services accounts. Thieves seem to be moving on to merchants as financial institutions install layered defenses against account takeover.

If your credit union isn’t part of the industry’s migration to better safeguards, you can be sure e-criminals will catch on quickly.

Consider these steps to protect against account takeovers:

Member education: Help your members understand how and why to create strong passwords and PINs. Also, inform them of techniques to protect their computers from malware, such as keystroke recorders that criminals use to collect login information.

Multi-factor authentication: Even strong passwords can be compromised. Consider adding a site key or other additional authentication.

Alerts for online account changes: Once thieves have broken into a member’s account, they’ll often make changes that will allow them to channel money to accounts they — or their “money mules” — control. Set up your system to notify members when certain types of online changes are made to their accounts, such as when a new payee is added.

John Wallace is vice president of Commercial Products for CUNA Mutual Group. Contact him at John.Wallace@cunamutual.com, or 800.356.2644, ext. 665-7151.

NASCUS Upcoming Educational Events

Email **isaida@nascus.org** with your questions

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

NASCUS Board of Directors Colleges

September 27, 2013, Knoxville, TN
December 4, 2013, Tampa, FL

NASCUS is pleased to announce we are bringing our Directors College to Knoxville, TN on Friday, September 27 and to Tampa, Florida on December 4.

The day features sessions on Critical Compliance Issues, BSA, Current Exam Issues for Directors.

Registration is $199 per person for NASCUS members and $215 for non-members. If you have any questions, email **isaida@nascus.org**.

NASCUS Regional Meetings Scheduled in MO, CT and GA in October

NASCUS will continue its regional regulator meeting series to allow our state credit union regulators to meet in small groups to discuss issues of concern with their peers. Three regional meetings will take place in conjunction with the Conference of State Bank Supervisors (CSBS) Regional Meetings as follows:

- District II and IV meeting at the Federal Reserve Bank of St. Louis, St. Louis, MO: *October 1, 8am - Noon*
- District III meeting at the FDIC Regional Office, Atlanta, GA: *October 21, 8am - Noon*
- District I meeting at the Saybrook Point Inn, Saybrook, CT: *October 28, 1 - 5pm*

NASCUS regulators from across the nation are welcome at the NASCUS regional meeting. To register, or if you have any questions, email Jenny Champagne at **jenny@nascus.org**.

NASCUS Michigan Industry Day

October 22, 2013
The H Hotel
Midland, MI

NASCUS and the Michigan Office of Financial and Insurance Regulation (OFIR) invite all Michigan credit unions to participate in the Credit Union Examiner Conference scheduled at the H Hotel located in Midland, MI on October 22, 2013.

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, changes in credit union regulations as well as industry and examination related issues.

The session will include a luncheon opportunity for networking between the regulator and regulated. The fee for this one day event is $149 for NASCUS Credit Union Advisory Council members and $199 for non members.

Hotel Information:
The H Hotel
www.theHHotel.com
111 W. Main St., Midland, MI 48640
Direct : 989-839-0500
Fax: 989-837-6001

NASCUS Michigan Examiners Forum

October 21-25, 2013

The H Hotel
www.theHHotel.com
111 W. Main St., Midland, MI 48640
Direct: 989-839-0500
Fax: 989-837-6001

NASCUS Fraud School in partnership with CUNA Mutual

November 7
Chicago, IL

Join NASCUS and CUNA Mutual Group for a day-long training session focused on raising examiner awareness of potential fraud in credit unions. Speakers will discuss recent and emerging developments in credit union fraud cases. Attendees will also be exposed to common red flags with in credit union operations, accounting systems and financial performance that may indicate fraud. Finally, participants will discuss opportunities for credit union system collaboration in combating fraud.

NASCUS/CUNA BSA Conference

November 3-6, 2013
Orlando, FL

In partnership with NASCUS, CUNA Bank Secrecy Act Conference brings together Bank Secrecy Act (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.

Attendees receive pertinent updates from the Financial Crimes Enforcement Network (FinCEN), the National Credit Union Administration (NCUA) and the Office of Foreign Assets Control (OFAC) agencies. State examiners and attorneys also attend the loaded schedule of sessions and events, creating valuable networking opportunities and exclusive takeaways for credit union professionals.

NASCUS/NCUA Regulators 2014 National Meeting

March 10-12, 2014
Pittsburgh, PA

NASCUS Summit 2014

Nashville, TN
September 10-12, 2014
Omni Hotel

NASCUS Archived Webinars

NASCUS offers previously recorded webinars to credit unions and regulators. Access to each recording costs $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 at **isaida@nascus.org**.

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NASCUS Regulatory Affairs Department Update

NASCUS' Comment Letter on NCUA 2013 Rule Review Focuses on Deference to State Law

On Monday, August 5, NASCUS submitted comments to NCUA General Counsel in response to the 2013 NCUA Annual Rule Review. NASCUS' comments, available on or website, focused on NCUA's need to consolidate all of its share insurance rules in their entirety in one section or sections of NCUA's Rules and Regulations. We also asked NCUA to defer to state laws that minimize risk to the share insurance fund. In this regard, NASCUS pointed to the MBL state rule provision as a model of deferring to state law that has worked well for over a decade.

In addition to the broader points regarding consolidation and state deference, NASCUS also identified specific rules in need of revision such as corporate credit union compensation reporting requirements (state charters file public Form 990 disclosures), regulations regarding mergers and conversions (as share insurer NCUA should limit its review to safety and soundness issues), and other rules applicable to state charters where the safety and soundness connections are tenuous. If you have any questions contact NASCUS' General Counsel Brian Knight at brian@nascus.org.

NCUA Preemption of State Derivatives Authority Raises Serious Concerns: Proposal Fails to Recognize State Expertise and Experience

In a July 26 letter to the National Credit Union Administration (NCUA), NASCUS wrote that it cannot support the agency's proposed derivatives regulation in its current form as the proposal would limit the authority of state regulators to supervise derivatives activities in their states.

NCUA's proposed rule would grant new authority to federal credit unions to engage in certain limited derivatives transactions. Federally insured state-chartered credit unions (FISCUs), however, are granted no new authority in the proposal. Rather, the proposal limits the ability of states to allow FISCUs to engage in derivatives transactions, in some cases preempting long-standing state authorities. Many state credit union regulatory agencies have experience supervising derivatives activities at the state level in state credit unions, and substantially more experience supervising the activity in state banks. That state experience, coupled with the historic independence of states to determine appropriate investments for state-chartered credit unions, should mean that NCUA has a compelling case for such sweeping preemption. There is no such case. As such, NASCUS' comment letter states that NCUA's rule should address only federal credit unions.

In the letter, NASCUS explains that state regulators agree with NCUA that credit unions engaging in derivatives transactions should have appropriate experience, policies, procedures, controls, and oversight in place to manage the activities. Well managed derivatives activities can significantly mitigate interest rate risk on a credit union's balance sheet, and reduce risk to the insurance fund, and many states have a long history of supervising these activities in state-chartered credit unions and banks. "NASCUS is confident that state regulators and their examination teams are capable of supervising a wide range of derivatives activities in state credit unions," said NASCUS President and CEO Mary Martha Fortney. "NASCUS sees this proposal as sweeping aside state laws and authority," she continued. To view our comment letter in its entirety, visit **www.nascus.org**.

National Association of State Credit Union Supervisors

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

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www.levinsondesign.com

Mary Martha Fortney with Susan Donegan (VT) Ingrid White(NH) and Tom Fite (IN) at the NASCUS New Commissioner's Orientation at NASCUS' office.

NASCUS Welcomes New Commissioners at Orientation

In July, NASCUS hosted three new commissioners at our New Commissioners' Orientation. Vermont Commissioner Susan Donegan, New Hampshire Deputy Commissioner Ingrid White and Indiana Deputy Director Tom Fite participated in the orientation. The Commissioners, along with Mary Martha Fortney met with NCUA Chair Debbie Matz in the morning and met in the afternoon with NASCUS Chairman Elect John Kolhoff (MI) and JoAnn Johnson (IA) who were in town working on a NASCUS/NCUA task force initiative. The orientation served as an opportunity for new commissioners to be briefed by the NASCUS management team and to learn about our priorities, activities and projects. NASCUS routinely schedules these orientations throughout the year as new regulators are appointed.