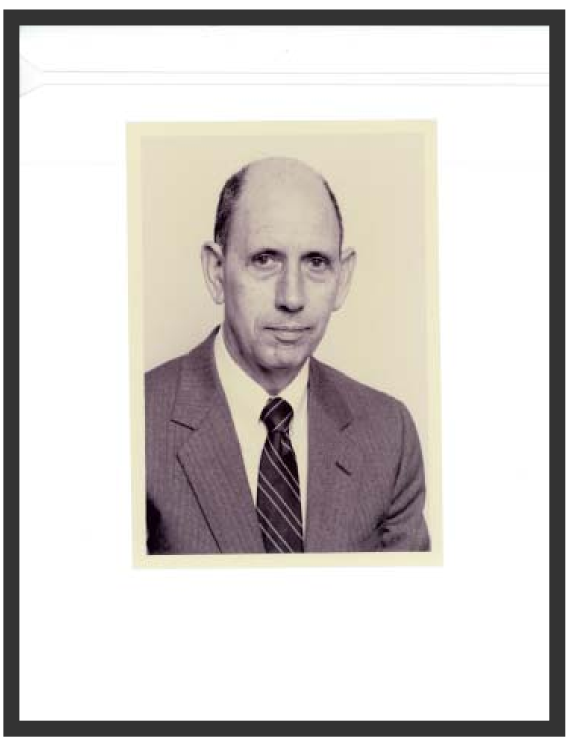
FALL 2006 Volume 8.2 STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS

Quarterly Newsletter

THE CREDIT UNION REFLECTION

Highlights Inside



FORMER COMMISSIONER BAILEY DIES

A Personal Reflection

Former Commissioner of Financial Institutions Sidney A. Bailey died October 28, 2006 while traveling with his wife in Europe. Mr. Bailey retired on June 30, 1997 after 20 years as Commissioner, and had traveled frequently in retirement with his wife of 55 years.

As a young man of 47, Mr. Bailey became Commissioner of Banking on June 1, 1977. He came to the State Corporation Commission after a 19 year career with the federal Office of the Comptroller of the Currency. He was widely regarded as an astute and wise administrator, especially for his steering of the Virginia banking and thrift communities through the turbulent period of the 1980s. Through his conservative oversight Virginia avoided national attention to failures and problems experienced by various financial institutions around the country.

Mr. Bailey was a patriarch of regulators who was well known and respected among his peers. A man of integrity, he was tough and disciplined, yet he was honest and fair. He delegated responsibility, and trusted his deputies to do their day-to-day jobs without his interference. He let his employees do their work, and when they did their job well he stood behind them and went to bat for them. He advised on problem resolution, and he knew who to call and how to get what was necessary from them. This management style and his special personality and character inspired his own traits in those who served under him. After nine years since his last day in the Commissioner's seat, his shadow still casts long on the Bureau. Everyone who knew him has stories that can attest to his appeal and influence and decency.

As a young, wet-behind-the-ears Supervisor of Credit Unions, I once was reprimanded by him. A day later he called me into his office again. As he extended his hand, he apologized for making a mistake. Someone had told him I was not actually at fault, and he wanted to atone for his error. A harsh or severe man would have ignored the opportunity to remedy an offense; a compassionate man makes amends.

Yet his public reputation for being authoritarian was not without warrant, nor without effect. A credit union board was summoned to Richmond to have a "prayer meeting" with the Commissioner. Mr. Bailey was imposing in his own way. With his gravelly voice hewn from years of smoking unfiltered Camels, perhaps even lighting and using a cigarette as a prop, he spoke softly and deliberately, keeping the listener edging forward to hear his words. The board got his message, complete with homilies and home-spun stories to illustrate his point, and like a chastened child they returned home with a renewed spirit of commitment.

After the next examination of that credit union, the examiner told me that he had seen Mr. Bailey's picture on the bulletin board in the credit union's lunch room. The examiner asked the credit union's employees why they had Mr. Bailey's picture so prominently displayed. They replied, "We don't ever want to see that man again!"

I told this story in Mr. Bailey's presence on several occasions, and he always seemed to relish it with a chuckle and a wry smile, as if he was pleased to find his own routine to be effective. On another occasion after a particularly angst-filled board meeting, I returned to his office with him, whereupon he turned to me and asked, "how'd I do?" There was a bit of showmanship in Mr. Bailey.

But through it all, Mr. Bailey was a mentor to those who worked for him and knew him. As those who knew him will attest, he really did have a "heart of gold." They say imitation is the sincerest form of flattery. Many of us have taken Mr. Bailey's sayings, methodology, and personality into our own character. And so through those of us who identified with, experienced, and maybe understood Mr. Bailey, he will not soon be forgotten. –*George Latham*

"CREDIT UNION REFLECTION"
BACK IN BUSINESS!

If you've wondered what happened to your copy of the "Credit Union Reflection," there is a reason for the tardiness.

Deputy Commissioner George Latham, who writes and publishes the newsletter, had back surgery in May and was out of work for nearly two months, then came back to work only part time for another six weeks. As of this writing Mr. Latham is back to work full time and is 95% recovered from his surgery.

Meanwhile, Jeanette Sanders, Principal Office Technician, who plays a big part in organizing the copy and distributing the newsletters, was diagnosed in July with cancer. Ms. Sanders has had surgery and is undergoing treatment, but has not yet returned to work. Her many friends and fellow employees have been very supportive during this difficult process, and all are very hopeful that she will be restored to good health and return to work.

Absent Ms. Sanders professional involvement, the "Credit Union Reflection" may look a little different, but the news and information presented will continue to update credit unions and those interested in the industry in Virginia.

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OFAC ISSUES GUIDANCE ON ACCOUNT BENEFICIARIES

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On October 6, 2006 the Office of Foreign Asset Control (OFAC) issued an opinion in response to a letter from the Division of Financial Institutions (DFI) of the State of Florida. The DFI was requesting guidance on the obligations of financial institutions to screen account beneficiaries for compliance with OFAC regulations.

In the response letter OFAC states "while the word 'beneficiary' is not defined in OFAC regulations, it is important to reiterate the definitions of property and property interest." The OFAC letter goes on to define property to include most products that financial institutions offer their customers. OFAC defines "interest" to include any interest whether direct or indirect, present, future or contingent. Therefore OFAC's position is that an account beneficiary has a future and/or contingent interest in funds in an account, and that beneficiaries should be screened to assure OFAC compliance.

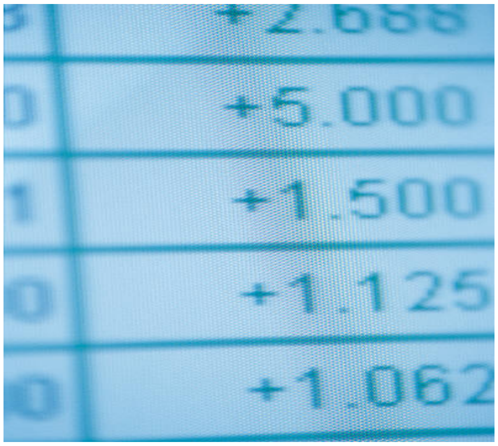
The letter goes on to suggest that accounts be screened at the following stages:

1. *Upon account opening:* A procedure should be in place to screen account holders, beneficiaries, authorized signers, powers of attorney, and any other parties to the account against OFAC's list of Specially Designated Nationals and Blocked Persons list and ensure compliance with OFAC's country based sanctions.

2. *Upon updating information:* A procedure should be in place to screen accounts when amending beneficiaries, account holders, authorized signers, and power of attorney.

3. *Upon distribution of funds:* A procedure should be in place to screen the account upon the death of the primary account holder(s).

In order to be in compliance with OFAC regulations, credit union management should review the above information and address the issue of "beneficiaries" in their risk-based compliance programs. *-Thanks to Werner Paul for this article*



NASCUS COLLECTING DATA ON SERVING MEMBERS OF MODEST MEANS

The Ways and Means Committee of the 109th Congress has been investigating the legitimacy of the tax-exempt sector. The committee held a hearing on November 3, 2005 which reviewed credit union tax-exemption. As a response to the many questions asked by committee members, the National Credit Union Administration initiated a survey to collect data on credit union members, the services provided to credit union members, and executive compensation.

Since state chartered credit unions account for about 40 percent of the credit union industry and also are exempt from federal income tax, the Committee requested that state credit union regulators survey a representative sample of their credit union members in the following areas:

1. Membership
2. Executive Compensation
3. Credit Union Service Organizations
4. Unrelated Business Income tax

Congress wants to make certain there is a sound basis for the tax exempt status extended to credit unions. The National Association of State Chartered Credit Unions (NASCUS) took on the challenge to help collect the data Congress requested. The Committee wants to have a better understanding of how state-chartered credit unions serve their members and their communities.

Currently the data collection is in process, and the data from that activity should be completed by November 30, 2006. Approximately 500 state-chartered credit unions in all 47 states that have credit union acts were selected by random sampling for the survey. Lending Wiz software was purchased by the state regulators to be used to import share and loan files from the selected credit unions for geocoding. The geocoding looks at statewide median income ranges and compares them to the profile of each credit union's field of membership to determine if the credit unions are carrying out their mission of serving members of modest means. NASCUS has hired a consultant to compile the data collected. After compilation and analysis a report will be forwarded to the House Ways and Means Committee.

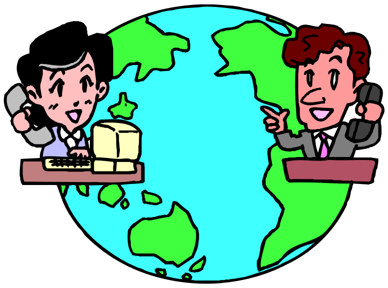
SEG, FIELD OF MEMBERSHIP, AND MERGER ACTIVITY

During the first three quarters of 2006 the Bureau approved 17 small employee groups (SEGs). The two credit unions requesting these groups added 1,988 new potential credit union members. The average size of the approved SEGs was 117 members, which is well below a threshold of 600 the Bureau has determined is necessary for a new credit union charter to be feasible. Since formal legislation to permit SEG expansion went into effect on July 1, 1999 there have been 392 SEGs approved for total new potential membership of 119,800.

There have been no mergers or conversions in 2006. The number of state chartered credit unions operating in Virginia remains at 59. However, three mergers are expected to be completed before the end of the year. At the end of the third quarter, total assets in Virginia state-chartered credit unions have grown to $4.36 billion, or 5.7% annualized, from $4.18 billion for these 59 credit unions at the end of 2005. This asset growth is up from asset growth in 2004 and 2005 of 4.4% and 3.7%, respectively.

There was no community or underserved area field of membership activity in the first three quarters of 2006. In the fourth quarter Virginia CU was approved to serve underserved areas in Richmond, Fredericksburg, Petersburg, and the Greater Farmville area (Buckingham, Prince Edward, and Nottoway Counties, including the Town of Farmville). The total new potential membership for these four underserved areas is 297,565.

The mission and purpose of the Credit Union Section is to effectively and efficiently supervise, regulate, and assist credit unions chartered by the Commonwealth of Virginia in order to:
1. Protect the financial interests of credit union members.
2. Ensure compliance with applicable laws.
3. Ensure adherence to safe and sound operating procedures and principles.
These three objectives are to be pursued so as to safeguard a financial environment within Virginia worthy of the public's confidence in credit unions and the financial system as a whole.



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IMPORTANT INFORMATION INSIDE