Spring Volume 4.4 STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS

Quarterly Newsletter

THE CREDIT UNION REFLECTION

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FEDERAL LEGISLATIVE PROPOSALS CONCERN STATE CHARTERED CREDIT UNIONS

Recent initiatives in Congress are being monitored by the National Association of State Credit Union Supervisors (NASCUS). A subcommittee of the House Financial Services Committee is currently considering federal deposit insurance reform, and the full committee is considering regulatory relief. These and other current issues may pose threats to state chartered credit unions. NASCUS is encouraging its constituency to promptly register their concerns with their Congressmen.

The deposit insurance reform bill (H.R. 3717) would increase the current $100,000 insurance limit to $130,000 as well as increase limits for retirement accounts and municipal deposits. Issues for credit unions and regulators include how a new ceiling will affect share growth, and what increased costs there will be. In the past year with depressed equity markets, most credit unions have already been experiencing a lot of share growth. Members have been moving their money from stocks to deposits in financial institutions. Loan growth in credit unions has not kept pace with this share growth, and asset yields have suffered.

To complicate matters, the loans credit unions are making have been mostly long-term, fixed rate mortgages.

So an increase in deposit insurance coverage would seem to only make matters worse. Nevertheless, NASCUS's position is to support parity of treatment for state-chartered credit unions in any federal legislation that increases federal deposit insurance coverage for commercial banks and savings institutions.

While Virginia law does not provide authority for state chartered credit unions to accept municipal deposits, H.R. 3717 could preempt or restrict state legislatures from providing such authority. In Virginia a credit union can only accept municipal deposits from its sponsor, and the sponsor has to be in its field of membership. Nevertheless, the proposed legislation could dictate to a municipality in Virginia how much it may deposit in a credit union.

In its testimony before the House Financial Services Committee NASCUS expressed two primary concerns with regulatory relief (H.R. 3951). First, NASCUS supports making privately-insured credit unions eligible for Federal Home Loan Bank (FHLB) membership. In addition to a case being made for strong regulation of privately-insured state chartered credit unions, NASCUS noted that there are a number of insurance companies--chartered and insured by state governments--that are members of FHLBs. Also, the FHLB has a sophisticated credit screening system, and every advance is secured by marketable collateral.

Second, NASCUS noted that under H.R. 3951 savings institutions will be exempted from Securities and Exchange Commission oversight, as commercial banks are now under the Gramm-Leach-Bliley Act. NASCUS believes state-chartered credit unions should be accorded this same parity, and thereby avoid federal preemption of any securities and brokerage powers given state-chartered credit unions by state legislatures.

Other regulatory relief measures affecting credit unions include expanding investment powers for federal credit unions (including investments in CUSOs), member business loan exclusions for faith based lending, and check cashing service to non-members who are within the field of membership of a credit union. All this proposed legislation could affect the operations of state-chartered credit unions. Thus NASCUS generally supports parity with federal credit unions and other financial institutions where changes in the law would disadvantage state chartered credit unions.

KANJORSKI'S REMARKS RUFFLE THE FEATHERS OF STATE CHARTERED CREDIT UNIONS

In addition to proposed legislative initiatives, a separate threat to state chartered credit unions has emerged. Congressman Paul Kanjorski (D-PA) in a recent speech to CUNA's Governmental Affairs Conference suggested that Congress should use federal legislation to roll back perceived advantages the state credit union system has over federal credit unions. Congressman Kanjorski is a known supporter of credit unions and was a principal sponsor of the Credit Union Membership Access Act in 1998. However, he has noted the number of conversions from federal to state charter recently. His staff indicates that he is apparently concerned about the adequacy of supervision and regulation of state chartered credit unions.

NASCUS has initiated an action plan to work with credit union trade associations and credit unions to convince Congress of the safety and soundness of the state system. Talking points will be developed, and these will be expressed in news releases, Op-Ed forums, and personal contact with Congressmen in Washington or when they are in their home districts.

ALTERNATIVE CAPITAL:
IS IT FOR VIRGINIA STATE CHARTERED CREDIT UNIONS?

Interest in "alternative" capital has been recently expressed in the credit union community. Alternative--or secondary, or supplemental--capital is perceived to be a way that credit unions can bolster their net worth in a growth environment. Most of the models are based on some kind of subordinated, uninsured debt that is generated from within the credit union community. Critics view alternative capital as another loosening of the traditional credit union common bond that will lead eventually to taxation. However, as credit union shares and assets continue to grow--and as credit unions continue to get more involved in fixed rate mortgage lending--alternative capital may be needed to strengthen net worth.

An amendment to the federal deposit insurance legislation was proposed by Congressman Brad Sherman (D-CA) that introduces alternative capital as a component of credit union capital to be used in the calculation of net worth. While Congressman Sherman withdrew his amendment, he served notice that he intended to pursue this initiative. He is an accountant, a Harvard law school graduate (*magna cum laude*), and in professional life a corporate financial consultant. This resume portrays a very astute, intelligent, and well-informed individual. The credit union community has generally welcomed and supported Congressman Sherman's initiative.

The proposed amendment to the Federal Credit Union Act (Section 1757a) simply extends to all federally insured credit unions the definition of net worth to include "secondary capital accounts." This definition is currently limited to low-income designated credit unions. While state chartered credit unions may already have statutes or regulations permitting alternative capital, under NCUA’s Prompt Corrective Action rule this capital source can not be included in a state chartered cr… …tion.

FIELD OF MEMBERSHIP CHANGES AND CHARTER

During the first quarter of 2002 the Bureau approved 13 small employee groups (SEGs) to be added to the fields of membership of five credit unions. A total of 4,832 new potential credit union members were approved for the quarter. The average group size was about 372, but there were two groups of 1,500 and 2,000 that exaggerated the average; without these two groups the average group size was about 121. The average approval time, except for the two large groups which went through a 15 day published comment period, was a little over three days.

Since legislation to permit SEG expansion went into effect on July 1, 1999 there have been 189 SEGs approved for total new potential membership of 37,836. The average group size is about 200. December 2001 Call Report figures indicate that there are about 542,000 members of Virginia state-chartered credit unions.

Two requests to expand community fields of membership have been received during the first quarter and are being reviewed at quarter end. There are currently seven Virginia stated-chartered credit unions with community fields of membership.

The merger of a small federally chartered credit union located in Albemarle County, Virginia, into University of Virginia Community CU was approved during the quarter. No other merger or conversion activity took place.

COMMISSIONER FACE, CSBS HAVE THEIR DAY ON CAPITOL HILL

The Conference of State Bank Supervisors' Legislative Committee held its annual Washington Fly-In March 20-21, 2002, with Members of Congress and Federal Regulators.

The theme of this year's meeting was "in defense of the state chartering system” with emphasis on the ability of state-chartered financial institutions to be innovative at the state level.

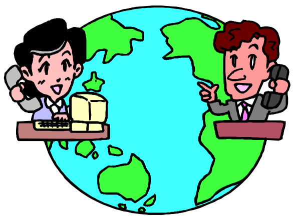
Delegates kept to a full schedule of policy briefings and visits with members of Congress from noon Wednesday to noon Thursday. CSBS Legislative Committee Chairman E. J. Face, Jr., Virginia’s Commissioner of Financial Institutions, chaired the program, designed as a way for CSBS to communicate its position on current legislative issues on Capitol Hill, as well as for commissioners to receive first-hand information from key members of Congress who deal with financial institution issues on a day-to-day basis.

Wednesday afternoon featured presentations by House Financial Services Committee Counsel Carter McDowell and Senate Banking Committee Counsel Naomi Camper on deposit insurance reform. In addition, Ruben Barrales, deputy assistant to the President and director of intergovernmental affairs, discussed the Administration's views on federalism.

Wednesday evening, Commissioner Face introduced Federal Reserve Board Chairman Alan Greenspan who welcomed the CSBS delegation prior to dinner in the conservatory of the U.S. Botanic Garden. Chairman Greenspan spoke on the importance of the dual chartering system. Keynoting the dinner was Senator Jon Corzine (D-NJ), who serves on the Senate Banking Committee. He discussed the legislative response to Enron and the importance of reliable financial information to our economy.

Thursday morning, House Financial Services Committee Chairman Michael Oxley (R-Ohio) and Committee Ranking Member John J. LaFalce (D-NY) briefed the CSBS delegates on legislation now pending in the House. Delegates then met on the Senate side of Capitol Hill for a Senate Legislative Overview from key Senate Banking Committee staff, Jonathan Miller and Wayne Abernathy.

"On November 8, 2001, the United States Customs Service in Washington recognized Deputy Commissioner Nicholas C. Kyrus of the Virginia Bureau of Financial Institutions for his assistance with the agency's ongoing money laundering efforts. Mr. Kyrus, who is a member of the Board of Directors of the Money Transmitter Regulators Association and past president of the association, was presented with a plaque for his service."



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IMPORTANT INFORMATION INSIDE