

2012 NAFCU REPORT ON

CREDIT

UNIONS



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December 2012

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BOARD OF DIRECTORS OF THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS



Michael Parsons
Chair
Region I Director
First Source
Federal Credit Union
New Hartford, NY
Asset Size: \$347M
Members: 33,022
FOM: Community



Ed Templeton
Vice Chair
Director-at-Large
SRP
Federal Credit Union
North Augusta, SC
Asset Size: \$633M
Members: 101,350
FOM: Community



Richard Harris
Treasurer
Region V Director
Caltech Employees
Federal Credit Union
La Canada, CA
Asset Size: \$1,166M
Members: 30,519
FOM: Multi-Occupational



Jeanne Kucey
Secretary
Region III Director
JetStream
Federal Credit Union
Miami Lakes, FL
Asset Size: \$134M
Members: 16,897
FOM: Community



Frank Berrish
Director-at-Large
Visions
Federal Credit Union
Endicott, NY
Asset Size: \$3,106M
Members: 159,679
FOM: Community



Martin Breland
Region II Director
Tower
Federal Credit Union
Laurel, MD
Asset Size: \$2,526M
Members: 124,774
FOM: Multi-Occupational



Cutler Dawson
Director-at-Large
Navy
Federal Credit Union
Merrifield, VA
Asset Size: \$49,348M
Members: 4,024,279
FOM: Defense



Michael Lussier
Director-at-Large
Webster First
Federal Credit Union
Webster, MA
Asset Size: \$649M
Members: 59,203
FOM: Community



Robert Marquette
Director-at-Large
Members 1st
Federal Credit Union
Mechanicsburg, PA
Asset Size: \$2,242M
Members: 218,497
FOM: Multi-Occupational



Debra Schwartz
Director-at-Large
Mission
Federal Credit Union
San Diego, CA
Asset Size: \$2,307M
Members: 158,684
FOM: Community



Randy Smith
Region IV Director
Randolph-Brooks
Federal Credit Union
Live Oak, TX
Asset Size: \$5,162M
Members: 400,264
FOM: Multi-Occupational

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



Ben Bernanke, chairman of the Board of Governors and the Federal Open Market Committee. His four-year term as chairman ends January 31, 2014, and his term as a member of the Board ends January 31, 2020. Chairman Bernanke was a member of the Board of Governors of the Federal Reserve System from 2002 to 2005; a visiting scholar at the Federal Reserve Banks of Philadelphia (1987-89), Boston (1989-90), and New York (1990-91, 1994-96); and a member of the Academic Advisory Panel at the Federal Reserve Bank of New York (1990-2002).



Janet Yellen, vice chair of the Board of Governors. Her term as vice chair expires October 4, 2014, and her term as a member ends January 31, 2024. Prior to her appointment, Dr. Yellen was president of the Federal Reserve Bank of San Francisco and a member of the Federal Open Market Committee. She is professor emeritus at the University of California at Berkeley and has been a faculty member since 1980. She was also chair of the President's Council of Economic Advisers.



Elizabeth Duke, member of the Board of Governors. Her term expired January 31, 2012. Previously she was an executive vice president at Wachovia Bank and at SouthTrust Bank. Earlier in her career, Ms. Duke was president and chief executive officer of Bank of Tidewater, based in Virginia Beach, Virginia. Prior to her appointment to the Board, Ms. Duke was senior executive vice president and chief operating officer of TowneBank, a Virginia-based community bank.



Daniel Tarullo, member of the Board of Governors. His term expires January 31, 2022. Prior to his appointment, Mr. Tarullo was a professor at Georgetown University Law Center. He also worked in several senior staff positions during the Clinton Administration, including deputy assistant to the president for economic policy and assistant to the president for international economic policy. He was chief counsel for employment policy on the staff of Senator Edward Kennedy.



Sarah Bloom Raskin, member of the Board of Governors. Her term expires January 31, 2016. Previously, Ms. Raskin was commissioner of financial regulation for the State of Maryland. She has served as managing director at Promontory Financial Group. She also served as the banking counsel for the U.S. Senate Committee on Banking, Housing, and Urban Affairs and worked at the Federal Reserve Bank of New York and the Joint Economic Committee of Congress.



Jeremy Stein, member of the Board of Governors. His term expires January 31, 2018. Prior to his appointment, Dr. Stein was a professor at Harvard University. He served the Obama Administration as a senior adviser to the Secretary of the Treasury and on the Staff of the National Economic Council. Prior to that, he was a professor at the Massachusetts Institute of Technology's Sloan School of Management. In 2008, Dr. Stein was president of the American Finance Association.



Jerome H. Powell, member of the Board of Governors. He took office on May 25, 2012, to fill an unexpired term ending January 31, 2014. Prior to his appointment, Mr. Powell was a visiting scholar with the Bipartisan Policy Center, where he focused on federal and state fiscal issues. From 1997 through 2005, he was a partner at The Carlyle Group. Mr. Powell served as Assistant Secretary and as Undersecretary to the Treasury under President George H.W. Bush.

ABBREVIATIONS

ACH	Automated Clearing House
ANPR	Advance Notice of Proposed Rulemaking
APR	Annual Percentage Rate
ARM	Adjustable Rate Mortgage
ATM	Automated Teller Machine
CFPB	Consumer Financial Protection Bureau
CUMAA	Credit Union Membership Access Act
CUSO	Credit Union Service Organization
DOR	Documents of Resolution
FCU	Federal Credit Union
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank
FICU	Federally Insured Credit Union
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act
FOM	Field of Membership
GDP	Gross Domestic Product
GSE	Government-Sponsored Enterprise
HOEPA	Home Ownership Equity Protection Act
MBS	Mortgage-Backed Security
MLO	Mortgage Loan Originator
NAFCU	National Association of Federal Credit Unions
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
QM	Qualified Mortgage
QRM	Qualified Residential Mortgage
RESPA	Real Estate Settlement Procedures Act
ROA	Return on Assets
TCCUSF	Temporary Corporate Credit Union Stabilization Fund
TCR	Transaction Coverage Rate
TILA	Truth in Lending Act
USPAP	Uniform Standards of Professional Appraisal Practice

PREFACE

The National Association of Federal Credit Unions (NAFCU), founded in 1967, is the only trade association that exclusively represents the interests of federal credit unions before the federal government and the public. Membership in NAFCU is direct; there are no state or local leagues, chapters or affiliations standing between NAFCU members and NAFCU's Arlington, Virginia headquarters.

NAFCU Membership

NAFCU's membership consists of roughly 800 of the nation's most innovative and dynamic federal credit unions (FCUs) having various and diverse membership bases and operations. NAFCU takes pride in representing many smaller credit unions with relatively limited operations, as well as many of the largest and most sophisticated credit unions in the nation. In fact, as of June 2012, 83 of the 100 largest FCUs were NAFCU members. NAFCU represents 67 percent of total FCU assets and 62 percent of all FCU member-owners.

In addition, NAFCU's membership includes several state-chartered credit unions that were formerly federally chartered credit unions, and chose to retain their NAFCU membership.

The Credit Union Universe

Federally Chartered Credit Unions

Federally chartered credit unions obtain their charters from, and are regulated by, the National Credit Union Administration (NCUA). Their member shares (deposits) are insured by the National Credit Union Share Insurance Fund (NCUSIF), which is administered by the NCUA. As of June 2012, there were 4,366 FCUs, with assets of \$550 billion and a membership base of approximately 50.6 million.

Federally Insured Credit Unions

All FCUs are required to be insured by the NCUSIF. State-chartered credit unions in some states are required to be federally insured, while others may elect to be insured by the NCUSIF. The term "federally insured credit unions" (FICUs) refers to both federal and state-chartered credit unions whose accounts are insured by the NCUSIF. Thus, FCUs are a subset of FICUs. As of June 2012, there were 6,960 FICUs, with assets of \$1.01 trillion and a membership base of approximately 93 million.

Privately Insured Credit Unions

Private primary share insurance for state-chartered credit unions has been authorized in a number of states. Currently there are privately insured credit unions operating in nine states.¹ There is only one private insurance company (American Share Insurance of Dublin, Ohio) offering credit unions primary share insurance and excess deposit insurance. Another private insurer (Massachusetts Share Insurance Corporation) offers only excess deposit insurance coverage.

Corporate Credit Unions

Corporate credit unions are credit unions for credit unions. Corporate credit unions provide services such as investment products, advisory services, item processing and loans to their members. As of June 2012, there were 21 corporate credit unions with assets of \$33.5 billion, of which five are under conservatorship.

¹ The nine jurisdictions where state-chartered credit unions have obtained primary private insurance are Alabama, California, Idaho, Illinois, Indiana, Maryland, Nevada, Ohio and Texas.

NAFCU Research

NAFCU devotes a great deal of institutional resources to keeping its finger on the pulse of its members' operations by surveying its membership regularly. In this report, we reference three research instruments:

Economic & CU Monitor

NAFCU's *Economic & CU Monitor* is a monthly survey of NAFCU-member credit unions, which is compiled into a report with updates on our members' financial data, as well as their responses to questions on a special monthly topic.

Federal Reserve Report

NAFCU's *Federal Reserve Meeting Survey* is an annual assessment of NAFCU members that covers topics used in compiling this report. Survey data for this report was collected between August 21 and September 10, 2012.

Economic Benefits of the Credit Union Tax Exemption for Consumers, Businesses, and the U.S. Economy

NAFCU commissioned a special study in 2012 to examine what would happen to the U.S. economy if the presence of credit unions was reduced significantly as a result of eliminating the credit union federal income tax exemption. The study quantifies the benefits to all consumers — both credit union members and bank customers — of having a strong credit union presence in financial markets. The study shows that reducing the number of credit unions would weaken competition for consumer financial services and lead to higher interest rates on consumer loans and lower interest rates on deposits for consumers. The study also estimates the broader economic impact of lost consumer benefits.

EXECUTIVE SUMMARY

Credit Union Financial Condition

In spite of the challenges posed by a struggling economy, credit unions are faring remarkably well. They have been experiencing strong share growth as a result of a “flight to safety” since the beginning of the recession in 2008. Despite ongoing financial turmoil and ever-increasing regulatory burdens, loan growth has improved significantly during the past year and loan quality remains far higher than that of other financial institutions. Credit unions continue to provide their members with high-quality, low-cost products and services, while maintaining a small, but growing, market share.

Regulatory Issues Facing Credit Unions

Credit unions face numerous regulatory challenges. Credit unions have been seriously affected by the ongoing economic upheaval and ensuing legislation and regulation. In particular, a cap on debit card interchange fees has the potential to adversely impact all credit unions. Numerous regulatory changes have significantly increased compliance costs. Finally, the future of the secondary mortgage market is a critical issue for the industry, as it provides credit unions with an important source of liquidity.

Credit Union Service to Members and Use of Federal Reserve Services

The number of credit unions offering electronic services continues to increase, as does membership adoption of such services. Of all the Federal Reserve services offered, credit unions most commonly use Automated Clearing House (ACH) Receipts, FedLine Advantage, Currency Orders, and FedWire Funds Services. The Federal Reserve’s services were rated highly by survey participants, with a large majority rated above average or better.

Consumers Benefit from the Credit Union Federal Income Tax Exemption

Maintaining the credit union federal income tax exemption is NAFCU’s primary policy concern. The upcoming fiscal cliff debate has brought tax reform back into the congressional spotlight. While no one is singling out credit unions, comprehensive reform represents the greatest threat to the credit union federal income tax exemption, as the exemption could be swept up in a broader measure.

In September, NAFCU released a study authored by Robert M. Feinberg, Ph.D., professor of economics at American University, and Douglas Meade, Ph.D., director of research at Interindustry Economic Research Fund, Inc., that looked at the economic benefits of the credit union federal income tax exemption to consumers, businesses and the economy.

The Feinberg-Meade study found that eliminating the credit union federal income tax exemption would reduce U.S. GDP by about \$148 billion over the next decade. This would translate to a loss of 150,000 jobs per year, or 1.5 million job-years lost over the next decade.

Feinberg-Meade also found that the total benefit to U.S. consumers from the presence of the federal income tax exemption for credit unions is approximately \$10 billion per year, and from 2005-2011, the direct consumer benefit totaled \$72.6 billion. Additional information is provided in the final chapter of this report.

Other Important Legislative Issues Facing Credit Unions

Regulatory Relief

Credit unions are facing an ever-increasing compliance burden in today’s regulatory environment. This partially stems from the fact that many new and updated regulations are being added, while old and outdated regulations are rarely revisited or removed. Furthermore, there are a number of statutory restrictions on federally chartered credit unions (such as the ability to add underserved areas and the ability to retain a select employee group after converting to a community charter) that adversely impact the advantages of a federal charter as compared to state-chartered institutions. NAFCU’s Federal Reserve

survey of its members found that nearly 94 percent have seen their regulatory burden increase since the passage of the *Dodd-Frank Act* in 2010.

Legislation to address one outdated statute is pending in Congress. H.R.4367, S.3204, and S.3394 would remove an archaic physical placard disclosure requirement from ATM machines. This legislation has passed the House unanimously, but currently awaits action in the Senate.

Housing Finance Reform

The development and reform of housing finance policy, in particular maintaining access to a viable secondary market with fair pricing, is vitally important to credit unions.

Last year, the Department of the Treasury released a proposal that would ultimately wind down Fannie Mae and Freddie Mac while offering three different scenarios for moving forward with varying degrees of government involvement. Several pieces of legislation ranging from comprehensive to piecemeal approaches have also been introduced in the House and Senate, and a series of hearings have been held. It is expected that this issue may see more action in the next Congress.

NAFCU has established a set of core principles that we believe must be considered in order to ensure that credit unions are treated equitably in any housing finance reform process. These principles are described later in this report.

Member Business Lending

When Congress passed the Credit Union Membership Access Act (CUMAA- P.L.105-219) in 1998, it placed restrictions on the ability of credit unions to offer business loans to their members. CUMAA codified the definition of a member business loan and limited a credit union's member business lending to the lesser of either 1.75 times the net worth of a well-capitalized credit union or 12.25 percent of total assets.

In the current economic environment, many credit unions have capital available that could help small businesses create jobs. However, due to the outdated and arbitrary member business lending cap, their ability to help stimulate the economy by providing credit to small businesses is hampered. Removing or modifying the credit union member business lending cap would help stimulate the economy and create jobs without using taxpayer funds.

Identical bipartisan legislation, the *Small Business Lending Enhancement Act of 2011*, has been introduced in both chambers; in the House, H.R. 1418 introduced by Reps. Ed Royce (R-CA) and Carolyn McCarthy (D-NY) and, in the Senate, S. 2231 introduced by Sens. Mark Udall (D-CO) and Olympia Snowe (R-ME).

Under these pieces of legislation, credit unions would need to meet the following criteria to be deemed eligible for a member business lending increase to 27.5 percent of total assets:

- › Must be considered well capitalized (currently seven percent net worth ratio).
- › Must have at least five years of member business lending experience.
- › Must be at or above 80 percent of the current 12.25 percent cap for at least one year prior to applying.
- › Must be able to demonstrate sound underwriting and servicing practices (based on historical performance), and strong leadership and management.

Senate Majority Leader Harry Reid (D-Nev) has indicated that the Senate will take a vote on this issue before the end of this Congress. NAFCU and its members are committed to pursuing all legislative avenues possible to achieve the enactment of the Small Business Lending Enhancement Act during the 112th Congress.

Capital Issues

The economic crisis has further validated the need to reform the current system of capital standards for credit unions. Credit unions are the only insured depository institutions with a capital regulation system that: 1) relies primarily on a static net worth ratio rather than risk-based capital standards in setting required capital levels; and 2) excludes potential sources of reliable capital that would strengthen credit unions and allow them to better meet the credit needs of their members, contribute to the liquidity of the financial system, and support national economic growth and stability.

Earlier this year, Reps. Pete King (R-N.Y.) and Brad Sherman (D-Calif.) introduced the *Capital for Small Businesses and Jobs Act*, H.R. 3993. This legislation would allow NCUA to authorize forms of supplemental capital for credit unions provided certain criteria are met, most particularly that of mutuality. NAFCU continues to advocate for capital reform for credit unions.

Data Security

Data security breaches are a serious problem for both consumers and businesses. Financial institutions such as credit unions bear a significant burden as they often incur steep losses to reestablish member safety after a data breach occurs. The number and scope of data breaches are significant, and have caused extensive damage.

Despite the fact that they are rarely the source of data breaches, credit unions are still mandated to protect data consistent with the provisions set out in the Gramm-Leach-Bliley Act. However, there is no similar comprehensive regulatory structure to ensure that retailers and merchants are protecting a consumer's financial data. As the 112th Congress considers cybersecurity legislation, NAFCU is seeking inclusion of data security provisions as part of this effort.

CREDIT UNION FINANCIAL CONDITIONS

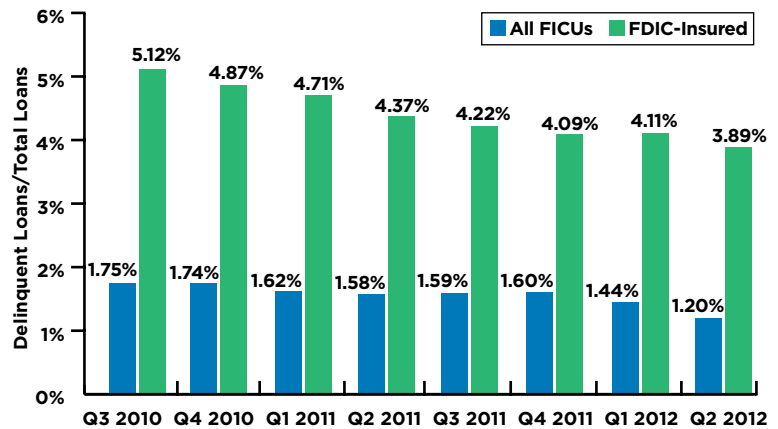
- During the first half of 2012, federally insured credit unions' (FICUs') total annualized share growth (10.0 percent) outpaced total annualized loan growth (3.6 percent). The loan-to-share ratio decreased from 69.1 percent at year-end 2011 to 67.0 percent as of June 2012.
- FICUs' return on average assets (ROA), excluding corporate stabilization assessments, improved from 0.87 percent in December 2011 to an annualized 0.9 percent during the first half of 2012. Asset growth increased by an annualized 9.6 percent and net income, excluding stabilization assessments, grew by an annualized 8.9 percent.
- FICUs' net worth ratio declined from 10.24 to 10.2 percent during the first six months of 2012. Nearly 96 percent of all FICUs remained above the "well capitalized" level of 7 percent.
- FICUs' total loan delinquency ratio declined from 1.6 to 1.2 percent during the first six months of 2012, while the total net charge-off ratio decreased from 0.91 to 0.75 percent. The percentage of loans subject to bankruptcy for all FICUs decreased from 0.7 to 0.4 percent over the same period.

General Financial Conditions

Credit unions are among the most conservatively run financial institutions in the country. The delinquency ratio for the credit union industry as a whole currently stands at 1.2 percent. This compares to a delinquency ratio of 3.9 percent for FDIC-insured financial institutions (Chart 1). While only a few credit unions participated in the type of lending activities that precipitated the financial crisis, the financial condition of the industry has nevertheless been adversely impacted by the sluggish recovery.

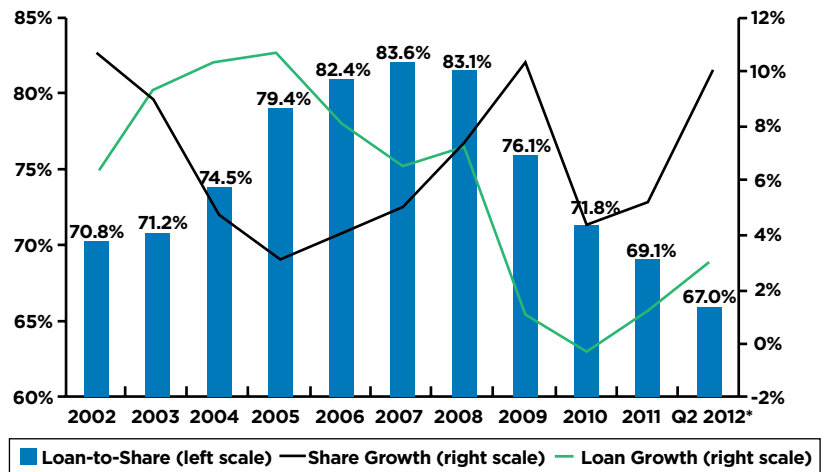
The ensuing recession resulted in a spike in share growth for FICUs due to a "flight to safety" (Chart 2). Despite the fact that the recession officially ended in June 2009, share growth continues to outpace loan growth, although the latter has shown improvement since 2010. Through June 30, 2012, total shares at FICUs expanded by an annualized 10 percent, while total loans grew by an annualized 3.6 percent. The resulting loan-to-share ratio of 67 percent was over two percentage points lower than the figure at the end of 2011 and was lower than any year-ending figure in the last decade.

Chart 1 | Delinquency Ratios



*Note: Credit union delinquencies are reported as 2 months or more past due, while FDIC delinquencies are reported 90 days or more past due. Source: NCUA Call Report & FDIC Quarterly Banking Profile

Chart 2 | Trends in FICU Loan and Share Growth



* Annualized Source: NCUA Financial Performance Report

As of June 30, 2012, the largest category of total loan dollars outstanding came from first mortgage real estate loans (41.3 percent (Chart 3)). Regular shares made up the biggest part of total shares and deposits (30.9 percent (Chart 4)).

FICUs' ROA, including corporate stabilization assessments, improved from 0.67 percent in 2011 to an annualized 0.86 percent during the first half of this year (Chart 5). Excluding corporate stabilization assessments², ROA increased from 0.87 percent in 2011 to an annualized 0.9 percent through June 30, 2012.

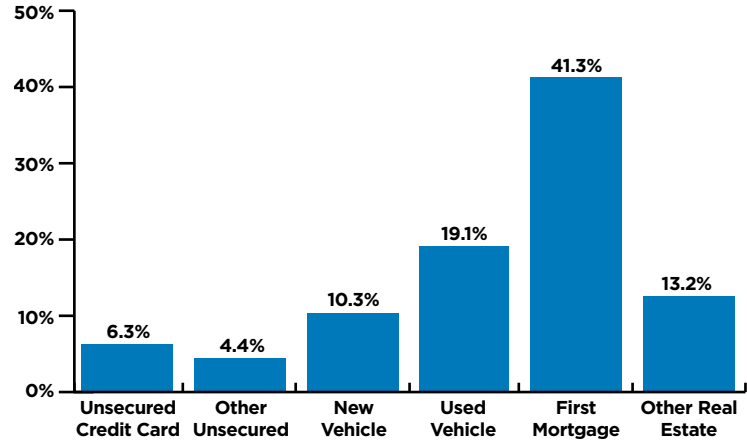
Total FICU asset growth increased from 5.2 percent in 2011 to an annualized 9.6 percent as of June 30, 2012, while total net income, excluding corporate stabilization payments, grew by 8.9 percent to an annualized \$8.9 billion during the first half of this year.

Earnings are improving despite the fact that loan and investment yields continue to decline as interest rates sink to historic lows. The growth in net income during the first half of the year resulted primarily from decreases in both the cost of funds and the provision for loan and lease loss expense.

Credit unions have also made gains in efficiency. The operating expenses-to-average assets ratio has declined from 3.6 percent in 2008 to 3.1 percent in June 2012.

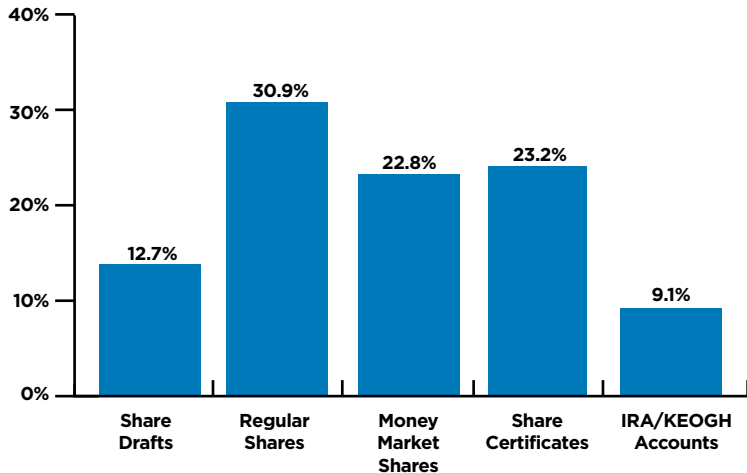
Credit unions' net worth³ ratio decreased from 10.24 percent at the end of last year to 10.2 percent in June 2012 (Chart 5). Asset growth has historically been strongest in the first half of the year, which tends to cause a drop in net worth ratios before a rebound in the second half of the year. Net worth ratio improved versus June 2011, when it was 10.17 percent. As of June 2012, 95.8 percent of all FICUs were considered "well capitalized" (net worth ratio of at least 7 percent), 2.6 percent of FICUs were

Chart 3 | Share of Total Loans



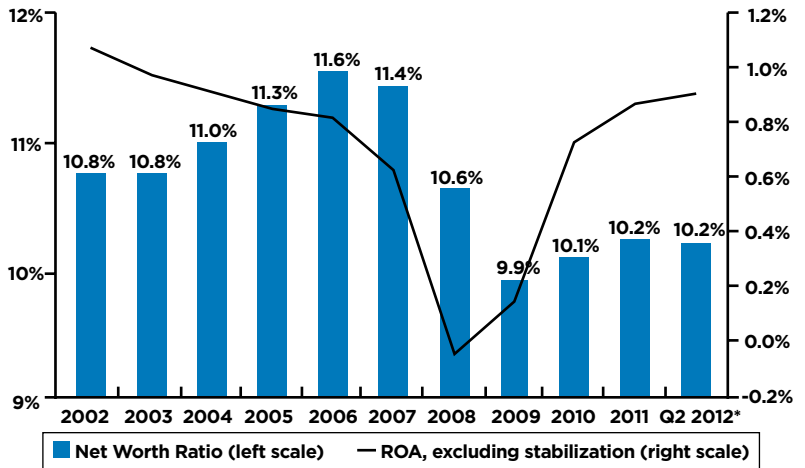
Source: NCUA Financial Performance Report

Chart 4 | Share of Total Shares and Deposits



Source: NCUA Financial Performance Report

Chart 5 | FICU Net Worth Ratio and ROA



* Annualized Source: NCUA Financial Performance Report

² In July, NCUA announced that the current year's corporate stabilization assessment would be 9.5 basis points of insured shares. Last year's assessment was 25 basis points of insured shares.

³ See 12 USC § 1790d (c) for more information.

classified as adequately capitalized (net worth ratio between 6 percent and 7 percent), while the remaining 1.6 percent of all FICUs were classified as under-capitalized (net worth ratio of less than 6 percent).

Credit Quality/Standards

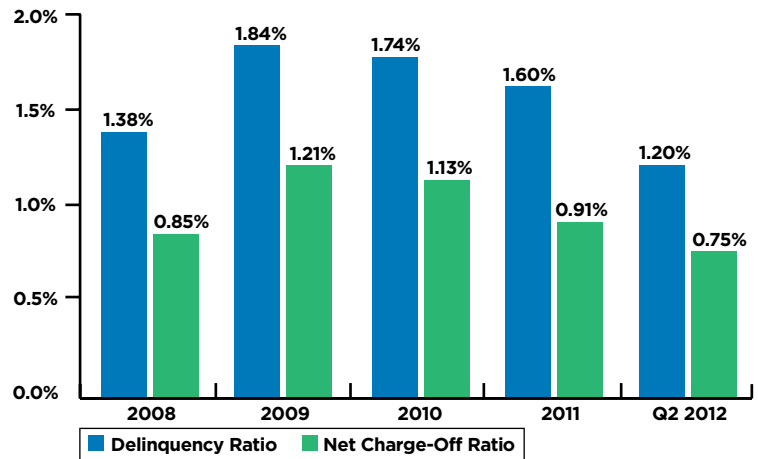
As a result of the recent financial turmoil, FICUs experienced some deterioration in their overall credit quality and tightened some of their lending standards. Since 2009, however, the overall quality of the asset portfolios held by FICUs has seen some improvement, and lending standards are beginning to loosen.

The FICU delinquency rate was 1.2 percent as of June 2012 (Chart 6), down from 1.6 percent in December 2011, but still well above the 0.7 percent reported at the end of 2006. The net charge-off ratio declined from 0.91 percent in December 2011 to 0.75 percent on an annualized basis in June 2012. The bankruptcy-to-total loans ratio for FICUs decreased from 0.7 percent at year-end 2011 to 0.4 percent as of June 30, 2012.

According to data obtained from NAFCU's 2012 *Federal Reserve Meeting Survey*, fewer credit unions are tightening lending standards as compared to last year, while more are loosening standards. The loan category in which credit unions tightened lending standards the most was other real estate loans (29.6 percent (Chart 7a)). This is higher than last year's figure of 24.5 percent. However, those respondents who tightened standards fell in every other loan category. The loan categories showing the greatest easing of lending standards were used vehicle loans (32.9 percent) and new vehicle loans (30.1 percent (Chart 7b)).

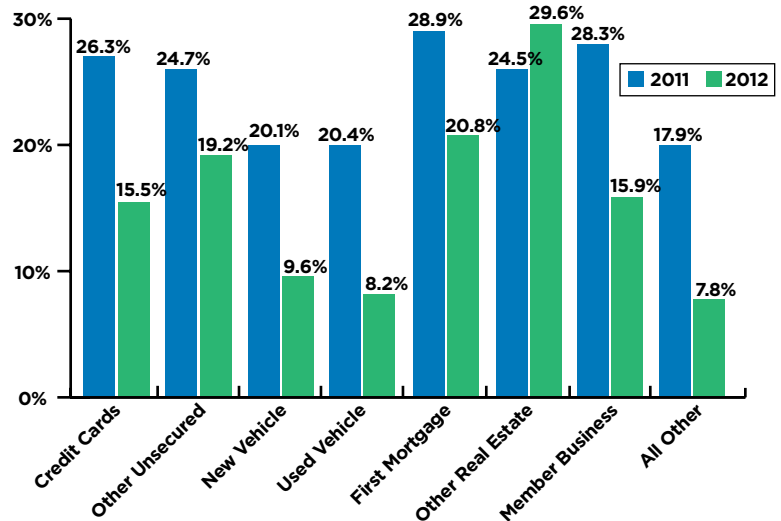
Survey respondents indicated that a reduced tolerance for risk was the most common cause of tighter lending standards (50 percent). Other leading responses included more economic uncertainty (46.9 percent), increased concerns about legislative changes, supervisory actions or

Chart 6 | FICU Delinquency and Net Charge-off Ratios



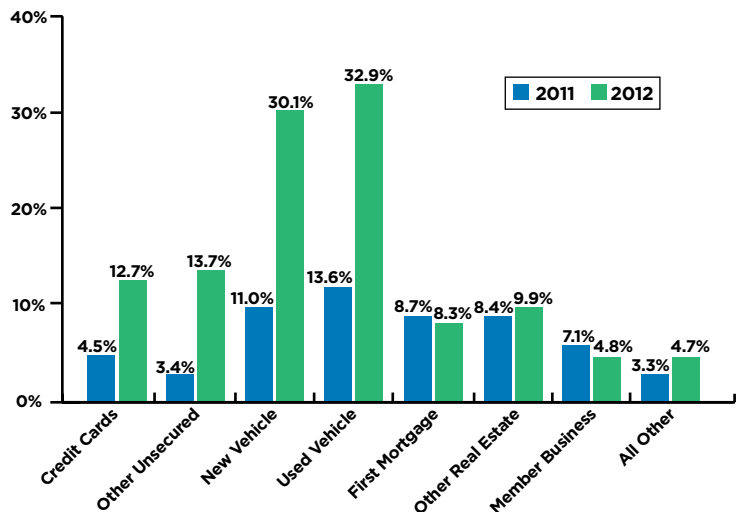
Source: NCUA Financial Performance Report

Chart 7a | Tighter Loan Standards



Source: NAFCU's 2012 Federal Reserve Meeting Survey

Chart 7b | Looser Loan Standards

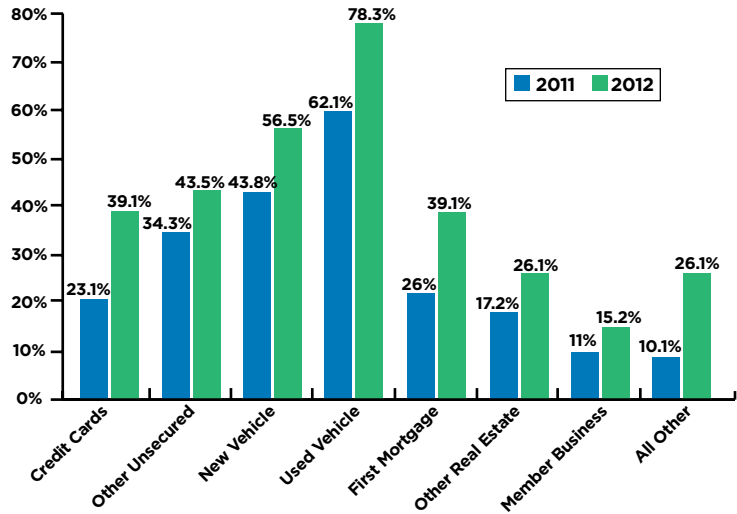


Source: NAFCU's 2012 Federal Reserve Meeting Survey

changes in accounting standards (46.9 percent) and rising delinquencies and charge-offs (43.8 percent).

Credit unions continue to make loans to members who have been turned down by other lenders. According to NAFCU's 2012 *Federal Reserve Meeting Survey*, the most common category for such loans was used vehicles, where 78.3 percent of respondents extended loans to members who were unable to borrow from other lenders (Chart 8). More credit unions saw an improvement in the quality of loan applicants (32.4 percent) than a decline (14.9 percent), a reversal from last year when only 16.6 percent reported an improvement in applicant quality while 39.9 percent saw a decline.

Chart 8 | Loans to Members Who Were Turned Down by Other Lenders



Source: NAFCU's 2012 *Federal Reserve Meeting Survey*

According to NAFCU's 2012 *Federal Reserve Meeting Survey*, 27.9 percent of the responding credit unions indicated that they have seen an increase in real estate foreclosure notices among members during the previous 12 months, while 25.8 percent saw an increase in actual foreclosures. This compares to 59.4 percent and 52.2 percent, respectively, from NAFCU's 2011 *Federal Reserve Meeting Survey*. A substantial majority of the responding credit unions (85.5 percent) also stated that they have a loan modification program in place to help members prevent foreclosures, and 72.3 percent have helped a member(s) forestall a foreclosure during the last 12 months. Among respondents, the average debt-to-income ratio for members applying for mortgage workouts and loan modifications during the past 12 months was 52.9 percent. For those who were approved, the average debt-to-income ratio was 46.8 percent. Of those respondents with a modification program, the most common obstacle to modifying mortgage loans was NCUA regulations (20 percent), followed by modification costs (14.4 percent) and board policies (10 percent).

Liquidity

Corporate credit unions have historically played a critical role in the credit union industry. The Central Liquidity Facility (CLF) has been a key source of short-term liquidity for credit unions, which typically access the fund through corporate credit unions. However, the closure of U.S. Central Bridge Corporate Credit Union in October 2012 reduced the CLF's borrowing authority by 96 percent and left more than 6,000 credit unions without access to the facility. According to NAFCU's 2012 *Federal Reserve Meeting Survey*, only 30 percent of those credit unions that previously subscribed to the CLF, either directly or through a corporate credit union, plan to do so in the future.

As credit unions seek new avenues for liquidity sources, more are looking to the Federal Reserve Discount Window. Respondents nevertheless indicated that the corporate credit union system remains an important source of funding, as 20 percent increased their lines of credit during the past 12 months (Table 1). The discount window was the next most popular option at 16.9 percent. This is up from last year, when 10.7 percent of respondents increased their lines of credit through the discount window. Credit unions also access liquidity through Federal Home Loan Banks, and need to preserve that option in the future. When asked which sources of liquidity they intend to access in the next 12 months, respondents favored the discount window over corporate CUs and the CLF by a nearly two-to-one margin (29.2 percent to 15.4 percent).

Table 1 | Liquidity Backup Plan

	Increased available lines of credit in past 12 months	Accessed lines of credit in past 12 months	Tested access in backup liquidity plan in past 12 months	Intend to gain access to funds in next 12 months
Banks/Thrifts	10.8%	6.2%	18.5%	7.7%
FRB Discount Window	16.9%	0%	23.1%	29.2%
FHLB	13.8%	9.2%	29.2%	16.9%
Corporate CUs/CLF	20.0%	9.2%	29.2%	15.4%

Secondary Markets

For many small financial institutions with mortgage loan portfolios, the secondary market is a vital source of liquidity. Credit unions that participated in NAFCU's 2012 *Federal Reserve Meeting Survey* indicated that, on average, 62.6 percent of their first mortgage loans outstanding could be sold to the secondary market. Only 7.6 percent of respondents said that they have securitized or sold mortgage loans over the conforming loan limit (conforming jumbo loans) to Fannie Mae or Freddie Mac over the past 12 months, but 14.1 percent indicated that they are expecting to securitize or sell more of these loans in the next 12 months. While 14 percent of survey respondents reported a decline in the availability of services offered by Fannie Mae and Freddie Mac over the past 12 months, 32.3 percent stated that they have shifted investments away from agency and/or Government-Sponsored Enterprise (GSE) mortgage-backed securities (MBSs) over that period.

REGULATORY ISSUES FACING CREDIT UNIONS

- **The Federal Reserve Board's debit interchange fee regulation negatively impacts all credit unions, regardless of size.**
- **Regulation D limitations should reflect the reality of new technology and consumer habits.**
- **The changes to the mortgage market directed by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) are generally aimed at abusive practices. However, the regulatory landscape is being altered in a way that impacts all financial institutions. These changes have significantly increased the compliance burden for credit unions.**
- **Liquidity and risk control are key concerns of the National Credit Union Administration.**
- **The long term health and viability of the secondary market is of paramount concern for credit unions as the Government-Sponsored Enterprises provide a vital source of liquidity to the industry.**

Credit unions are struggling to manage the onslaught of regulatory burdens. Ninety-four percent of NAFCU survey respondents indicated that regulatory burdens have increased since July of 2010, and the credit union industry is now experiencing the full impact of the Dodd-Frank Act. Already, 44.6 percent of survey respondents have raised fees, 64.3 percent have lowered savings rates, 21.4 percent have cut services, 14.3 percent have raised loan rates, 32.1 percent have cut staff, and 48.2 percent have been unable to offer new services.

A number of the provisions in the Dodd-Frank Act require final regulations to be promulgated by January 2013. Accordingly, the Consumer Financial Protection Bureau (CFPB) published a number of proposed mortgage rules between July and September of this year. The proposed rules span nearly 2,800 pages. As a consequence, the credit union industry is struggling to keep pace with the significant and far-reaching proposed changes to the mortgage market. The CFPB's proposed changes would require a seemingly limitless supply of resources. Given the thin margins in today's mortgage lending market, NAFCU is concerned that the changes will, at best, constrain credit further and, at worst, drive small and mid-sized lenders from the market, at least in the short term.

The CFPB's mortgage rulemakings, however, are only part of a growing regulatory drain on credit union resources. While the CFPB's rules will make existing activities and authorities more difficult to carry out, NCUA continues to take actions that seek to restrict or encumber current credit union authorities.

Reputation risk is also a growing concern to credit unions. Credit unions have established a well-deserved reputation as financial institutions where their members' interests are a priority. For example, as many other financial institutions engaged in predatory lending and placed consumers into costly loan products, credit unions sought to ensure their members were offered, and received, the best products available. In addition, credit unions have long been leaders in financial education, with initiatives targeted to both their members and the communities they serve.

Since the onset of the financial crisis, credit unions have actively endeavored to distinguish themselves from the financial institutions whose activities led to the financial crisis. As a result, the credit union industry has maintained a very good reputation among its members and the general public. Their well-earned reputation is one of the reasons for the increased growth in membership and deposits over the past few years.

With the creation of the CFPB and the operations of NCUA's Office of Consumer Protection, we are concerned that credit unions' reputation risk has greatly increased. Specifically, credit unions are concerned that consumer complaints will not be handled appropriately by regulators. Consequently, credit unions could be unnecessarily and undeservingly exposed to significant costs. For example, if the CFPB and NCUA fail to implement rigorous confidentiality policies on handling consumer complaints, a credit union could be open to litigation and significant reputation risk stemming from an unfounded complaint or an easily resolvable misunderstanding by a member. Moreover, the risk is not limited to the particular credit union, but to credit unions as a whole, because of the credit union brand and the association of credit unions with each other.

Debit Card Interchange Fees

NAFCU remains very appreciative of the Federal Reserve Board's work on the complex and controversial issue of debit card interchange fees. Credit unions with less than \$10 billion in assets are reporting lower interchange fees compared to last year. In response to NAFCU's August Economic and CU Monitor survey, 44.3 percent of credit unions reported that average per-transaction debit interchange fees had decreased since last year. Another 49.2 percent reported that fees had remained about the same and 6.6 percent reported higher fees than last year. While there are a number of factors that impact debit interchange fees, the cap on rates is undoubtedly contributing to the overall decrease in debit interchange fees even among smaller institutions, as recently validated by the General Accountability Office in its September 2012 report. NAFCU has long argued that the cap on rates will over time become the default rate for the entire industry. The first year of data appears to support our position.

To address this issue, NAFCU, again, recommends that the Federal Reserve Board consider the costs for institutions with less than \$10 billion in assets, when establishing both the interchange fee and the fraud adjustment. Although the Federal Reserve Board has taken the position that it will only survey institutions with more than \$10 billion in assets, nothing in the statute explicitly restricts the Board from also considering the costs of institutions with less than \$10 billion in assets. Moreover, § 920 of the Electronic Fund Transfer Act grants the Federal Reserve Board discretion to consider any factors that it deems appropriate. Given that the evidence indicates institutions with less than \$10 billion in assets are being impacted by the capped rate, it would be appropriate for the Board to reconsider its current position and factor in the costs of smaller institutions.

Regulation D

An ongoing concern for NAFCU and its members is the outdated restriction on "convenience transfers" under Regulation D. The current law is burdensome and confusing for depositors that wish to have unfettered access to their funds. It is unreasonable to expect consumers to understand and remember the arcane limits on the number and type of transfers that are allowed from their savings account. The rule is outdated, and as a consequence, the restrictions on transfers are incoherent to even the most knowledgeable consumers. It would be helpful to consumers if the regulation was modified to reflect the current financial services environment.

In an electronic era where consumers demand the ability to transfer funds easily to and from particular accounts, the arbitrary limitation on six transfers from a savings account creates an undue burden for consumers and financial institutions alike. NAFCU believes that the six transfer limitation could be increased and still maintain a distinction between savings and transaction accounts. NAFCU strongly supports increasing the limit to at least nine convenience transfers per month.

Consumer Financial Protection Bureau

The CFPB possesses rule-writing authority for all credit unions regardless of size, and has examination and enforcement authority over credit unions with more than \$10 billion in assets. NAFCU opposed providing the CFPB authority over credit unions, as credit unions were not responsible for the financial crisis, and as NCUA

is the agency best positioned to regulate and oversee federally chartered credit unions. The CFPB is currently working on a number of issues of particular interest to the credit union industry. Since July, the CFPB has issued proposed rules on the Truth in Lending Act/Real Estate Settlement Procedure Act (TILA/RESPA) disclosure consolidation project, Home Ownership Equity Protection Act (HOEPA) amendments, mortgage loan originator (MLO) compensation, mortgage servicing, and a comprehensive new rule on appraisals (this last proposal was promulgated along with several other agencies). In addition, the CFPB finalized two rules on remittance transfers this year and is still working on a proposed rule on qualified mortgages. While NAFCU has a number of concerns with all of these rules, the following is a summary of the more important issues raised by the CFPB's proposals.

Remittances

The CFPB issued a final rule on remittances that made some modifications to the rule that it issued in February. Financial Depository institutions have until February 7, 2013 to comply with most provisions. The final rule increases the threshold to 100 transactions per year. If a credit union is not already complying with the rule's requirements, it has six months to do so from the day it executed its 100th remittance. The rule also simplifies the disclosure requirements for recurring or preauthorized transfers. Under the final rule, remittance transfer providers are permitted to provide an estimate at the time the consumer requests the transfer and a final receipt within one business day after the remittance is executed. Most credit unions will struggle to comply with this rule even with the 100 remittance exemption, and will cease to do remittance services absent a competitive business solution.

TILA/RESPA Integration

NAFCU's primary concern with the TILA/RESPA integration is that the proposal places increasingly complex and time-consuming burdens on lenders, while simultaneously providing lenders less time and less information to comply with those burdens. This problem is compounded significantly if one views all of the mortgage proposals as a whole. The TILA/RESPA proposal would modify the definition of an "application" to eliminate the current "catch-all" provision, which allows lenders to seek additional information that would be useful in underwriting the loan. This, in turn, will speed up the timing requirements for providing the proposed Loan Estimate. The CFPB stated that it wishes to speed up the process in order to enable comparison shopping. However, if lenders are forced to provide ever more information in a shorter time frame, with less borrower information on which to rely, the likely consequences are errors or mistakes that complicate rather than simplify the process.

The proposal would also further restrict the tolerances that are permitted under RESPA for settlement costs. NAFCU opposes tightening the tolerances in general. Lenders are required to make the borrower whole if a fee exceeds the tolerance. Tightening the tolerances will likely result in less completion among service providers as lenders will be inclined only to work with well-established providers who can guarantee the fee or who will reimburse the lender if the fee exceeds the tolerance. Further, the Closing Disclosures must be provided three days before closing. Taken together, the proposal requires lenders to provide more disclosures, earlier in the process, with more costly penalties for any incorrect estimates.

Home Ownership Equity Protection Act (HOEPA)

NAFCU is also concerned with the HOEPA proposal as the CFPB has proposed sweeping changes to the finance charge, which in turn would alter the annual percentage rate (APR). The proposed changes are not required by the Dodd-Frank Act, and they complicate an already complex process. Given the host of regulatory changes required by the Dodd-Frank Act, it is NAFCU's position that the Bureau should not use its authority to require still more changes. The cost of altering the finance charge and replacing it with the transaction coverage rate (TCR) are extraordinary. These costs are particularly difficult for credit unions to bear as the industry struggles to comply with other aspects of the Dodd-Frank Act. At the same time, the benefits are modest given that the proposal will, at best, only marginally improve a disclosure that consumers

do not use. Further, the proposal would disregard the statutory scheme, by including fees in the finance charge that are explicitly excluded from the definition by law. The changes are all the more problematic given the number of other State and Federal consumer protection laws that are tied to the finance charge.

Mortgage Loan Originator (MLO) Compensation

The CFPB's MLO proposal is incredibly burdensome from a compliance perspective. The Dodd-Frank Act generally prohibits creditors from paying compensation to a mortgage broker or a commission to an in-house loan officer unless: (1) the consumer does not pay the mortgage broker, and (2) the consumer does not make any upfront payment of discount points, origination points or fees. The CFPB's proposed rule provides an exception to this rule that permits upfront points and fees, but only if the lender offers the borrower a comparable alternative loan, one with points and fees and one without points and fees. Further, the CFPB proposed requiring lenders to offer either both loans or no loan at all; i.e. if a borrower would qualify for a loan with points and fees, but would not qualify for a loan without points and fees, the lender would not be permitted to offer the borrower any loan. Given the housing market, the current credit market, and the costs to lenders to comply with all of the proposed mortgage changes, NAFCU does not support any regulatory provision that would further restrict credit.

Mortgage Servicing

The CFPB's proposed rule on mortgage servicing is problematic, as it would require a new periodic statement for entities that service more than 1,000 mortgages. NAFCU supports the CFPB's determination not to require small servicers to provide the periodic statement; however, the costs associated with the proposed rule are significant. The proposal would require a dynamic statement with a significant amount of information, most of which will be of limited use to the average borrower.

The proposal would also impose new disclosures for adjustable rate mortgages (ARMs). For example, servicers would be required to provide notice with an estimate of the new payment 210 to 240 days prior to the initial rate adjustment for each ARM. NAFCU is concerned with the timing of such a disclosure and believes that this notice would be much more useful to consumers if it was included with the mortgage statement.

Appraisals

The multi-agency proposed rule on appraisals is not particularly problematic for credit unions in terms of substantive changes, but it is symptomatic of the larger issue of over-regulation. There is no shortage of existing rules and regulations concerning the appraisal process. The Uniform Standards of Professional Appraisal Practice (USPAP), the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and existing NCUA rules already impose a number of requirements on credit unions regarding the appraisal process. Nonetheless, the proposed rule would create yet a new set of obligations for credit unions to comply with, despite the fact that the collective lending portfolio of the credit union industry survived the financial crisis remarkably well.

Qualified Mortgages

The CFPB has not yet proposed a rule on qualified mortgages. NAFCU's primary concern with any proposal is that it must include a safe harbor for lenders that make qualified mortgages. A rebuttable presumption of compliance would drive up the cost of credit and complicate the process of selling loans on the secondary market, which is vital for credit unions. In our survey, 93 percent of respondents indicated they would not make loans that do not fall into the safe harbor.

National Credit Union Administration

During the last year, NCUA considered changes to interest rate risk policy and concentration risk. The agency also expanded the use of Documents of Resolution (DOR) and preliminary warning letters during the examination process in order to eliminate perceived risks. NCUA considered proposing expanded new authorities in order to enable the agency to more closely oversee and regulate credit union service

organizations (CUSOs) under the guise of risk management. Finally, the agency recently issued a proposed rule on access to emergency liquidity that narrowly defines the resources credit unions may rely upon in the event that an emergency liquidity need arises. The importance of proper risk management is self-evident. To that end, NAFCU supports appropriate risk management rules.

Emergency Liquidity

NCUA has been working on an emergency liquidity proposal for some time. In the Advance Notice of Proposed Rulemaking (ANPR) that preceded its most recently issued proposed rule, NCUA signaled its intention to prescribe a regulation that would require FICUs to have access to backup sources of liquidity in one of four ways: (1) becoming a member in good standing of the CLF directly; (2) becoming a member in good standing of the CLF through a corporate credit union; (3) obtaining and maintaining demonstrated access to the Discount Window; or (4) maintaining a certain percentage of assets in highly liquid Treasury securities.

In our comment letter on the ANPR, we expressed our concern about and opposition to the contemplated regulatory regime as unnecessary. If NCUA proceeded with that route, however, we urged the agency to broaden the list of ways to fulfill the regulatory requirement to include at the very least membership to a Federal Home Loan Bank.

Unfortunately, the agency has chosen to proceed with the rulemaking to require credit unions with over \$100 million in assets to have access to one of only two sources of liquidity – the CLF (directly or through an agent) or the Federal Reserve Window. Federally insured credit unions (FICUs) with less than \$10 million in assets would be required to maintain a board-approved basic written policy that provides for managing liquidity risk and a list of contingent liquidity sources that can be tapped under adverse circumstances. Finally, FICUs with assets between \$10 million and \$100 million would be required to have a formal written contingency funding plan (CFP) which sets out the strategies for addressing liquidity shortfalls in emergency situations.

NAFCU remains opposed to a regulatory requirement that specifies sources of liquidity to which FICUs must have access. We strongly believe that credit unions are well equipped to make their own determination regarding their day-to-day liquidity needs, as well as their emergency liquidity needs.

NCUA's stated reason for pursuing this rulemaking is the imminent closure of U.S. Central Bridge Corporate Federal Credit Union (U.S. Central), which currently subscribes to the CLF stock on behalf of the vast majority of credit unions. Upon U.S. Central's closure, these credit unions will not have access to the CLF unless they subscribe to the CLF stock and become direct members. NAFCU supports a legislative solution to change the method for subscribing to the CLF so that credit union capital is not at risk.

NCUA's concern relative to liquidity as the administrator of the National Credit Union Share Insurance Fund (NCUSIF) is understandable, but its proposed action is not justifiable. Indeed, at the very least, in its dual regulatory oversight and NCUSIF administrator capacities, NCUA should delay this rulemaking so that it can observe and assess how FICUs are addressing their particular liquidity needs, including liquidity contingency planning.

Corporate Credit Unions

Reforming and stabilizing the corporate credit union system remains an ongoing issue for the industry. In September 2010, NCUA issued a final rule amending its corporate regulations. Among other issues, the rule significantly altered capital requirements and matters related to concentration risk. At the time this report went to print, it is estimated that 18 to 19 corporate credit unions will be recapitalized and meet the initial heightened capital requirements. The projected cost of the corporate stabilization has decreased somewhat over time. Initially, NCUA projected the total cost of stabilization to be between \$8.3 billion and \$10.5 billion. In August, NCUA projected slightly lower costs of between \$5.2 billion and \$9.5 billion. The NCUA Board

also approved a 2011 corporate stabilization fund assessment of 25 basis points of insured shares, or \$1.96 billion. The NCUA expects the 2012 assessment to be approximately nine basis points or \$700 million.

Credit Ratings

As required by the Dodd-Frank Act, NCUA and other federal banking regulators are in the process of eliminating references to credit ratings. The purpose of the statutory requirement, essentially, is to remove the previous reliance on credit ratings and to impose rigid internal credit analysis requirements, especially relative to investments and counterparty transactions.

NAFCU understands that generally, an overreliance on credit ratings is not appropriate, especially with respect to risky investments. While the association understands that changes should be made to rules governing credit rating agencies by the appropriate federal regulators, we believe that credit ratings are an important tool for credit evaluation and credit unions should be able to continue to employ them in assessing investments and counterparty transactions.

To address this issue, we have urged NCUA to work with the other members of the Federal Financial Institutions Examination Council (FFIEC) to seek statutory changes to the Dodd-Frank Act. In this regard, we have suggested that the FFIEC pursue legislation that would eliminate the statutory requirement for regulators to remove references to credit ratings from their regulations. Rather, the affected FFIEC agencies should be granted the *discretion* to replace the current requisite credit ratings for some types of investments and counterparty transactions with appropriate standards of credit analysis that the regulators deem appropriate. The discretionary authority should include the ability of regulators to allow credit ratings to remain part of the credit evaluation process.

NAFCU stands ready and willing to work with the Federal Reserve and the other FFIEC members in seeking the legislative changes discussed above.

Government Sponsored Enterprises and Qualified Residential Mortgages

The Dodd-Frank Act also directed the Federal Housing Finance Agency (FHFA) to create parameters for “qualified residential mortgages” (QRM). The FHFA issued a proposed rule that would generally require securitizers to retain at least five percent of the risk for home mortgages. The proposed rule would eliminate this requirement for mortgages that meet certain underwriting standards and that thus qualify as QRMs. Among other things, the QRM exception requires a down payment of 20 percent. While credit unions are technically exempt, the rule’s impact will nevertheless be felt by any participant in the mortgage market. Accordingly, NAFCU opposes the 20 percent down payment requirement, as it would inevitably decrease the availability of mortgage financing for moderate- and low-income borrowers.

Moreover, the QRM proposal raises the broader question regarding the long-term health and viability of the secondary mortgage market. Credit unions rely heavily on the secondary market to make mortgage loans. Without a healthy secondary market, credit union mortgage lending would decrease significantly. The government should take steps to ensure there is a healthy and vibrant secondary market. The following are NAFCU’s principles for government sponsored enterprises (GSE) reform:

- › A healthy market requires at least two GSEs, or some similar type of entity that would perform the same function. These entities should have the ability to purchase loans and convert them into mortgage-backed securities (MBSs).
- › The U.S. government should issue explicit guarantees on the payment of principal and interest on MBSs. The explicit guarantee will provide certainty to the market, especially for investors who will need to be enticed to invest in the MBSs and facilitate the flow of liquidity.

- › During any transition to a new system (whether or not current GSEs are part of it) credit unions must have uninterrupted access to the GSEs, and in turn, the secondary market.
- › A board of advisors made up of representatives from the mortgage lending industry should be formed to advise the FHFA regarding GSEs. Credit unions should be represented in such a body.
- › While a central role for the U.S. government in the secondary mortgage market is pivotal, the GSEs should be self-funded, without any dedicated government appropriations. GSE fee structures should, in addition to size and volume, place increased emphasis on quality of loans.
- › Fannie Mae and Freddie Mac should continue to function, whether in or out of conservatorship, and honor the guarantees of the agencies at least until such time as necessary to repay substantially all their current government debts. Legislation to reform the GSEs should ensure that taxpayer losses are not locked in, but should allow time for the GSEs to make taxpayers whole.
- › NAFCU does not support full privatization of the GSEs at this time because of serious concerns that small community-based financial institutions could be shut-out from the secondary market.
- › The Federal Home Loan Banks (FHLBs) serve an important function in the U.S. mortgage market and provide their credit union members with a reliable source of funding and liquidity. Reform of the nation's housing finance system must take into account the consequence of any legislation on the health and reliability of the FHLBs. Importantly, access to FHLBs for small lenders should not be impeded in any way.

NAFCU could also support a model for GSEs that is consistent with a cooperative or mutual entities model. Each GSE would have an elected board of directors, be regulated by the FHFA, and would be required to meet strong capital standards. The GSEs should meet other appropriate regulatory standards to limit their ability to take on risk while ensuring safety and soundness. Rigorous oversight for safety and soundness is also paramount.

Ensuring credit union access to the secondary market is one of NAFCU's top legislative and regulatory priorities. NAFCU is concerned that some current reform proposals would leave a secondary market dominated by a handful of large banking institutions. This could create undesirable consequences for credit unions and other small financial institutions, such as community banks.

CREDIT UNION SERVICE TO MEMBERS AND USE OF FEDERAL RESERVE SERVICES

- **Electronic services provided by credit unions continue on an upward trend, as do the number of credit unions offering these services.**
- **A majority of credit unions offer Automated Teller Machines (ATMs), internet banking, and audio response systems.**
- **Use of Federal Reserve services by credit unions is increasing for the majority of services offered.**
- **NAFCU members hold a positive view of the pricing of Federal Reserve services, rating most at competitive or better.**

Credit unions carry on their commitment to offering their members superior service and modern financial products. This is evident in the growth in the number of institutions offering home banking services and ATM services.

Electronic Financial Services

Account Balance Inquiry is the most common online service offered by federally insured credit unions (FICUs), with 73.2 percent reporting that they currently offer this service (Table 1). This is up from last year's 70.4 percent. The electronic services that saw the largest increase in percentages were e-Statements (55.6 percent, up from 50.3 percent last year) and Bill Payment (55.3 percent, up from 52.4 percent).

More credit unions are offering members ATM and internet banking services (69.3 percent and 70 percent, respectively). These figures are up from last year's 63 percent and 67.4 percent, respectively (Table 2).

Through shared branching and tens of thousands of free ATMs across the country, including some at key 7-Eleven locations, credit union members have access and convenience that surpasses other financial institutions. The institutions that provide these services hold over 98 percent of the total assets held by all FICUs.

Table 1 | Financial Services Offered Electronically by Credit Unions

Online Service Offered	Provided in 2011	Provided in 2012
Account Aggregation	6.9%	8.0%
Account Balance Inquiry	70.4%	73.2%
Bill Payment	52.4%	55.3%
Download Account History	58.4%	60.7%
Electronic Cash	3.0%	3.4%
Electronic Signature Services	3.0%	4.2%
e-Statements	50.3%	55.6%
Internet Access Services	11.6%	13.2%
Loan Payments	61.8%	64.2%
Member Application	26.8%	28.4%
Merchandise Purchase	5.1%	5.3%
New Loan	39.9%	41.6%
New Share Account	16.9%	18.2%
Share Account Transfers	66.9%	69.5%
Share Draft Orders	54.8%	56.6%
View Account History	68.3%	70.7%

Source: NCUA June 2011 & 2012 Call Reports.

Table 2 | How Do Your Members Access/Perform Electronic Financial Services?

Electronic Service	Percentage of # Institutions		Percentage of Assets	
	2011	2012	2011	2012
Audio Response/Phone-Based	56.8%	57.4%	96.5%	96.3%
Automatic Teller Machine (ATM)	63.0%	69.3%	97.3%	98.2%
Home Banking Via Internet Website	67.4%	70.0%	98.3%	98.6%
Kiosk	4.7%	5.2%	23.6%	24.5%
Other	4.6%	4.0%	4.9%	5.0%

Source: NCUA June 2011 & 2012 Call Reports.

Federal Reserve Services

In NAFCU's 2012 *Federal Reserve Meeting Survey*, survey participants were asked to indicate their use of intermediaries for transaction services (Table 3). While corporate credit unions fill a primary role in the credit union industry, the Federal Reserve plays an important part, as well. Because credit unions are increasingly looking outside of the corporate credit union system for their liquidity needs, Federal Reserve services are expected to grow in importance for credit unions.

Table 3 | Which Intermediaries Does Your Credit Union Use for Transaction Services?

	None	Some	Most	All
Corporate Credit Unions	19.2%	32.9%	32.9%	15.1%
Banks	51.5%	47.0%	1.5%	0%
Federal Reserve	21.1%	45.1%	33.8%	0%
Outside Vendors	37.9%	60.6%	1.5%	0%

Table 4 | NAFCU Members' Usage of Federal Reserve Services

Federal Reserve Service	Declining Usage	No Usage Change	Increasing Usage	Credit Union Usage	Median Service Rating: 1 to 5*
Coin and Currency Deposit	2.2%	43.8%	14.1%	60.1%	3
Coin and Currency Orders	4.7%	40.6%	20.3%	65.6%	3
Check 21 Enabled Service	4.6%	32.3%	26.2%	63.1%	4
Paper Check Clearing	18.8%	28.1%	0.0%	46.9%	3
Foreign Check Services	4.8%	27.4%	1.6%	33.9%	3
FedImage Services	6.5%	32.3%	8.1%	46.8%	4
Truncation Services	6.3%	31.7%	3.2%	41.3%	3
Presentment Point Services^	3.2%	36.5%	6.3%	46.0%	3
ACH Originations	1.6%	22.2%	49.2%	73.0%	4
ACH Receipts	0.0%	24.2%	50.0%	74.2%	4
ACH Risk Management Services^	0.0%	33.9%	4.8%	38.7%	3
FedPayments Reporter Service^	0.0%	22.6%	3.2%	25.8%	3
FedGlobal ACH Payments^	0.0%	25.8%	3.2%	29.0%	3
Fedwire Funds Service	1.7%	47.5%	20.3%	69.5%	4
Fedwire Securities Service	0.0%	27.9%	6.6%	34.4%	3
National Settlement Service	0.0%	22.2%	6.3%	28.6%	3
FedMail^	3.2%	30.6%	6.5%	40.3%	3
FedLine Direct	1.6%	28.6%	9.5%	39.7%	3
FedLine Command	0.0%	14.8%	3.3%	18.0%	3
FedLine Advantage	0.0%	37.1%	22.6%	59.7%	4
FedLine Web Services	1.6%	41.0%	11.5%	54.1%	4
FedComplete Package	0.0%	21.4%	1.8%	23.2%	3
FedTransaction Analyzer Service^	0.0%	14.5%	1.6%	16.1%	3
Account Services^	0.0%	42.6%	9.8%	52.5%	4
Fed Discount Window	0.0%	31.7%	4.8%	36.5%	3
Customer "Help" Services	0.0%	50.0%	14.5%	64.5%	4
Educational Seminars	1.6%	32.3%	9.7%	43.5%	3

Source: NAFCU's 2012 Federal Reserve Report Survey.

*5 = Excellent

^New in the 2012 survey

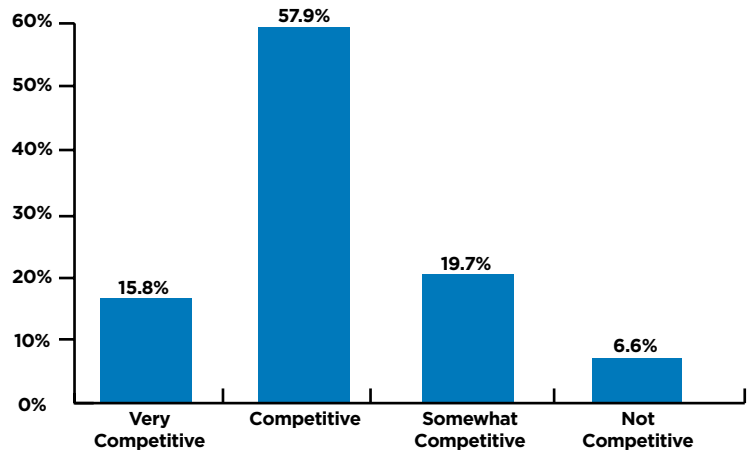
NAFCU's 2012 *Federal Reserve Meeting Survey* asked participants about their usage rates of Federal Reserve services with respect to last year and to rate the service provided (Table 4). The most widely used Federal Reserve service was Automated Clearing House (ACH) Receipts (74.2 percent), followed by ACH Originations (73 percent), FedWire Funds Services (69.5 percent) and Coin and Currency Orders (65.6 percent). The least used service was FedTransaction Analyzer Service (16.1 percent).

The services in which the greatest number of respondents noted a decline were Paper Check Clearing (18.8 percent) and FedImage Services (6.5 percent). The services with the largest increases in usage were ACH Receipts (50 percent), ACH Originations (49.2 percent), and Check 21 Enabled Service (26.2 percent).

Participants were asked to rate the Federal Reserve services on a scale of one to five with five indicating an "excellent" rating (Table 4). Credit unions participating in the survey were generally pleased with the quality of Federal Reserve services, although there was a decline from last year. Among the services rated, nine received an "above average" rating (median rating of four), while 18 of the services were rated a three or "average." None of the services had a median rating below a three. Last year, there was one service with a median rating of five or "excellent," 23 services with a median rating of four or "above average," and two services with a median rating of three or "average." Of the services that were also in last year's survey, none improved their rating, while five saw a decline in their service rating (Coin and Currency Deposits, Coin and Currency Orders, FedComplete Package, FedWire Securities Service and FedLine Direct).

Survey participants were asked to review the overall competitiveness of Federal Reserve services. A large majority (over 73 percent) felt that Federal Reserve services were either "competitively" or "very competitively" priced (Chart 1). The specific services identified "most competitively-priced" were ACH Originations and Receipts, Check 21 Enabled Services and Coin and Currency Orders. The service viewed as "least competitively-priced" was FedLine Advantage.

Chart 1 | Overall Rating of Federal Reserve Services



Source: NAFCU's 2012 Federal Reserve Meeting Survey

ECONOMIC BENEFITS OF THE CREDIT UNION FEDERAL TAX EXEMPTION FOR CONSUMERS, BUSINESSES, AND THE U.S. ECONOMY

NAFCU commissioned a study in 2012 to examine what would happen to the U.S. economy if the presence of credit unions was reduced significantly as a result of eliminating the credit union federal income tax exemption. The authors of the study were Robert Feinberg Ph.D., Professor of Economics at American University; and Douglas Meade, Ph.D., Director of Research at Interindustry Economic Research Fund, Inc.

Previous studies demonstrated that changes to the credit union tax status in Canada and Australia led to a severe reduction in the number of credit unions. This reduced competition for consumer financial services and led to higher interest rates on consumer loans and lower interest rates on deposits for consumers in those countries. The study also estimated the broader economic impact of these lost consumer benefits.

Key Findings

- › Credit union rates outperformed bank rates across the board. Interest rates on deposits were 25% higher, and interest rates on car loans were 26% lower than bank rates.
- › The direct benefits to credit union members of these better loan and deposit rates ranged from \$4.3 to \$8.0 billion annually from 2005-2011. Savings were highest for auto loans.
- › Total direct benefits to credit union members of these better loan and deposit rates were estimated to be almost \$43 billion over the period of the study.
- › The benefit of better credit union loan and deposit rates extends to bank customers as well, due to increased competition from credit unions.
- › The cost to bank customers of a 50% reduction in the credit union market share was estimated to be between \$2.4 billion and \$6.3 billion per year. The total cost to bank customers was almost \$30 billion from 2005-2011.
- › The total benefit to U.S. consumers from the presence of tax-exempt credit unions in financial markets is approximately \$10 billion per year, with direct benefits to credit union members and bank customers totaling \$72.6 billion from 2005-2011.

Chart 1 | Interest rate differences, credit unions vs. banks
(percent difference, 2005-2011 average)

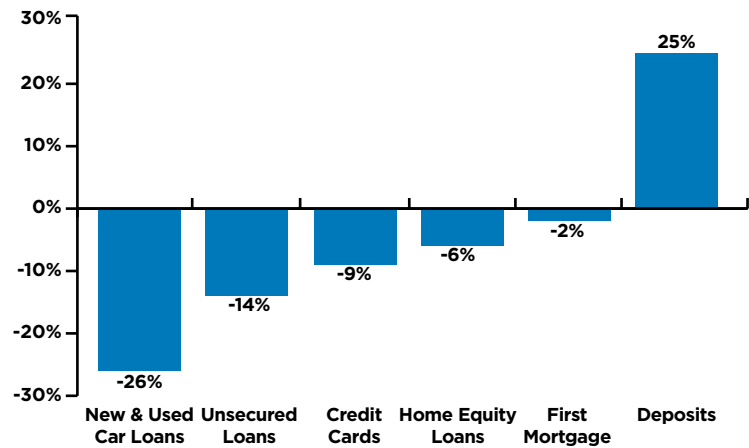
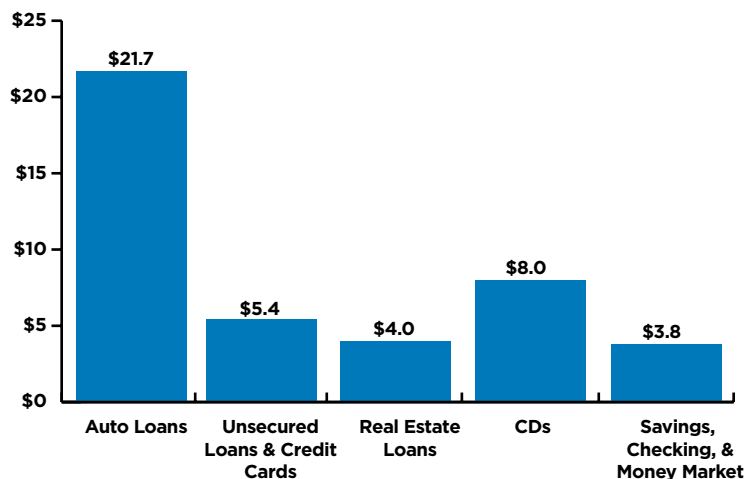


Chart 2 | Estimate of direct benefits to credit union members from better loan and deposit rates
(figures in billions\$, 2005-2011 total)

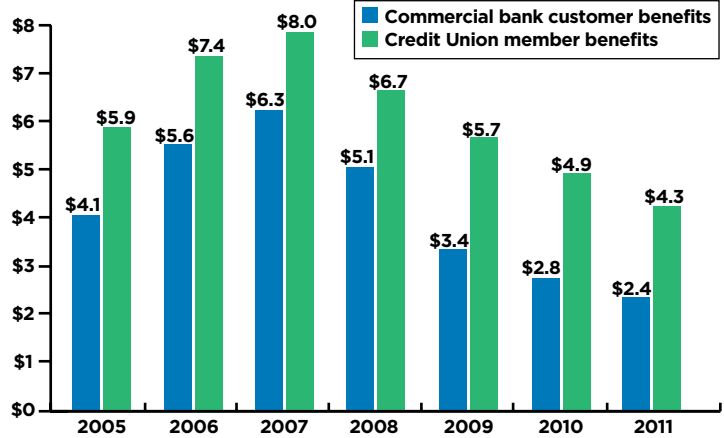


Total credit union member benefits from 2005-2011 = \$42.9 billion

- › The results were modeled by Inforum’s Long-term Interindustry Forecasting Tool (LIFT) to estimate the broader economic impact of these lost consumer benefits. The model predicts that the elimination of the credit union federal income tax exemption would reduce U.S. GDP by about \$148 billion (in 2010 dollars) over the next decade. This decline in GDP would result in a loss of 150,000 jobs per year or 1.5 million job-years lost over the next decade.
- › The model also estimates that the \$178 billion reduction in personal income would lead to a loss of \$1.5 billion per year in Federal income tax revenue. This number is three times the Senate Budget Committee’s 2010 estimate of foregone revenue from the credit union federal tax exemption (\$500 million for FY’12). The Federal government would ultimately lose revenue by taxing credit unions.

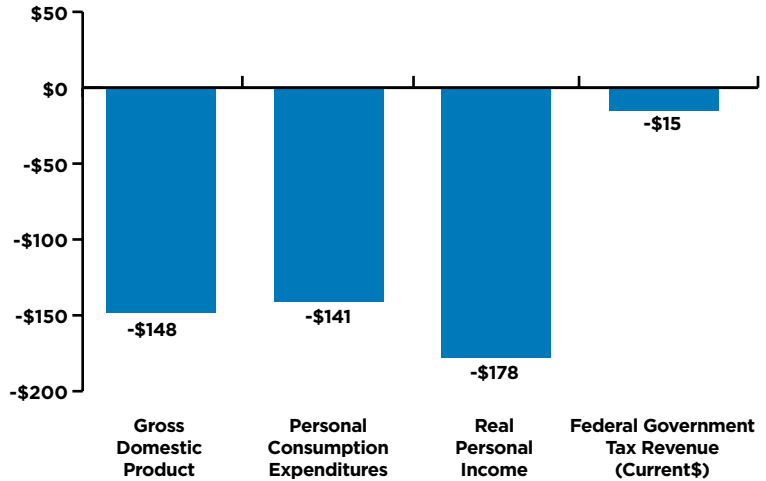
Economic Benefits of the Credit Union Tax Exemption on Consumers, Businesses, and the U.S. Economy is available for download on NAFCU’s website.

Chart 3 | Estimate of total consumer benefits of competition from credit unions
(figures in billions\$, 2005-2011)



Total consumer benefits from 2005-2011 = \$72.6 billion

Chart 4 | Economic Impact from Loss of Credit Union Tax Exemption
(figures in billions 2010\$, 2013-2033 forecast total)



Total employment losses from 2013-2022 = 1.5 million jobs

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is a direct membership association committed to advancing the credit union community through its relentless focus on membership value in representing, assisting, educating and informing its member credit unions and their key audiences.



**National Association
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