



Credit Union Weekly Update



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A.E.A. FCU Placed into Conservatorship

ALEXANDRIA, Va. – [A.E.A. Federal Credit Union](#) was placed into conservatorship due to declining financial condition. The credit union was significantly undercapitalized with a net worth ratio of 2 percent as of September 2010. NCUA cited that the credit union has earnings insufficient to enable it to continue under present management. The credit union reported a 2009 loss of almost \$25.9 million and a year-to-date loss of nearly \$4.7 million. As of September 2010, the credit union reported that 19.12 percent of its loans were 60 days or more past due. The credit union's difficulties stemmed from problems in its commercial loan portfolio, where \$45.5 million in business loans were 60 days or more past due. This translates into 64.27 percent of its business loans being delinquent. Recently, Bill Liddle, who formerly managed AEA's business loan department, his wife and local businessman Frank Ruiz were indicted by a grand jury in an alleged kickback scheme related to business loans made to Ruiz.

Sen. Shelby Blocks Bill to Raise CU Biz-Lending Cap

WASHINGTON – Senate Banking Committee ranking member Richard Shelby (R-Ala.) on December 19 blocked the passage of Sen. Mark Udall's (D-Colo.) ABA-opposed credit union bill that would raise the member business-lending cap for certain qualified credit unions from 12.25 percent to 27.5 percent of total assets. Udall asked for unanimous consent on the Senate floor to pass the legislation, but Shelby objected and the measure did not go through. The bill would raise the cap for well-capitalized credit unions that have member business loans outstanding that were at 80 percent of the current cap at the end of each of the four consecutive quarters immediately preceding their application date; can demonstrate at least five years experience soundly underwriting and servicing such loans; and have the requisite policies and experience in managing them. Credit unions also would have to satisfy other standards that the National Credit Union Administration Board determines are needed to maintain their safety and soundness. ABA has repeatedly pointed out that the bill has not been subjected to any hearings, the Senate Banking Committee has not acted on it, and it should not be brought to the Senate floor for consideration.

Bill Mandates GAO Study on NCUA

WASHINGTON – The Senate on December 16 passed a bill (S. 4036) that would require the Government Accountability Office to study the National Credit Union Administration's supervision of corporate credit unions and implementation of prompt corrective action. The legislation mandates that the GAO determine the reasons for the corporate credit union failures, and also evaluate the NCUA's response to those failures. The measure also requires the GAO to evaluate the NCUA's use of prompt corrective action with corporate credit unions and natural person credit unions and the agency's implementation of recommendations contained in previous reports from its own inspector general. The completed report would go to the Senate Banking Committee, the House Financial Services Committee and the Financial Stability Oversight Council. The House as of December 21 has not acted on the bill.

NCUA Proposes to Give FCUs More Flexibility to Meet Low-Income Designation

ALEXANDRIA, Va. – The NCUA Board issued [a proposal](#) for a 60-day comment period that will provide greater flexibility for a federal credit union (FCU) to meet low-income designation requirements that do not qualify using geo-coding software. The proposal would permit a FCU to rely on a sample of membership income data drawn from loan files or a member survey to meet the qualification criteria. The FCU must demonstrate the sample is a statistically valid, random sample by submitting, along with data, a narrative describing the sampling technique and evidence supporting validity of the analysis, including actual data used in the analysis. A low-income designation authorizes FCUs to accept non-member deposits, raise

supplemental capital, apply for NCUA grants, and earn an exception to the member business lending cap.

FCUs Can Offer Gift Cards as Inducement to Attend Annual Meetings

ALEXANDRIA, Va. – In a [legal opinion letter](#), NCUA stated that credit unions could offer gift cards and other cash inducements to help draw members to sparsely-attended annual meetings. “Generally, we believe an FCU’s use of a gift card incentive is a permissible incidental powers activity,” said NCUA in a new legal opinion. NCUA had previously approved the use of raffles and other incentives to boost annual meeting attendance, NCUA noted. “A gift card incentive meets this same premise and thus, is generally permissible,” said the new legal opinion. However, the credit union should carefully weigh the costs of such promotions, which may be objectionable on safety and soundness grounds or concerns of corporate waste. “Any incentive offered by a FCU to increase participation at its annual meeting must be reasonable.” In addition, the incentive should not be used in any way to influence any votes conducted at the annual meeting, NCUA said.

NCUA Outlines Corporate CU Transition Plan Timeline

ALEXANDRIA, Va. – NCUA issued [a letter](#) to Corporate Credit Unions and a Fact Sheet to natural person credit unions detailing the corporate credit union (CCU) system transition plan and considerations for natural person credit unions. Of particular note, NCUA will require undercapitalized corporate credit unions to establish escrow accounts for members to pledge capital during a four-month capital subscription period in 2011 beginning May 31. This initiative is designed to provide protection for natural person credit unions should sufficient capital not be raised by the corporate. If a corporate raises enough capital by September 30, 2011 to meet NCUA’s new capital standards, which take effect on October 20, 2011, the pledged capital in escrow will be converted to regulatory capital. However, if a corporate credit union’s capital subscription falls short by that October 20 regulatory compliance deadline, all pledged capital in escrow can be returned to members.

Bethpage FCU to Pay \$2.1 Million for Minor League Stadium Naming Rights

BETHPAGE, N.Y. – Bethpage Federal Credit Union has agreed to pay Suffolk County \$2.1 million until 2020 for the naming rights of a minor league stadium where the Long Island Ducks play. The contract would be the third name since the 10-year-old, 6,000-seat facility opened. It was called Citibank Park at its inception and Suffolk County Sports Park during the 2010 Ducks season when the county failed to sell the naming rights.

ABA Credit Union Weekly Update will not be published next week, returning on January 7, 2011. Happy Holidays.

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