
Credit Union Department



NEWSLETTER

No. 03-07

www.tcu.state.tx.us

March 31, 2007

Upcoming Legislative Advisory Committee Meeting

The Legislative Advisory Committee is scheduled to meet on Friday, May 18, 2007. The meeting will convene at 9:00 am in the Department's conference room. Among the agenda items will be the mandatory review and consideration of Rules **91.801** (Investments in CUSOs), **91.802** (Other Investments), **91.803** (Investment Limits and Prohibitions), **91.804** (Custody and Safekeeping), **91.805** (Loan Participation Investments), **91.808** (Reporting Investment Activities to the Board of Directors), **91.901** (Reserve Requirements), and **91.902** (Dividends). The Committee is soliciting feedback from credit unions on the delineated rules.

Indirect Auto Lending

Historically, auto financing has been a relatively low-risk form of lending, with risk spread among a large volume of small-balance, collateralized loans. Recently, however, weak indirect auto lending programs have allowed insufficient collateral values and marginal to deficient borrower repayment capacity, resulting in substantial financial adversity for the credit union.

Anecdotal evidence also suggests that heightened competition has prompted credit unions to offer lower interest rates, lengthen amortization periods, and scale down payment requirements. The results are thinning collateral and smaller net interest margins.

These types of lending practices pose increased risk to credit unions, which can be mitigated only through prudent lending policies and procedures, adequate internal controls, and strong oversight. Credit unions must remain vigilant to prevent further harm to asset quality, earnings and capital.

Risk-Based Response Program

Everyone is familiar with reports of data compromises and security breaches at organizations ranging from universities and retail companies to financial institutions and governmental agencies. Whether a network security breach compromising millions of credit card accounts, or a lost computer containing names, addresses, and Social Security numbers of thousands of

individuals, a security incident can damage reputations, cause financial losses, and enable identity theft.

Credit unions are prime targets for attack because they hold valuable data that, when compromised, may lead to identity theft and financial loss. This places significant demands on a credit union to identify and prevent vulnerabilities that could result in successful attacks on its information security program. The rapid adoption of the Internet as a delivery channel for electronic commerce, coupled with highly publicized vulnerabilities in popular hardware and software, have presented serious security challenges to credit unions. In this high-risk environment, it is likely that a credit union will, at some point, need to respond to security incidents affecting its members.

To mitigate the negative effects of security breaches, Part 748 of NCUA's Rules and Regulations requires credit unions to develop an approach to address and manage the aftermath of a security breach or attack (Risk-Based Response Program). Similar to the importance of business continuity planning program for natural disasters, a sound Risk-Based Response Program is necessary to combat new and existing data security threats facing the credit union community. Given the high value placed on the confidential member information, coupled with the publicized success of known compromises, one can reasonably assume that criminals will continue to probe an organization's defenses in search of weak points. Accordingly, a credit union's ability to respond to security incidents in a planned and coordinated fashion is very important to the success of its information security program and has the potential to provide tangible value and benefit to the credit union.

Alerting Members to Potential Scams

The Department has been receiving an increased number of calls from members who are victims of various scams. Most commonly, credit union members call the Department when a counterfeit item they have deposited is returned and their account is debited for that amount, or when their account is cleared out after they provided account information in response to an email or a phone call. Many members believe that when a hold on a check or money order is released, the credit union has determined that the check is valid. Some members also believe that the credit union bears some responsibility for protecting them from fraud.

If you have not done so recently, we would encourage you to consider using your newsletters or other communications to alert your members to the scams that are currently in vogue and reminding them that the credit union does not guarantee the validity of an item that is cashed or deposited. There are many resources that explain scams and how to avoid them. The Department, for example, has a link on its website with information that could be included in a newsletter. Continuing to communicate with members on the latest schemes to defraud them of their money benefits both the members and the credit union.

How Are We Doing?

On March 26, 2007, the Department mailed a questionnaire to all state-chartered credit unions soliciting comments on such topics as the Department's examination process, examination report quality, and application procedures. Although this is a voluntary questionnaire, your feedback will provide valuable assistance in determining how the Department can serve you in the future.

Call Report Deadline

Call reports and the *PC 5300 Windows* program compact disks for the quarter ending March 31, 2007 was mailed on March 30th.

The call reports must be submitted to the Credit Union Department in an electronic format using the “*eSend to NCUA*” program or by regular mail on a rewritable compact disk on or before **April 23, 2007**. Reports received after that date will be assessed a late fee.

Please direct any questions to Isabel Velasquez, Executive Assistant or Robert Baxter, Chief Examiner at (512) 837-9236.

USA Patriot Act Contact Information

Regulations implementing the USA Patriot Act require credit unions to identify contacts to receive information from FinCEN regarding individuals, entities, and organizations engaged in or reasonably suspected, based on credible evidence, of engaging in terrorists acts or money laundering activities. This contact information is provided to FinCEN and NCUA in the quarterly call reports, and includes the name, email address, telephone number(s) and fax number(s) for the primary and secondary credit union contacts responsible for the Bank Secrecy Act compliance and Customer Identification programs.

Periodically, the Department receives FinCEN delivery failure notifications on certain credit unions, which represent failed attempts by FinCEN to contact the respective credit union regarding a request for 314(a) searches. Typically, FinCEN delivery failure notifications are the result of incorrect email addresses reported on page 7 of the call report, or there may have been a change in contact personnel since the last call report submission. To ensure that FinCEN has the correct contact information, and to prevent delays in performing required 314(a) searches, all credit unions are encouraged to verify the accuracy of the contact information provided before submitting the quarterly call reports, or initiate point-of-contact changes through the “*eSend to NCUA*” program for the most recent quarter-end call report.

Change 16, Rules for Texas Credit Unions

On March 23, 2007, Change 16 to update the Rules for Credit Unions was mailed to all credit unions. The effective date of this revision is March 7, 2007. Additional copies of the rules or any updates may be purchased from the Texas Credit Union League, 4455 LBJ Freeway, Farmers Branch, Texas 75244.

Emergency Contact Information

On March 7, 2007, a 2007 Emergency Contact Information was mailed to all credit unions. You are reminded to complete the questions and return the contact form to the Department by **April 9, 2007**. For your convenience, the form can be downloaded from our website at www.tcud.state.tx.us under “In the News”.

Publishing Notice of Applications in the Texas Register

In order to meet the submission deadlines for the applicable issues of the *Texas Register*, it is necessary for the Department to establish the schedule included below. Completed applications received after the deadline for the month cannot be published until the following month.

<u>Published In</u>	<u>Deadline for Receipt</u>
April, 2007	Friday, April 13
May, 2007	Friday, May 11
June, 2007	Friday, June 15

Applications Approved

Applications approved since February 28, 2007 include:

<u>Credit Union</u>	<u>Changes or Groups Added</u>
Field of Membership Changes Approved:	
Resource One Credit Union (Dallas)	See Newsletter No. 09-06
Matagorda County Teachers Credit Union (Bay City)	See Newsletter No. 03-07
TEC/TWC Credit Union (San Antonio)	See Newsletter No. 03-07

Applications Received

The following applications were received and published in the March 30, 2007 issue of the Texas Register.

Field of Membership Expansion(s):

EECU (Fort Worth) – To permit members of the Friends of Consumer Freedom who live or work in Tarrant, Parker, Hood, Johnson, Young, Jack, Erath, Somervell, Denton, Wise, Ellis, Palo Pinto or Dallas Counties, Texas, to be eligible for membership in the credit union.

New Mount Zion Baptist Church Credit Union (Dallas) – To permit persons who live, worship, attend school, or work within a 10-mile radius of the New Mount Zion Baptist Church Credit Union offices located at 9550 Shepherd Rd., Dallas, TX 75243 and 1020 W. Belt Line Rd., Lancaster, TX 75146, to be eligible for membership in the credit union.

Comments or a request for a meeting by any interested party relating to an application must be submitted in writing within 30 days from the date of this publication. Credit unions that wish to comment on any application must also complete a Notice of Protest form. The form may be obtained by contacting the Department at (512) 837-9236 or downloading the form at <http://www.t cud.state.tx.us/applications.html>. Any written comments must provide all information that the interested party wishes the Department to consider in evaluating the application. All information received will be weighed during consideration of the merits of an application. Comments or a request for a meeting should be addressed to the Texas Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699.

Merger(s) or Consolidation(s):

An application was received from **EECU (Fort Worth)** seeking approval to merge with **D.N.C. Federal Credit Union** (Mineral Wells). EECU will be the surviving credit union.

An application was received from **Neighborhood Credit Union** (Dallas) seeking approval to merge with **GAF Federal Credit Union** (Dallas). Neighborhood Credit Union will be the surviving credit union.

Comments or a request for a meeting by any interested party relating to an application must be submitted in writing within 30 days from the date of this publication. Any written comments must provide all information that the interested party wishes the Department to consider in evaluating the application. All information received will be weighed during consideration of the merits of an application. Comments or a request for a meeting should be addressed to the Texas Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699.

