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For Immediate Release

Governor signs Illinois Credit Union Act Amendment

Naperville, IL., August 14, 2009 - H.B. 348, an amendment to the Illinois Credit Union Act, has been signed into law by Illinois Governor Patrick Quinn as Public Act 96-0141.

The bill most recently passed the Illinois Senate on May 13, 2009 by a vote of 56-0-1. It also passed the Illinois House on March 3, 2009 on a 70-34 vote. Initiated by the Illinois Credit Union League (ICUL) to address issues regarding loan loss accounting, United States Department of Agriculture (USDA) Rural Development Housing and Community Facilities Program (HCFP) guaranteed residential mortgage loans, and marketing of services to persons eligible for membership, the bill provides Illinois-chartered credit unions parity with federal credit unions doing business in Illinois as follows:

- §34: For consistency with all other federal and state financial institutions and to generate more accurate financial records, H.B. 348 authorizes Illinois-chartered credit unions to utilize GAAP methodology for loan loss accounting, subject to an external auditor (CPA) determination that the time period is in accordance with GAAP. The credit union must establish that a time period of less than five years is appropriate given the credit union's size, business strategy, loan portfolio characteristics, and the economic environment of the areas and employers served by the credit union.
- §42.5: For parity with federal credit unions and consistency with applicable federal law, the bill authorizes Illinois credit unions to provide the following limited services for persons eligible for membership in but not currently members of the credit union: (1) the issuance of negotiable checks (including travelers checks), money orders, and similar money transfer instruments (including electronic fund transfers) and (2) the ability to cash checks and money orders and receive electronic fund transfers for such persons for a fee.
- §46: For parity with federal credit unions and other financial institutions, H.B. 348 authorizes Illinois credit unions to participate in the no-down-payment HCFP programs.

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As a way of background, currently all Illinois credit unions are required to determine their historical loss rate using a period of five years. For some credit unions, this requirement distorts the forecast of current losses. Except for Illinois credit unions, all other financial institutions, including federal credit unions, determine the appropriate balance in the allowance for loan losses in accordance with generally accepted accounting principles (GAAP), as set forth in Financial Accounting Standard 5 (FAS 5). FAS 5 authorizes the setting of a historical period that may be shorter than five years. Particularly in this time of volatile market conditions relating to defaults on mortgages and other extensions of credit, this provision is critical so that Illinois-chartered credit unions can accurately reflect the amount of losses they are likely to incur.

Relative to marketing of services to persons eligible for membership, Illinois credit unions previously could not serve persons who are eligible for membership until they applied for membership. Like their federal counterparts, Illinois credit unions as a result of the passage of H.B. 348 can now better promote membership if they are able to demonstrate a limited sampling of selected services to potential members that are in their existing field of membership. This change enhances the ability of Illinois credit unions to serve unbanked persons residing in economically disadvantaged areas of Illinois. It also corresponds to regulatory changes implemented by NCUA for federal credit unions, as a result of the passage by Congress of the Financial Services Regulatory Relief Act of 2006.

Lastly, in regards to USDA HCFP guaranteed residential mortgage loans, Illinois credit unions were previously prohibited from making a residential real estate first mortgage loan that exceeds the estimated market value or appraised value of real estate securing the loan. As a result, Illinois credit unions could not fully participate in HCFP. The purpose of HCFP is to bring home ownership opportunities to rural Americans. A common barrier to home ownership is a lack of funds for a down payment. The USDA program underwriting criteria ensure that prudent loans are generated to families that may not have a large enough down payment to avoid private mortgage insurance, but who otherwise have the credit histories and income ratios to support monthly debt service expenses.

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Note: The Illinois Credit Union League (ICUL) is the primary trade association for credit unions in Illinois, which provides members with information, legislation and education. Membership is open to any credit union operating in accordance with the Illinois Credit Union Act or the Federal Credit Union Act. There are 416 credit unions in Illinois with more than 2.7 million members.

