
Board Action Bulletin



Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETING RESULTS FOR APRIL 29, 2010

National Credit Union Share Insurance Fund report

NCUA's Chief Financial Officer reported the Fund's reserve balance totaled \$726.7 million March 31, 2010, with \$7.1 million charged to insurance loss expense thus far in 2010.

March 2010 ended with an NCUSIF equity ratio of 1.26 percent based on the amount of shares held by the nation's federally insured credit unions at year-end 2009. Credit unions are submitting \$267 million in a 1 percent capitalization deposit adjustment, which was due April 15, 2010.

Eight federally insured credit unions have failed thus far in 2010 at a cost to the Fund of \$12 million.

There were 349 CAMEL code 4&5 credit unions at March 31, 2010, representing 5.68 percent of total insured shares as of December 31, 2009. This is 12 more CAMEL code 4&5 credit unions than were reported last month.

The current distribution of federally insured credit union assets by CAMEL code follows:

- 81.49 percent of assets are held in CAMEL code 1&2 credit unions;
- 13.16 percent of assets are in CAMEL code 3 credit unions; and
- 5.35 percent of assets are held in CAMEL code 4&5 credit unions.

Through March, NCUSIF's annual revenue and expenses included total income of \$65.9 million and total expenses of \$43.1 million, resulting in net income of \$22.8 million.

During March, the reserves for the Temporary Corporate Credit Union Stabilization Fund were increased by just over \$1 billion. This increase was based on analysis that showed a significant decline in the level of cash flows for mortgage-backed securities at the corporate credit unions. This reduced level of cash flows resulted in a significant increase to the Stabilization Fund's exposure to losses, which necessitated the increase to the reserves.

Board extends waiver on corporate capital

The NCUA Board extended a waiver permitting corporate credit unions to (1) continue using their November 30, 2008, capital level to determine regulatory compliance with capital-based requirements and limitations in the corporate rule, (2) establish a new termination date for the

waiver one-year after final amendments to Part 704 are published in the *Federal Register*, and (3) delegate authority to the corporate credit union office director to modify or restrict the waiver.

NCUA's corporate rule has several provisions setting regulatory limits and requirements based on corporate credit union capital. 2007 and 2008 losses associated with mortgage-backed security investments severely impacted corporate credit union's capital. And many corporates experienced a loss with U.S. Central's write down of paid-in capital and membership capital investments.

To ensure uninterrupted service to natural person credit unions, in April 2009 the NCUA Board approved a waiver and issued an Order permitting corporate credit unions to use the capital level reported on November 30, 2008, call reports when determining certain capital-based requirements and limitations in the corporate rule. Terms of the 2009 Order terminates the waiver on the effective date of final amendments to Part 704 of NCUA's Rules and Regulations.

Proposed amendments to Part 704 provide corporate credit unions with a 1-year period after publication of the final rule before the new capital requirements become effective. To ensure continued access to services for natural person credit unions during this 1-year time frame, the Board is permitting corporates to continue to use November 30, 2008, capital levels out to the 1-year anniversary of publication in the *Federal Register* of final Part 704 amendments.

Extending use of past capital levels is strictly an interim measure. As proposed amendments indicate, NCUA intends to strengthen corporate capital standards to align them with international Basel standards. This extension period gives corporate credit unions a fair chance to consider and implement new capital standards and also to address the resolution of legacy assets. During the waiver extension period, corporates must continue to build capital through expeditious capital solicitation and retained earnings growth.

Proposal would enable short-term, small-dollar loans

The NCUA Board issued proposed rule §701.21, with a 60-day comment period, to provide federal credit unions with the ability to offer a viable alternative to onerous payday loans by proposing closed-end, short term, small (STS) loans charging a maximum 28 percent APR.

Following research and thoroughly reviewing FDIC's small dollar loan pilot program, specifics of NCUA's proposed STS loan program include:

1. STS loans are between \$200 and \$1000;
2. Minimum loan term is 1 month and maximum term is 6 months;
3. FCUs make only one STS loan at a time to a borrower and make no more than three STS loans in any rolling 6-month period to one borrower;
4. FCUs cannot roll-over an STS loan;
5. FCUs charge an application fee to all members applying for a new STS loan that reflects actual costs associated with processing the application, provided the application fee does not exceed \$20; and

6. FCUs implement appropriate underwriting guidelines to minimize risk and include in their written lending policies a cap on the aggregate number and aggregate dollar amount of STS loans made.

While the FCU Act stipulates a 15 percent lending ceiling, the NCUA Board has authority to adjust the loan ceiling. This proposal would amend NCUA's general lending rule by permitting FCUs to charge an APR for STS loans that is 1000 basis points above the general interest rate ceiling.

Additional information in the proposal includes STS loan program guidance and best practices that address program features, minimum underwriting standard requirements, and risk avoidance strategies. The proposal also requests specific comment on using an all inclusive 36 percent APR, minimum membership requirements, and requiring members to participate in direct deposit or payroll deduction as a condition of receiving credit under this rule.

Board votes are unanimous unless otherwise indicated. NCUA rule changes are posted online at www.ncua.gov under Resources/Regulations, Legal Opinions and Laws.