Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR NOVEMBER 20, 2008

NCUA 2009 budget increases 12.1 percent

The NCUA Board approved a 2009 agency operating budget of $177,863,682, which includes 1,016 full-time staff and represents a 12.1 percent increase of $192,323,235 over the 2008 budget. The increase accommodates inflation and program modifications to address the turbulent economic environment.

NCUA operations are financed by an operating fee paid by federal credit unions and an overhead transfer from the National Credit Union Share Insurance Fund.

The 2009 budget increase contains NCUA program changes that include introduction of a 12-month examination cycle; which, when fully implemented over two years, will add 56 positions -- 50 full-time examiner positions, 5 supervisory examiners and 1 human resource specialist. In addition, a thoroughly trained national examination team will be created to address challenging cases that pose the most risk to the National Credit Union Share Insurance Fund.

The categories with major budget increases in 2009 consist of employee pay and benefits, with a projected 9.91 percent increase; travel, with a projected 34.13 percent increase; and contracted services, with a projected 29.20 percent increase.

Details of the 2009/2010 budget are available online at http://www.ncua.gov/about/BoardActions/Pages/DraftBoard.aspx.

NCUSIF overhead transfer rate set at 53.8 percent

The NCUA Board established a National Credit Union Share Insurance Fund (NCUSIF) overhead transfer rate of 53.8 percent to cover the expenses associated with insurance-related functions of NCUA's operations for 2009. The overhead transfer rate increased from 52.0 percent for 2008 due to additional time being spent on insurance-related functions.

The *Federal Credit Union Act* authorizes NCUA to transfer funds from the NCUSIF for administrative and other expenses related to federal share insurance. The transfer is applied to actual expenses incurred each month.

While the overhead transfer is a funding source for NCUA, it does not affect the budget amount. The NCUA Board approves the agency budget without regard to the overhead transfer rate.

2009 operating fee assessment adopted

The NCUA Board approved an operating fee structure and assessment scale for 2009 that includes a 6.5 percent increase in asset dividing points for the federal credit union operating fee scale, based on projected asset growth of federal credit unions in 2008.

The 2009 federal credit union operating fee adjustment increase is 6.77 percent, except for first and second asset tier credit unions, which pay no fee or a flat fee of $100.

NCUA will issue a letter to federal credit unions regarding the operating fee scale in January 2009, invoices will be distributed in March, and the operating fee is due April 15, 2009.

Operating fee scale examples:
$1 million in assets = fee of $238.07, an increase of $15.10 or 6.77 percent
$10 million in assets = fee of $2,380.70, an increase of $151 or 6.77 percent
$100 million in assets = fee of $23,807, an increase of $1,510 or 6.77 percent

12-month examination schedule adopted

Taking a proactive approach, the NCUA Board voted to revise the NCUA risk-based examination schedule to a 12-month program, allocate $6.8 million to initiate the program, and provide 50 additional examiners, 45 to be added in 2009, to help execute examinations.

Current adverse economic conditions and distress in the nation’s financial structure places credit unions at greater risk. Indications are next year may be more difficult for financial institutions than 2008. To effectively deal with potential challenges, a stepped-up examination schedule will provide NCUA with more timely, relevant qualitative and quantitative information to recognize and respond to sudden changes in credit union performance.

FOM rule modified

The NCUA Board implemented modifications to its Chartering and Field of Membership Manual (IRPS 08-2) to update and clarify the process for approving credit union service to underserved areas.
The final rule includes the following modifications:

1. Clarifies that an “underserved area” must qualify as a local community.
2. Makes explicit the process for applying the economic “distress” criteria that determine whether a proposed area’s geographic units are sufficiently “distressed” to qualify it as an “investment area.”
3. Updates documentation and clarifies scope requirements for demonstrating that a proposed area has “significant unmet needs” for loans and financial services.

4. Utilizes NCUA-supplied data on the location of depository institution facilities to determine whether an area is “underserved by other depository institutions.”

The rule change is effective 30 days after publication in the Federal Register.

Post-merger net worth combines retained earnings

The NCUA Board approved a final rule revising Part 702 to expand the definition of “net worth” for natural person credit unions for Prompt Corrective Action purposes, and revising Part 704 to similarly expand the definition of corporate credit union capital.

The final rule implements a statutory amendment expanding the definition of “net worth.” It provides for an acquiring credit union, in a natural person credit union merger, to include the merging credit union’s retained earnings with its own when determining post-merger “net worth.” When merging corporate credit unions, the final rule similarly redefines corporate credit union “capital” to allow an acquiring credit union to include retained earnings of the merging credit union to determine post-merger capital.

NCUSIF status report

Through October 31, 2008, National Credit Union Share Insurance Fund (NCUSIF) gross income was $243.7 million, operating expense was $67.4 million, insurance loss expense was $176.5 million, and net income was a negative $200,000 primarily the result of insurance loss expense.

Fifteen federally insured credit unions failed through October 2008. Thirteen were involuntary liquidations and two were assisted mergers. The number of problem code 4 and 5 credit unions has risen from 211 at year-end 2007 to 246. These institutions represent 2.37 percent of total insured shares. Sixty-three percent of these problem code credit unions have less than $10 million in shares.

NCUSIF insurance loss expense totaled $176.5 million through October 31, 2008, and $268.8 million has been charged to reserves during the year. The provision for CU losses (reserve) account totaled $163.9 million on October 31, with $39.3 million expensed during October to accommodate the need to increase reserves.

The NCUSIF equity ratio declined from 1.28 to 1.27 percent during October, a result of higher than anticipated insurance loss expense. The equity ratio is expected to end the year at 1.27 percent based on estimated 6.85 percent annual insured share growth.

Board votes are unanimous unless otherwise indicated