Board Action Bulletin

Prepared by the Office of Public and Congressional Affairs

NCUA BOARD MEETING RESULTS FOR JUNE 18, 2009

NCUA implements Temporary Corporate CU Stabilization Fund

The NCUA Board approved a Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund). The following provisions describe its establishment, funding, and use.

1. Establishes Delegations of Authority for conducting Stabilization Fund business.
2. Approves legal transfer of assets and liabilities associated with the Corporate Stabilization Program to the Stabilization Fund.
3. Fully restores credit union National Credit Union Share Insurance Fund (NCUSIF) capitalization deposits.
4. Reduces the 2009 assessment to 0.15 percent of insured shares.

In addition to hosting an explanatory webcast Wednesday, June 24, 2009, NCUA is issuing a Letter to Credit Unions within the week providing details about Stabilization Fund operations and technical implementation guidance. Frequently Asked Questions will be forthcoming to assist with understanding and implementation.

The “2009 Helping Families Save Their Homes Act” includes a provision creating the Temporary Corporate Credit Union Stabilization Fund. The Stabilization Fund is limited to paying expenses associated with the ongoing problems in the corporate credit union system. The primary purpose of the Stabilization Fund is to assess over multiple years the cost to insured credit unions associated with the corporate credit union stabilization effort.

To pay costs associated with the corporate credit union system, the NCUA Board can borrow up to $6 billion from the Treasury on a revolving basis to make payments from the Stabilization Fund. The NCUA Board has the ability to increase the funding to $30 billion. NCUA will borrow an initial $1 billion immediately and consider specific strategies and uses before executing future borrowings.

All Treasury borrowing must be repaid with interest. The Stabilization Fund must repay and close within seven years of taking the first advance from Treasury.

NCUA approves operating fee adjustments

The NCUA Board approved final rule §701.6 that permits federal credit unions to subtract any asset created by investments made under the Credit Union System Investment Program (CU SIP) or the Credit Union Homeowners Affordability Relief Program (CU HARP) from total assets when calculating their operating fee.

Effective January 1, 2010, the Board believes this amendment will remove a disincentive for federal credit union participation in CU SIP or CU HARP.

Certain 2nd mortgage loans can surpass 20 years

The NCUA Board approved an interim final rule permitting federal credit unions participating in the Department of the Treasury's Making Home Affordable Program (MHA) to modify a second mortgage loan beyond 20 years to match the term of a modified first mortgage loan. The Part 701 interim rule is effective upon publication in the Federal Register.

Treasury estimates up to 50 percent of at-risk mortgages currently have second liens. If a first lien is modified to improve affordability, an unmodified second lien could still put a homeowner at risk of foreclosure. Treasury recently launched a Second Lien Program in an effort to maximize the effectiveness of the first lien modification program. The MHA Second Lien Program coordinates with the first lien program to help create a sustainable mortgage payment for those homeowners who qualify for a first mortgage modification, yet face difficulty affording their house payment due to a second lien. The interim final rule will permit more credit unions to participate in the Second Lien Program.

NCUSIF status report

Through May 31, 2009, NCUSIF year-to-date revenue and expense included investment income of $81.8 million, accrued recapitalization and premium income of $6.2 billion, operating expense of $43.2 million, insurance loss expense of $5.1 billion, and loss on investment -corporate- of $1 billion. Net income through May was $137.7 million.

The NCUSIF reserve balance was $5.4 billion as of May 31, 2009 – approximately $4.9 billion in reserves for corporates and nearly $430 million in reserves for natural person credit unions.

Based on year-end 2008 insured shares of $611.6 billion, the NCUSIF equity ratio was 1.30 percent as of May 31, 2009. Six federally insured credit unions failed through May – 2 liquidations and 4 assisted mergers -- at a cost of $24.4 million.

There were 301 problem code credit unions as of May 31, 2009, with shares representing 3.99 percent of total insured shares – 56 percent held less than $10 million in total shares and 1.7 percent held more than $1 billion in total shares.

The rising risk level in the credit union system, increased rate of growth in insured shares, and increased coverage from $100,000 to $250,000 results in downward pressure on the equity ratio. NCUA expects to consider a premium assessment for both the NCUSIF and the Stabilization Fund in early Fall 2009.

Board votes are unanimous unless otherwise indicated