Board Action Bulletin

Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETING RESULTS FOR NOVEMBER 19, 2009

Proposal to reform corporate credit union system

The NCUA Board today issued a proposed rule to reform the corporate credit union system by establishing a comprehensive new framework for safety and soundness. The proposed reforms are intended to enhance NCUA regulatory oversight and address deficiencies in the current rule.

The revisions would strengthen four areas of corporate credit union regulation:

- **Capital Standards** – requiring retained earnings and Prompt Corrective Action;
- **Asset/Liability Management** – preventing mismatches and preserving liquidity;
- **Risk Concentration Limits** – ensuring diverse investment pools and risk mitigation; and
- **Governance** – setting board qualifications and increasing transparency.

Each reform would directly improve an aspect of current oversight critical to the proper functioning of the corporate system. Lack of adequate capital standards, insufficient asset/liability management tools, and unacceptably high risk concentrations were problems identified by NCUA and stakeholders during development of the proposal.

Chairman Matz plans to host two more Town Hall meetings and another webinar during the upcoming 90-day comment period. The proposed rule is available online at http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx.

NCUA decreases 2010 operating fees 1.58 percent

The NCUA Board approved a 1.58 percent decrease in natural person federal credit union 2010 operating fees due to a rate adjustment. The asset level dividing points for the operating fee scale will increase by 8.50 percent, which is federal credit unions' estimated asset growth level in 2009.

NCUA assesses federal credit unions an operating fee to finance expenses incurred in carrying out its responsibilities under the Federal Credit Union Act. Each year, the Board determines the fee, the method of assessment and date of payment. The Board also considers NCUA's budget and federal credit unions' ability to pay when determining the operating fee.

The operating fee will be collected by April 2010. Corporate federal credit unions' rate scale remains unchanged.

NCUA Board approves 2010 budget to strengthen supervision

The NCUA Board approved a 2010 budget designed to strengthen supervision as troubled credit unions are projected to continue growing both in number and size.

The 2010 budget of $200 million represents an increase of $23 million over the 2009 budget and $11 million over last year's projections for 2010. The vast majority of new dollars will fund programs supporting credit unions' safety and soundness.

The budget authorizes 74 new positions – 57 will contribute directly to examining federally insured credit unions on an annual cycle rather than every 18 months.

During the National Credit Union Share Insurance Fund (NCUSIF) report, the NCUA Board heard that CAMEL codes 3, 4 and 5 increased to 1,977 credit unions representing over 18 percent of all insured shares – the most shares at risk in over a decade.

Putting NCUA's 2010 budget into perspective, from 2002-2007, the budget was virtually flat and actually decreased during two of those years. Staff was cut by 91 full-time employees resulting in fewer examiners and fewer exams. The exam cycle was relaxed to 18 months for most credit unions.

The 2010 budget also includes several new initiatives.

Office of Consumer Protection

The new Office of Consumer Protection (OCP) will ensure NCUA:

- Applies all relevant consumer protections;
- Reviews every NCUA regulation for consumer friendliness;
- Promotes helpful tools for consumers such as financial education; and
- Encourages credit unions to reach out to serve all eligible consumers.

OCP will organize these functions into two divisions:

- The Division of Consumer Protection will focus on:
  - Consumer compliance policies and rulemaking;
  - Fair lending exams;
  - Consumer calls and correspondence;
  - Inter-agency liaisons for consumer issues; and
  - Financial education.
- The Division of Consumer Access will be able to more efficiently process:
  - Field of membership expansions;
  - Conversions;
  - New charters;
  - Bylaw amendments; and
  - Low-income designations.

Office of the Chief Economist

NCUA's new Office of the Chief Economist will take a macro view, watch for leading indicators, identify economic trends and alert examiners to potential problems in credit unions before they appear on call reports as red flags.

Outreach Efforts
An outreach initiative will ensure communications flow in all directions – from the NCUA regions to the Central Office and between the agency and credit union stakeholders. The 2010 budget will allow NCUA to expand outreach efforts that encourage exchange of ideas and innovations -- Town Hall meetings, webinars, Regional Conferences and media campaigns.

NCUA's budget was formed to be strong and efficient --73 cents of every budgeted dollar will go directly toward 'boots on the ground,' building stronger lines of defense against systemic risk throughout the credit union industry.

Overhead transfer rate set at 57.2 percent for 2010

The NCUA Board established an overhead transfer rate of 57.2 percent for 2010. The transfer rate is the percentage of NCUA operations funded by the NCUSIF based on operating expenses associated with insurance related functions.

The increase from 53.8 percent in 2009 to 57.2 percent in 2010 for the NCUSIF overhead transfer rate can be attributed to the following factors:

- The 2010 workload budget for federal supervision increased by over 17,000 hours.
- Examiners reported spending 67.3 percent on insurance related procedures for the time survey ending May 2009, compared to 63.9 percent in the previous cycle for onsite supervision.
- The 2010 workload budget for state examination and supervision increased over 35,000 hours.
- The 2010 budget for the cost of NCUA resources and programs increased over the previous year.

NCUSIF assessment rule amended

The NCUA Board approved a final rule amending §741.4 clarifying calculations for premiums and deposit recapitalization for credit unions insured by the National Credit Union Share Insurance Fund (NCUSIF) for a portion of the year.

Section 741.4 addresses capitalization and maintenance of the NCUSIF. Today's amendment address how premiums and deposit recapitalization are calculated when a credit union either enters or departs NCUSIF protection in a year with an assessment. The revisions include specific calculations for assessments and distributions for institutions entering or leaving NCUSIF. Examples included address how the calculations apply in various situations in new appendix A to Part 741.

National Credit Union Share Insurance Fund report

October 31, 2009, the NCUSIF reserve balance was $672.8 million for natural person credit unions, a significant increase from 2008 year-end NCUSIF reserves of $278.3 million, which reflect NCUA's aggressive stance to protect against future losses. The Temporary Corporate Credit Union Stabilization Fund reserve balance was $5.33 billion at October 31, 2009.

NCUSIF year-to-date revenue and expense includes investment income of $159.3 million, projected premium income of $800 million, operating expense of $108.8 million, and insurance loss expense of $527.6 million. Through October 31, 2009, NCUSIF net income was $354.7 million.

The NCUSIF equity ratio is 1.28 percent and assumes the collection of a .1027 premium, estimated at $800 million, approved at the September 2009 Board meeting and due in December 2009.

Twenty-two federally insured credit unions failed through October at a cost of $110.6 million -- 12 were involuntary liquidations (7 became purchase and assumptions) and 10 were assisted mergers.

There were 337 problem code credit unions October 31, 2009, with shares of $39.8 billion representing 5.58 percent of total insured shares. In comparison, 271 problem code credit unions held shares of $16.3 billion representing 2.70 percent of total shares at year-end 2008.

Currently, there are 1,640 code 3 credit unions, an increase of 106 from year-end 2008. These institutions represent $87.7 billion or 12.52 percent of total shares. In addition to diligently working to resolve the problems of code 4 and 5 credit unions, NCUA is closely tracking code 3 credit unions and striving to sustain these institutions at safe operating levels.

2010 NCUSIF & stabilization premiums predicted

NCUA expects failures to increase in 2010 and is estimating credit unions will be assessed between a 0.15 and 0.40 percent premium in 2010.

Board votes are unanimous unless otherwise indicated. Details of Board meeting items are online at http://www.ncua.gov/about/BoardActions/Pages/DraftBoard.aspx.