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# Board Action Bulletin

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*Prepared by the Office of Public & Congressional Affairs*

## NCUA BOARD MEETING RESULTS FOR FEBRUARY 17, 2011

### **Board extends 18-percent loan interest rate ceiling**

The NCUA Board voted to extend the 18-percent interest rate ceiling on loans made by federal credit unions (FCUs) through September 10, 2012. The ceiling applies to all FCU lending except originations under the short-term small-dollar program, where payday alternative loans can be made under certain terms at annual percentage rates up to 28 percent.

In March 1980, Congress set a 15-percent ceiling on FCU loans and authorized the NCUA Board to raise it for periods not to exceed 18 months if money-market interest rates and credit union safety and soundness warranted. The current 18-percent ceiling has been in place since May 1987; the Board last extended that ceiling in July 2009.

### **Proposed incentive-based compensation rule required by law**

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the NCUA Board voted to approve a draft interagency proposed rule establishing general requirements for incentive-based compensation arrangements for “covered” financial institutions. Dodd-Frank requires the NCUA, Federal Reserve, FDIC, Federal Housing Finance Agency, OCC, OTS, and SEC to jointly prescribe regulations or guidelines with respect to incentive-based compensation practices at financial institutions with total assets of \$1 billion or more.

Each agency must individually review and approve the proposed rule before they jointly issue and send it to the Federal Register for publication.

Most components of NCUA’s proposed rule apply to credit unions with total assets of \$1 billion or more. Where permitted by law, the NCUA Board voted to apply some components only to credit unions with total assets of \$10 billion or more.

Proposal components that apply to credit unions with total assets of \$1 billion or more include:

- Prohibition against incentive-based compensation arrangements that encourage executive officers, employees, directors, or principal shareholders (covered persons) to expose the credit union to inappropriate risks by providing excessive compensation;
- Prohibition against covered credit unions establishing or maintaining any incentive-based compensation arrangements for covered persons that encourage inappropriate risks by the covered credit union that could lead to material financial loss;

- Requirement that covered credit unions provide certain information to their appropriate Federal regulator(s) concerning their incentive-based compensation arrangements for covered persons; and a
- Requirement that covered credit unions maintain policies and procedures appropriate to their size, complexity and use of incentive-based compensation to help ensure compliance with these requirements and prohibitions.

Proposal components that apply to credit unions with assets of \$10 billion or more include the following requirements:

- Covered credit unions with \$10 billion or more in total assets defer at least 50 percent of the annual incentive-based compensation of its executive officers for a period of at least 3 years and adjust the deferred payments to reflect losses or risks to the credit union that become known during the deferral period.
- Board of directors of a covered credit union with \$10 billion or more in total assets identify covered persons (other than executive officers) who have the ability to expose the credit union to substantial losses and approve the incentive-based compensation arrangements for these covered persons after determining that the arrangements effectively balance the financial rewards to the covered person with the risk to the credit union. An example of a credit union employee, other than an executive officer, who could expose a credit union to substantial losses as “a material risk taker” might be a loan officer with approval authority below the executive officer level.

When all agencies involved in the rulemaking approve the incentive-based compensation proposal, it will be issued with a 45-day comment period.

### **Proposal removes term “credit ratings”; offers alternatives**

In another action required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the NCUA Board issued proposed rules to remove references to nationally recognized statistical rating organization (NRSRO) credit ratings in NCUA regulations and to substitute other standards of credit worthiness.

The proposed amendments would replace NRSRO ratings with either narrative standards or a credit union’s own internal standard. Under the proposal, credit unions would be required to explain how the securities it purchases or counterparties with which it does business meet the applicable standards. Credit unions would be required to develop, maintain and apply criteria for assessing the creditworthiness of securities and counterparties.

The proposal is issued with a 60-day comment period.

### **Corporate credit union chartering guidelines updated**

The NCUA Board issued a final Interpretive Ruling and Policy Statement (IRPS) that provides the requirements and process for chartering a corporate federal credit union. NCUA issued the updated IRPS to ensure chartering guidance is available for those interested in forming a new corporate federal credit union.

The IRPS, *Corporate Federal Credit Union Chartering Guidelines*, is effective 30 days following publication in the *Federal Register*.

### **NCUSIF begins 2011 with 1.28 percent equity ratio**

The National Credit Union Share Insurance Fund (NCUSIF) equity ratio was 1.28 percent at January 31, 2011. NCUSIF ended the month with a \$1.23 billion reserve balance.

NCUSIF reported net income of \$11.4 million during January 2011. No credit union failures occurred in January and no insurance loss expense was recorded.

There were 369 federally insured credit unions designated as CAMEL code 4 or 5 as of January 31, with assets of \$42.9 billion and shares of \$38.2 billion. In addition, 1,819 CAMEL code 3 credit unions had assets of \$154.5 billion and shares of \$136.5 billion. Overall, 21.85 percent of all credit union assets were in CAMEL code 3, 4 or 5 credit unions.

The Temporary Corporate Credit Union Stabilization Fund (TCCUSF) total liabilities and net position was \$377.1 million at January 31, 2011.

Financial data reported for both the Share Insurance Fund and the Temporary Corporate Credit Union Stabilization Fund are preliminary and unaudited.

**Board votes are unanimous unless otherwise indicated. All Board Action Memorandums are available online at [www.ncua.gov](http://www.ncua.gov) under Agency Leadership/NCUA Board and Actions/Draft Board Actions. NCUA rule changes are posted online at [www.ncua.gov](http://www.ncua.gov) under Resources/Regulations, Legal Opinions and Laws.**