Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR JULY 21, 2011

NCUA Revised Budget Returns $2 Million to Credit Unions

Corporates Gain Prudent Options for Calculating Capital in Transition Period; Proposed CUSO Changes to Protect Credit Unions from Losses

ALEXANDRIA, Va. (July 21, 2011) – The National Credit Union Administration (NCUA) Board today convened its seventh regular open meeting in 2011 at the agency's headquarters and unanimously approved six items:

- Changes to NCUA's 2011 operating budget after a thorough mid-session review that will return $2 million to credit unions;
- Clarifications to corporate credit union asset calculations to prudently address transitional issues in the first year of implementing new capital rules;
- A proposed rule extending the Credit Union Service Organization (CUSO) regulations to federally insured, state-chartered credit unions (FISCUs) and other CUSO reforms aimed at mitigating risks for the National Credit Union Share Insurance Fund (NCUSIF);
- An authorization to borrow up to $4 billion from the U.S. Treasury for transitioning the bridge corporate credit unions and continuing the corporate resolution plan;
- An interim final rule conforming NCUA's rules on remittance transfers to the requirements of the Dodd-Frank Act; and
- The appointment of NCUA's Chief Operating Officer in accordance with a new statutory requirement.

The Board also received updates on the performance of the NCUSIF and the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund). The NCUSIF equity ratio at the end of June stood at 1.28 percent, a drop of one basis point from the May-end calculation. The Stabilization Fund's net position increased $7.3 million over the last month.

NCUA Board Reduces 2011 Operating Budget by $2 Million

After a thorough agency-wide budget review, the Board approved a belt-tightening plan to reduce NCUA's operating budget for the remainder of 2011 by $2 million. These savings will translate into excess cash, which NCUA will use offset budget requirements for 2012.

The savings stem primarily from technical adjustments to support program needs and do not reflect any new, previously unbudgeted items. All NCUA offices were directed to promote stewardship of agency funds, increase efficiencies, and reduce line items wherever possible.

Board Revises Corporate Capital Calculations for Transition Period

As the corporate resolution plan progresses, the Board clarified the way corporate credit unions may align required capital levels with their balance sheets to comply with the corporate capital rules (Part 704) that will become effective Oct. 20, 2011. Approved Sept. 24, 2010, these new capital rules ensure the reserves held by corporates are commensurate with their respective risks.

Many corporates have now started efforts to implement new business plans. Aside from raising capital and building retained earnings, many corporates have begun to shed assets and right-size their balance sheets. To address issues associated with the removal of assets from corporate balance sheets, the approved changes prudently clarify the calculation of Moving Daily Average Net Assets (MDANA) and Moving Monthly Average Net Risk-Weighted Assets (MMANRA) during the first year of implementation of the new corporate capital rules.

Under the approved optional capital calculations, a corporate may choose to reset the clock on computing its 12-month moving average for assets under both the MDANA and MMANRA formulas. Essentially, the average will begin anew with the first month's operations consisting of one month's average assets. The second month will consist of a 2-month moving average, and ultimately by the twelfth month a new 12-month moving average will be developed. The Board-approved clarifications also address consolidations, where the date of consolidation triggers an option to reset the moving average assets calculation.

Corporates choosing to calculate the MDANA and MMANRA under the transitional methodology will need to notify NCUA's Office of Corporate Credit Unions of their preferred alternative by Sept. 30, 2011. Once selecting the approach for calculating assets during the one-year transition, a corporate may not alter the formula as a means of bringing about capital compliance. If assets rise quickly after resetting the clock, the corporate may become subject to supervisory actions under prompt corrective action should the capital ratio fall below the adequately capitalized standards.

In no respect does this clarification of the computation of MDANA and MMANRA restrict NCUA's ability to establish a higher minimum capital level. The Office of Corporate Credit Unions will soon issue a letter to corporate credit unions informing them of the options for calculating capital averages during the upcoming year.

Proposed CUSO Rule Changes Aim to Better Protect Credit Unions from Losses

Given the growing number of Credit Union Service Organizations (CUSOs) and their potential impact on credit unions and the NCUSIF, the Board is seeking to improve its rule concerning CUSOs (Part 712) through maximizing supervisory efficiencies. The Board proposed a rule that would require all CUSOs to file financial reports directly with NCUA and the appropriate state supervisory authority (SSA).

The proposal would also make additional parts of the CUSO rule applicable to FISCUs as well as federal credit unions (FCUs). The Board believes additional protections in the CUSO rule addressing accounting, financial statements and audits, should apply to all federally insured credit unions.

The proposed changes would additionally enhance protections to consumers, credit unions and the NCUSIF. Having complete and accurate financial information about CUSOs and the nature of their services ensures protection of the NCUSIF and helps identify emerging systemic risks that CUSOs can pose within the credit union industry.

While there are agreements currently allowing NCUA to inspect the books and records of CUSOs, the Board proposes requiring both FISCUs and FCUs to include in their agreements with CUSOs a requirement that a CUSO submit a financial report directly to NCUA (and their SSA where applicable).

Additionally, the Board is concerned that less than adequately capitalized FISCUs pose serious risk to their members and the NCUSIF when investing money into failing CUSOs. The Board therefore wishes to limit these FISCUs' aggregate cash outlays to a CUSO, consistent with state laws.

Under the proposal, all requirements in the CUSO rule would also apply to subsidiary CUSOs. Finally, the proposal makes conforming amendments to NCUA's regulation on the requirements for insurance (Part 741).

The Board seeks comments within 60 days of publication in the *Federal Register.*

Board Authorizes Borrowing from U.S. Treasury for Corporate Stabilization Fund

As part of NCUA's ongoing corporate resolution efforts, the Board approved borrowing up to $4 billion from the U.S. Treasury for the Stabilization Fund. The funding will retire the Asset Management Estate (AME) promissory notes to the bridge corporate credit unions and help address any other cash needs that may arise from the ultimate resolution of the bridges.

As part of NCUA's corporate resolution plan, the agency placed five corporate credit unions into AMEs and established four successor bridge corporate credit unions. Individual AMEs established promissory notes, totaling $36 billion, with their successor bridge corporate credit union until assets in the AMEs could be monetized, including the securitization of legacy assets in the form of NCUA Guaranteed Notes (NGNs). Now that the NGN sales are complete, with proceeds totaling $28.3 billion used to pay down the promissory notes, between $3.1 and $3.5 billion is needed to fully retire the promissory notes once the monetization of other AME assets wraps up. This is separate from other liabilities coming due later this year such as $2 billion of medium term notes maturing in October.

The Board delegated to the Executive Director the authority to borrow amounts needed to meet the obligations of the Stabilization Fund through Dec. 31, 2011, not to exceed $4 billion.

Further, by approving this action, the Board certified the authorization of the funds borrowed from the U.S. Treasury are for such services connected to the conservatorship, liquidation, or threatened conservatorship or liquidation, of a corporate credit union and that absent the existence of the Stabilization Fund, the Board would have committed to the same obligations and made the identical payments out of the NCUSIF.

Remittance Transfer Rule Conforms NCUA to Dodd-Frank Act Requirements

Clarifying that remittance transfers are permissible financial services for FCUs, the Board issued a consumer-oriented interim final rule (Part 701) implementing the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA).

DFA added a new section to the Electronic Funds Transfer Act creating protections for consumers who, through remittance transfer providers, send money to people in foreign countries. DFA also amended Section 107(12) the Federal Credit Union Act clarifying this authority for FCUs. The interim final rule strictly adheres to the DFA’s statutory language and allows FCUs to offer all variations of remittance transfers to their members and those within their fields of membership, subject to consumer protections.

This interim final rule is effective on the date of publication in the *Federal Register*. Although the rule is being issued as an interim final rule, the Board encourages interested parties to submit comments. NCUA must receive submitted comments within 60 days of publication.

Board Appoints Deputy Executive Director as Chief Operating Officer

The Government Performance and Results Modernization Act of 2010 requires the appointment of each agency’s deputy as the chief operating officer. Accordingly, the NCUA Board appointed the deputy executive director position to serve in this capacity. Under the law, a chief operating officer must work to improve performance in achieving an agency’s mission and goals through strategic and performance planning, measurement and analysis.

NCUSIF and TCCUSF Summary as of June 30, 2011

The NCUSIF equity ratio was reported at 1.28 percent for June 30, 2011. This ratio is based on an estimated insured share base of $786.8 billion and reflects the additional 1 percent deposit that will be billed in September.

The NCUSIF ending reserve balance is $1.2 billion, which includes $2.8 million in insurance loss expense for June.

Gross income for June was $18.8 million with expenses of $14.0 million, resulting in net income of $4.8 million. Cumulative net income for the year is $44.8 million. Eleven credit unions have failed thus far in 2011 at a cost to the NCUSIF of $40.1 million.

As of June, 381 federally insured credit unions with assets of $39.8 billion and shares of $35.5 billion had CAMEL code 4 or 5 designations. Additionally, 1,775 CAMEL code 3 credit unions had assets of $145.0 billion and shares of $128.7 billion. Overall, approximately 19 percent of all credit union assets were in CAMEL code 3, 4 or 5 institutions. The percentage of assets in CAMEL code 1 and 2 credit unions has increased slightly in each of the past six months.

The Stabilization Fund total liabilities and net position stood at $408.3 million at the end of June, about $7.3 million higher than the end of May.

Financial data reported in 2011 for both the NCUSIF and the Stabilization Fund are preliminary and unaudited.

All open NCUA Board meetings are tweeted live. Follow @TheNCUA on Twitter. Board Action Memorandums are available online at www.ncua.gov under *Agency Leadership/NCUA Board* and *Actions/Draft Board Actions*. NCUA rule changes are posted online at www.ncua.gov under *Resources/Regulations, Legal Opinions and Laws*.