Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR NOV. 17, 2011

NCUA Board Approves 5.1 Percent Budget Increase for 2012

Increase Less than Half of 2011 Growth Rate; No Share Insurance Fund Premium for 2011

ALEXANDRIA, Va. (Nov. 17, 2011) – The National Credit Union Administration (NCUA) Board convened its twelfth open meeting of 2011 at the agency's headquarters here today and unanimously approved six items:

- A 2012 budget of $236.9 million, representing a 5.1 percent increase – less than half the 12-13 percent budget growth rates over the past three years;
- A 0.9 percent reduction in the Federal Credit Union Operating Fee scale;
- An Overhead Transfer Rate of 59.3 percent to fund National Credit Union Share Insurance Fund (NCUSIF) related operations in 2012;
- A final rule conforming NCUA's rules on remittance transfers to the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- A final rule with technical changes to impose limits on golden parachute and indemnification payments and block unwarranted payouts to individuals whose actions undermine a credit union's finances; and
- A community charter expansion for Finance Center Federal Credit Union to serve the Metropolitan Statistical Area of Indianapolis, Ind. (population 1.75 million).

NCUA Board Chairman Debbie Matz announced there would be no NCUSIF premium charged for 2011. She also projected a reduction to the NCUSIF premium range down to 0–6 basis points. As previously announced, she reiterated the projected range of 8–11 basis points for the 2010 Corporate Stabilization Fund assessment.

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 October stood at 1.32 percent, one basis point higher than September; and
- The Stabilization Fund's net position decreased $2.1 billion during the last month.

NCUA Improves Efficiency in 2012 Budget

The NCUA Board approved a 2012 operating budget of $236.9 million, $11.5 million or 5.1 percent more than 2011. Several factors accounted for the lowest budget increase of the past four years:

- Zero-based budgeting, where NCUA offices began the budget process with zero authorized funds and justified every line item, rather than rolling over previous years' funds;
- Continued cost cutting and improved efficiencies, which had already produced $2 million savings in the mid-2011 budget adjustment;
- NCUA's commitment to voluntarily adhere to a federal pay freeze in effect for non-independent agencies.

Mindful of the cost to credit unions, the budget process strove to cut costs wherever possible. All requests were vetted to ensure the appropriate balance between protecting credit unions and restraining costs.

The most significant budgetary changes are related to the agency's collective bargaining agreement and to examination travel. The collective bargaining agreement makes the employee benefits package comparable with the other federal financial regulatory agencies. Budget estimates related to travel for examinations increased to reflect additional work done in credit unions.

The 2012 budget includes 33 new positions, of which 26 slots directly support examination-related activities. Newly authorized staff members include specialists in lending, capital markets, information systems, supervision, and troubled institutions.

"We produced a strong NCUA budget at less than half the prior years' growth rate, while still funding key initiatives related to supervision and examinations," said NCUA Board Chairman Debbie Matz. "The NCUA budget is a valuable investment in the safety and soundness of credit unions. By paying $48 million in NCUA budget increases in 2010 and 2011, the industry was spared $1.5 billion in losses to the Share Insurance Fund. So the budget investments that credit unions have made in NCUA these past few years are paying off."

Under the capital budget, the primary expense relates to leasing laptops for NCUA and State Supervisory Authority staffs. The agency replaces computers every three years to keep pace with advancing technology.

Further budget details are available online at www.ncua.gov.

2012 NCUSIF Premium to Range between 0–6 Basis Points

Chairman Matz announced NCUA would not collect an NCUSIF premium for 2011 and also reduced the projected NCUSIF premium to 0–6 basis points for 2012. This reduction results from NCUA's ongoing efforts to mitigate risks to the NCUSIF. The initial projection announced at the special open Board meeting Aug. 29 was 0–7 basis points.

The NCUSIF premium is based on variables that include insured share growth, investment income, insurance loss expense and the NCUSIF equity level.

The Corporate Stabilization Fund considers borrowed funds, cash flows and affordability. NCUA reaffirmed the projected range of 8–11 basis points for the Corporate Stabilization Fund assessment necessary in 2012.

Operating Fee Scale Reduced 0.9 Percent for Federal Credit Unions

The NCUA Board reduced the 2012 natural person federal credit union Operating Fee scale by 0.9 percent from 2011, while maintaining cash reserves for contingencies. NCUA uses the operating fee to pay for the costs of regulating natural person federal credit unions (FCUs).

Assets of natural person FCUs are projected to increase approximately 4.75 percent during 2011. Thus, the asset level dividing points for the 2012 Operating Fee scale increased by 4.75 percent. Operating Fees will be due before April 30, 2012.

Overhead Transfer Rate Holds Steady

The NCUA Board established a 59.3 percent Overhead Transfer Rate (OTR) from the NCUSIF for 2012 based on federal and state examination and supervision workload, staff time spent on insurance-related duties, and the increased cost of NCUA resources and programs. The OTR reflects a slight adjustment from 58.9 percent in 2011.

Annually, the NCUSIF covers agency expenses associated with insurance-related functions of NCUA operations. In addition to federal credit union operating fees, the OTR is a funding source for the NCUA budget. The OTR, however, does not affect the amount of the budget, which the Board approved separately. NCUA will apply the OTR to actual expenses incurred each month.

An independent, expert firm evaluated the method used to calculate the OTR, which the Board Action Memorandum details, and deemed the formula equitable.

NCUSIF and Stabilization Fund: Financial Conditions Continue Steady Improvement

The NCUSIF equity ratio increased to 1.32 percent for Oct. 31. This ratio is calculated on an insured share base of $782.4 billion as of June 30, 2011. The equity ratio will be recalculated at year end based upon the insured share base as of Dec. 31.

During October, NCUSIF reserves were reduced by $126.9 million, for an ending reserve balance of $871.6 million. This balance included $86.3 million in reserves for specific natural-person credit unions, and $785.3 million in non-specific reserves.

Net income for October was $136.9 million; cumulative net income for the year is $367.6 million.

Thirteen credit unions have failed thus far in 2011 at a cost to the NCUSIF of $45.3 million.

As of October, 394 federally insured credit unions with assets of $33.9 billion and shares of $30.4 billion had CAMEL code 4 or 5 designations. Additionally, 1,761 CAMEL code 3 credit unions had assets of $139.6 billion and shares of $124.2 billion. Overall, approximately 17 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 eight months, to total 83 percent as of Oct. 31.

The Stabilization Fund total liabilities and net position stood at approximately $5.9 billion at the end of October, about $2.1 billion lower than the end of September. The decline is attributed to the reduction in accounts payable related to the maturity of Medium Term Notes. The Stabilization Fund has $3.5 billion in outstanding U.S. Treasury borrowings.

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

Final Remittance Transfer Rule Conforms NCUA to Dodd-Frank Act

Clarifying that remittance transfers are permissible financial services for FCUs, the Board issued a consumer-oriented final rule (Part 701), implementing the requirements of the Dodd-Frank Act.

The Dodd-Frank Act 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. The law also amended Section 107(12) the Federal Credit Union Act clarifying this authority for FCUs. The final rule strictly adheres to Dodd-Frank Act'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.

The final rule will become effective 30 days after publication in the *Federal Register*.

Technical Change to Golden Parachute Rule Better Represents Board's Intent

The Board finalized technical modifications to its rule (Part 750) covering golden parachutes and indemnification payments to institution-affiliated parties.

After publication in the *Federal Register*, NCUA staff discovered the text of the Part 750 rule did not accurately reflect the Board's intent regarding certain deferred compensation plans. The Board then issued an interim final rule with the technical changes in June. The Board implemented this final rule without changing the interim final rule.

The technical correction approved by the Board provides an exception to the definition of golden parachute payments pertaining to plans offered under §457 of the Internal Revenue Code. It clarifies that 457(b) plans are excluded from the golden parachute definitions. Also, 457(f) plans must meet the "bona fide" criteria to also be excluded from the golden parachute definition.

The overall Part 750 rule prevents federally insured credit unions from providing lucrative rewards to departing executives in certain troubled situations. The "golden parachute" provisions apply to troubled credit unions affected by insolvency, a conservatorship, or rated CAMEL code 4 or 5. The original rule became effective June 27, 2011.

Board Approves FCFCU Community Charter Expansion

The Board approved the application for an expansion of a community charter for Finance Center Federal Credit Union (FCFCU) located in Indianapolis. FCFCU proposed expanding service to persons who live, work, worship, or attend school in, and businesses and other legal entities to the entire Indianapolis-Carmel area. As the community has a population in excess of 1 million, FCFCU's expansion required Board approval of the credit union's Business and Marketing Plans.

Through the expanded charter, community residents will have immediate access to a wide range of products and services offered by FCFCU.

All open NCUA Board meetings are tweeted live. Follow @TheNCUA on Twitter. Board Action Memorandums and NCUA rule changes are available online at www.ncua.gov.