Board Action Bulletin

PREPARED BY THE OFFICE OF PUBLIC AND CONGRESSIONAL AFFAIRS

NCUA BOARD MEETING RESULTS FOR DECEMBER 6, 2012

NCUA Board Reduces Stabilization Fund Oversight Budget by 20 Percent

Fidelity Bond Deductible Increase and Credit Ratings Removal Also Approved

ALEXANDRIA, Va. (Dec. 6, 2012) – The National Credit Union Administration (NCUA) Board convened its eighth and final scheduled open meeting of 2012 at the agency's headquarters here today. The Board unanimously approved five items:

- A 2013 budget for oversight of the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) cutting expenses by 20 percent and maintaining staff at current levels.
- A final rule to enhance the flexibility of certain federal credit unions to maintain higher fidelity bond deductibles.
- A final rule, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, replacing the use of credit ratings with alternative standards to assess the creditworthiness of securities and money-market instruments.
- An application for a conversion to a community charter for The Atlantic Federal Credit Union to serve Union and Essex counties in New Jersey.
- An application for a conversion to a community charter for The Focus Federal Credit Union to serve the seven counties in the Oklahoma City, Okla., metropolitan area.

Stabilization Fund Oversight Budget Cuts Spending

The Board approved a $6,145,000 budget for oversight of the Stabilization Fund and related activities in 2013. The 2013 budget is 20 percent lower than the 2012 budget and contains no net change in staffing.

"The credit union system has regained its stability since the failure of five corporate credit unions in 2009 and 2010, as a result of NCUA's actions and the decisions of credit unions," NCUA Board Chairman Debbie Matz said. "We will continue to exercise the same prudent management of the Stabilization Fund that brought us this far."

The Stabilization Fund 2013 budget represents less than 0.02 percent of the failed corporate credit unions' legacy assets. The budget covers the activities of the NCUA Guaranteed Notes Securities Management and Oversight Committee, as well as expenses incurred by other NCUA offices in support of the Corporate Resolution Plan. Those costs include retaining the services of external valuation experts, tax consultants, financial specialists, attorneys and accountants.

The Stabilization Fund budget has no impact on NCUA's 2013 Operating Fund budget, which was unanimously approved at the Nov. 15 open Board meeting.

Final Rule Permits Increased Fidelity Bond Deductibles

The Board adopted a final rule (Part 713) permitting certain federal credit unions to increase their fidelity bond deductibles. NCUA has had an identical interim final rule for fidelity bonds in place since May. The final rule is effective immediately.

"As part of my Regulatory Modernization Initiative, the Board finalized a rule earlier this year that removed unnecessary regulatory hoops and expanded access to RegFlex activities for all federal credit unions," Chairman Matz said. "The rule complied with the intent of President Obama's Executive Order 13579 that asked independent agencies like NCUA to modify, streamline, expand, or repeal regulations to provide relief from unnecessary burdens. The final rule on fidelity bonds completes the process of allowing credit unions to participate in the activities previously permitted by the RegFlex program."

The final rule grants certain federal credit unions with assets in excess of $1 million the ability to increase their fidelity bond deductible to a maximum of $1 million. An eligible credit union must have a composite CAMEL code 1 or 2 rating during its last two examinations. Additionally, for the immediately preceding six quarters, eligible credit unions must either maintain a well-capitalized net worth classification or have remained well-capitalized after applying the applicable risk-based net worth requirement.

Previously, NCUA regulations capped the maximum fidelity bond deductible at $200,000, but permitted federal credit unions with a RegFlex designation and with assets greater than $1 million a higher maximum deductible of $1 million.

NCUA will review the federal credit union's eligibility annually. If either of the conditions no longer exists, the credit union must obtain appropriate insurance coverage.

Board Adopts New Standards for Assessing Creditworthiness

Section 939A of the Dodd-Frank Act requires all federal agencies, including NCUA, to:

- review their regulations for any use of credit ratings to assess the creditworthiness of a security or money-market instrument;
- remove those references; and
- create appropriate substitute standards.

The final rule (Parts 703, 704, 709, and 741) approved today by the Board complies with the requirement put in place by Congress in 2010.

Specifically, the final rule removes references in NCUA's rules to "nationally recognized statistical rating organization credit ratings" and puts in place two new standards: "investment-grade" and "minimal amount of credit risk."

An “investment-grade” security is one in which the credit union determines the issuer has *adequate capacity* to meet the financial commitments under the security for the projected life of the asset or exposure even under adverse economic conditions. A security with “a minimal amount of credit risk” is one in which the issuer has a *very strong capacity* to meet the financial commitments under the security.

“Congress required us to revise these regulations,” Chairman Matz said, “and we were determined to find a way that makes the most sense for credit unions. Our goal was to make sure credit unions have the evaluation standards necessary to maintain their safety and soundness in today’s investment environment. Within the limits set by Congress, this final rule strikes the right balance.

“It’s important for credit unions to understand that the need for thorough investment analysis and due diligence has not changed,” Chairman Matz emphasized.

The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) have already finalized substantially similar rules related to credit ratings.

NCUA’s final rule will become effective 180 days following publication in the *Federal Register*. NCUA will issue supervisory guidance, conduct a webinar and complete other outreach activities prior to that effective date.

The Atlantic Federal Credit Union Converts to a Community Charter
The Board approved the conversion of The Atlantic Federal Credit Union located in Kenilworth, N.J., from a multiple common bond charter to a community charter. The credit union’s field of membership will now cover Union and Essex counties in New Jersey.

Originally chartered in 1935, The Atlantic Federal Credit Unions currently has assets of more than $274 million and 18,411 members. Under the community charter, the credit union will have a potential membership of more than 1.3 million.

Board approval is required for community charters to serve a population of more than 1 million.

Community Charter for Focus Federal Credit Union Approved
The Board approved the application of The Focus Federal Credit Union located in Oklahoma City for a conversion to a community charter from a multiple common bond charter. Started in 1955, the credit union presently has assets of $91 million and 10,369 members.

Under the community charter, The Focus Credit Union will serve Canadian, Cleveland, Grady, Lincoln, Logan, McClain and Oklahoma counties in the Oklahoma City metropolitan area with a potential membership of more than 1.2 million.

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