Board Action Bulletin

PREPARED BY THE OFFICE OF PUBLIC AND CONGRESSIONAL AFFAIRS

NCUA BOARD MEETING RESULTS FOR JULY 25, 2013

NCUA Saves Credit Unions $2.6 Million with Mid-Year Budget Adjustment

Board Lowers Stabilization Fund Assessment to 8 Basis Points

ALEXANDRIA, Va. (July 25, 2013) – The National Credit Union Administration (NCUA) Board convened its seventh scheduled open meeting of 2013 at the agency's headquarters here today. The Board unanimously approved five items:

- Reprogramming NCUA's 2013 operating budget to produce $2.6 million savings, the largest mid-session reduction since 2004.
- Setting the 2013 Temporary Corporate Credit Union Stabilization Fund assessment at 8.0 basis points of insured shares as of June 30, the lowest end of the projected range.
- Proposing to create a Minority Credit Union Preservation Program, as required by Congress.
- Issuing a proposed rule to require electronic filing of Call Reports by federally insured credit unions that will increase the efficiency, timeliness and accuracy of filings.
- Expanding the community charter of San Francisco Federal Credit Union to serve nearly 740,000 potential new members in San Mateo County.

The Chief Financial Officer also briefed the Board on the financial performance of the National Credit Union Share Insurance Fund and the Stabilization Fund. Both funds continue to operate in a stable manner.

Review Reduces 2013 Budget by $2.6 Million

After completing the annual mid-year budget review, the Board approved a revised and reprogrammed operating budget that will reduce NCUA's overall expenditures for the remainder of 2013. The cut is the largest mid-session budget reduction in almost a decade.

"NCUA continues to exercise careful, conservative stewardship of its budget. This year's mid-session review is further proof of our determination to operate as cost-effectively as possible without compromising our core mission of protecting safety and soundness," NCUA Board Chairman Debbie Matz said. "The $2.6 million in 2013 budget savings reflect a concerted effort by every NCUA office to increase efficiencies and reduce line items wherever possible. Savings this year will offset credit union fees for NCUA's 2014 operating budget."

NCUA’s revised budget will be $248.8 million for 2013. A net decrease of $6.3 million in employee pay and benefits produced the largest savings, followed by a reduction in travel expenses of $198,500. The revised budget will offset spending increases for contracted information technology services, rental fees and administrative costs.

The revised budget includes a one-time performance-based lump-sum payment to eligible employees to comply with federal law requiring comparability in compensation and benefits among federal banking regulators. NCUA will also correct discrepancies in locality pay for non-executive staff. The two pay actions will cost $3.6 million, with $2.3 million funded through existing staff vacancies and $1.3 million in reprogrammed funds. The agency’s actions are consistent with the current federal pay freeze, with NCUA base salaries remaining frozen.

“The lump-sum comparability payment is a cost-effective approach which helps to ensure that NCUA retains experienced examiners and cuts costs in the long run,” Matz added. “For each examiner retained, NCUA saves the expense of more than $75,000 to recruit and train a new examiner.”

An overview of the changes to NCUA’s 2013 operating budget is available here, and a summary of the lump-sum comparability payment and its funding is available here.

Stabilization Fund Assessment Set Below 2012 Level

The Board set the 2013 Stabilization Fund assessment at 8 basis points of insured shares as of June 30 to repay a portion of the outstanding U.S. Treasury borrowings.

The 2013 assessment is 1.5 basis points lower than the 2012 assessement. It is also at the lowest end of the projected range of 8 to 11 basis points announced for budgeting purposes at the November 15, 2012, open Board meeting. This lower assessment reflects the strong performance of the legacy assets, success in securing legal settlements and a steadily improving economy.

“As the nation’s economy further strengthens, the credit union industry is growing stronger,” Matz said. “Years of hard work by the industry and NCUA are continuing to pay off as we resolve a corporate crisis that could have brought down the entire credit union system. We have steered a careful course through treacherous waters, and that course is taking us closer to the day when this burden can be lifted from the industry’s shoulders.”

The 2013 assessment will raise an estimated $700.9 million. NCUA will use these funds to repay at least $650 million in Stabilization Fund borrowings from the U.S. Treasury in November and maintain an adequate cash reserve. As a result of NCUA’s repayment of medium-term notes in the fall of 2012, the Stabilization Fund at present has relatively few short-term cash needs. After the next repayment, the outstanding borrowings will total no more than $4.075 billion.

With the 2013 assessment, federally insured credit unions will have paid a total of $4.8 billion in assessments for the Corporate System Resolution Program. Projected net remaining assessments over the life of the Stabilization Fund presently range from $900 million to $3.2 billion.

With the assessment now declared for 2013, credit unions should record the expense in July. NCUA's Chief Financial Officer will prepare and distribute invoices to all federally insured credit unions, and the assessment will be due in October.

Program to Support Minority Credit Unions Proposed

Recognizing the important role minority credit unions play in their communities and the unique challenges they face, the Board took the first step toward establishing a program to preserve and promote minority credit unions.

"It's very important to preserve, to the extent we can, both the special character and the number of minority credit unions serving their communities, especially in underserved communities," Matz noted. "This proposed policy will align NCUA with federal law and the programs of other federal regulators to preserve minority depository institutions."

The Board issued for comment a proposed Interpretive Ruling and Policy Statement providing the basis for creating a Minority Depository Institution Preservation Program. The program's objectives would include:

- Preserving current minority credit unions and encouraging new ones;
- Providing technical assistance, training and educational programs; and
- Preserving the minority character of the credit unions in cases of merger or acquisition.

The rule would define a minority depository institution as a federally insured credit union with:

- More than 50 percent of its current or potential membership falling within one of four eligible minority groups:
  - Black American,
  - Native American,
  - Hispanic American, or
  - Asian American; and
- More than 50 percent of the current management officials falling within any of those groups.

NCUA's Office of Minority and Women Inclusion would administer the program using existing budget resources.

The Board took today's action pursuant to federal law. The Dodd-Frank Act (Section 367) expanded the minority depository institution preservation program to include NCUA, the Federal Reserve, and the Office of the Comptroller of the Currency.

Comments on the proposed rule, available here, must be received within 60 days of publication in the *Federal Register*.

Electronic Filing Proposed Rule Promotes Efficiency, Accuracy

All federally insured credit unions would be required to file financial, statistical and other reports and profiles electronically under a proposed rule (Parts 741 and 748) approved by the Board.

"The proposed rule on mandatory electronic filing is part of my ongoing Regulatory Modernization Initiative," Matz noted. "Having all Call Reports filed electronically will reduce unnecessary paperwork, cut costs and enable NCUA to report industry performance results in a more timely manner. The changes would also promote environmental responsibility."

Last year, NCUA provided laptop computers and training to 14 small credit unions to help them convert to electronic filing. As of March 31, 2013, only 59 of 6,753 federally insured credit unions filed documents manually. All the manual filers had assets of $21 million or less. NCUA's Office of Small Credit Union Initiatives will continue to work with the manual filers to secure the laptops and email addresses needed to complete electronic filings.

Comments on the proposed rule, available here, must be received within 30 days of publication in the *Federal Register*.

San Francisco Federal Credit Union Charter Expanded

The Board approved the expansion of the community charter of San Francisco Federal Credit Union, located in San Francisco.

The state of California chartered the credit union in 1954 to serve employees of the city of San Francisco. The credit union converted to a multiple common-bond federal charter in 1995 and to a community charter in 2000 to serve the consolidated city and county of San Francisco.

San Francisco Federal Credit Union serves 31,255 members and has assets of $832.4 million, according to its most recent Call Report. Before the expansion, the credit union had a potential field of membership of 825,863. With the expansion, the credit union may serve an additional 739,311 persons who live, work, worship or attend school in, and businesses and other legal entities located in San Francisco and San Mateo counties.

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

Chairman Matz reminded credit union officials interested in community charters to refer to her March 2011 Letter to Federal Credit Unions. The Chairman's letter, posted here, included a template for the Business and Marketing Plans needed to meet Board requirements for field-of-membership expansions.

Share Insurance Fund Reflects Positive Trends; Stabilization Fund Stable

NCUA's Chief Financial Officer reported the National Credit Union Share Insurance Fund ended the second quarter of 2013 with a second-quarter net income of $103.2 million and an equity ratio of 1.31 percent. The equity ratio is calculated on the June 30, 2013, estimated insured base of $876.1 billion and reflects the additional 1 percent deposit that will be billed in September.

The Share Insurance Fund's investment and other income was $50.7 million for the second quarter, and operating expenses were $35.8 million. The provision of insurance losses showed an expense reduction of $88.3 million. The Share Insurance Fund's net position remained relatively unchanged from the previous quarter.

Other quarter-over-quarter trends in the report presented to the Board included:

- Credit union liquidations increased to nine through June 30, up from four in the first quarter.
- The total cost associated with credit union failures was $22.4 million, compared to $75,000 in the first quarter.
- The total number of CAMEL code 3, 4 and 5 credit unions continued to decline, to 1,838 from 1,897 at the end of the first quarter.
- Assets of CAMEL code 3 credit unions decreased by 3.2 percent, to $110.7 billion from $114.4 billion at the end of the first quarter.
- Assets of CAMEL code 4 and 5 credit unions decreased by 10.7 percent, to $15.0 billion from $16.8 billion at the end of the first quarter.

The continuation of these positive trends and other factors resulted in a decrease of $82.3 million in the Share Insurance Fund's reserve for insurance losses for the second quarter. The reserve was $248.1 million at the end of the second quarter. The reserving methodology is now more proactive, factoring in economic trends as well as more detailed credit union performance indicators.

The Chief Financial Officer also reported on the Stabilization Fund's operations. The Stabilization Fund's condition remained stable, with the fund repaying $375 million to the U.S. Treasury during the second quarter, bringing the outstanding borrowings to $4.725 billion. The fund ended the second quarter with a negative net position of $2.6 billion.

The June 30, 2013, financial statements for the Share Insurance Fund and the Stabilization Fund are preliminary and unaudited.

Beginning this fall, the Chief Financial Officer plans to present the Stabilization Fund report one month later than the Share Insurance Fund report. The additional month will allow asset management estates to update valuations of legacy assets from failed corporate credit unions, in order to provide a more complete picture of the Stabilization Fund's financial condition.

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