Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR OCT. 24, 2013

NCUA Board Finalizes Liquidity Rule

Final Electronic Filing Rule and Proposed Stress Testing Rule Also Adopted; No Share Insurance Fund Premium for 2013

ALEXANDRIA, Va. (Oct. 24, 2013) – The National Credit Union Administration Board convened its ninth scheduled open meeting of 2013 at the agency's headquarters here today. The Board unanimously approved three items:

- A final rule requiring all federally insured credit unions to plan for liquidity events. Credit unions with assets exceeding $250 million need to have access to NCUA's Central Liquidity Facility, the Federal Reserve's Discount Window, or both.
- A final rule requiring all federally insured credit unions to electronically file Call Report information with NCUA. The rule will reduce operating costs and result in more accurate and timely credit union data.
- A proposed rule to protect the National Credit Union Share Insurance Fund by requiring annual stress tests at federally insured credit unions with assets exceeding $10 billion.

The Board also received briefings on proposed joint agency diversity standards for regulated entities and a proposed interagency rule on loans in areas having special flood hazards.

Additionally, the Chief Financial Officer updated the Board on the performance of the Share Insurance Fund. The Share Insurance Fund remains in a strong position, and there will be no premium assessed for 2013.

Final Liquidity and Contingency Funding Rule Effective March 31, 2014

The recent financial crisis demonstrated the importance of liquidity planning for all financial institutions. Recognizing the critical need for credit unions to have a sound policy and process for managing liquidity risk, the NCUA Board approved a final rule (Section 741.12) requiring federally insured credit unions to take specific steps to ensure appropriate risk management and access to liquidity.

"This rule is part of a global regulatory effort to promote sound liquidity risk management," NCUA Board Chairman Debbie Matz said. "Financial institutions need to maintain ample liquidity to withstand unexpected contingency events. This rule will strengthen individual credit unions and, as a result, the entire system."

The final rule establishes a three-tiered framework for credit unions as follows:

Credit Union Asset Size	Liquidity Rule Requirement
Under $50 million	Federally insured credit unions in this group must maintain a basic written liquidity policy. Approved by a credit union's board, the policy must provide a framework for managing liquidity and a list of contingent liquidity sources that can be employed in emergency situations.
$50 million or more	In addition to a written liquidity policy, federally insured credit unions in this group must have a contingency funding plan that clearly sets out strategies for meeting emergency liquidity needs.
$250 million or more	In addition to a written liquidity policy and contingency funding plan, federally insured credit unions in this group must establish access to at least one contingent federal liquidity source: either NCUA's Central Liquidity Facility, the Federal Reserve's Discount Window, or both.

"This final rule requires credit unions to plan for the future, because they no longer automatically have access to more than $40 billion in emergency liquidity through the Central Liquidity Facility," Matz added. "NCUA does not have a preference for whether credit unions choose the Central Liquidity Facility or the Discount Window. In fact, having access to both would provide the greatest protection in a sudden and sustained liquidity emergency."

The Discount Window is designed to handle sudden emergencies that require same-day access to funds. The Central Liquidity Facility is designed to handle sustained emergencies that require federal backup liquidity for up to several months.

The agency first sought comments on emergency liquidity options in December 2011, and the Board voted to issue a proposed rule for comment in July 2012.

Matz noted the final rule provides a measure of regulatory relief by raising the highest asset threshold, which requires access to a federal liquidity provider, to $250 million from the $100 million in the proposed rule. As a result, 771 federally insured credit unions with 80 percent of the industry's assets would need to maintain access to a federal liquidity provider. Because 397 of these credit unions already have such access, just 374 credit unions would need to establish relations with NCUA's Central Liquidity Facility or the Fed's Discount Window.

Effective March 31, 2014, the final rule is available online here. NCUA will issue a Letter to Credit Unions with further guidance and other educational material to assist credit unions in understanding and complying with the new rule, including recommended monthly steps needed to implement the rule.

Electronic Filing Required for All Federally Insured Credit Unions

As part of NCUA's ongoing efforts to modernize regulations and reduce paperwork, the Board approved a final rule (Parts 741 and 748) requiring electronic filing of financial, statistical, and other reports and credit union profiles. The change will lower operating costs, promote environmentally responsible practices, reduce data entry errors and improve timeliness.

"This final rule is consistent with my ongoing Regulatory Modernization Initiative, which is aimed at strengthening safety and soundness, reducing regulatory burdens, and positioning the industry for the future," Matz said. "All but a few dozen credit unions already file their financial reports electronically, and for those that do not have the capacity, our Office of Small Credit Union Initiatives is ready to assist. The change will save time and money, remove unnecessary paperwork and enable NCUA to report industry-wide data more quickly."

Matz noted the agency is adjusting Call Report filing deadlines for 2014 to provide credit unions with more time to file. Manual filing will no longer be an option under the new rule.

To assist credit unions with this transition, NCUA's Office of Small Credit Union Initiatives will extend its urgent needs grants program to make credit unions that do not have a computer eligible for funding up to $7,500. The office will also assign staff to provide technical help for credit unions having trouble filing. NCUA has an online guide electronic filing available here.

The final rule is available online here. NCUA will soon issue a Letter to Credit Unions with further guidance and the extended Call Report filing timetable for 2014.

Proposed Rule Would Require Stress Testing for Credit Unions over $10 Billion

Recognizing the potential risk to the Share Insurance Fund posed by the largest credit unions, the NCUA Board proposed a new rule (Part 702) requiring capital planning and stress testing for credit unions with assets greater than $10 billion.

"As the insurer of deposits at federally insured credit unions, our job is to anticipate risk," Matz said. "The math is simple: A $1 trillion industry is insured by an $11.7 billion fund, and we currently have four credit unions that each has assets greater than $10 billion. This proposed rule will further our efforts to dedicate more resources to the largest credit unions, which by their sheer size pose the greatest risks to the Share Insurance Fund."

Stress tests are forward-looking measures designed to determine whether an institution is holding an adequate capital cushion to survive adverse scenarios and to allow credit unions to make adjustments before a crisis hits. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires certain financial firms with more than $10 billion in assets to conduct annual stress tests. In issuing the proposed rule for public comment, the Board noted that it is equally important for credit unions of comparable size to conduct stress testing.

A credit union that fails a stress test would be required to develop a capital enhancement plan to demonstrate how it would meet minimum stress test capital ratios. Before taking action on a capital plan submitted by a state-chartered credit union, NCUA would consult with the state regulator. A credit union that passes the test would benefit from the analysis by identifying potential improvements in its enterprise risk management system.

NCUA's Office of National Examinations and Supervision would oversee the stress testing, which would be based on scenarios issued each year by the Federal Reserve. Currently, four credit unions—Navy Federal, State Employees' of North Carolina, Pentagon Federal and Boeing Employees—would be subject to the proposed rule.

The program's estimated first-year costs would not exceed $4 million and would be charged to the Share Insurance Fund. Any expenses greater than $4 million would require Board approval.

In issuing the proposed rule, the Board asks for comments on whether results of the stress tests should be publicly available. While disclosure would enhance transparency, it could also lead the public to make incorrect conclusions about a credit union's safety and soundness.

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

Share Insurance Fund Trends Remain Positive in the Third Quarter

NCUA's Share Insurance Fund remains in a strong position with net income of $110.3 million for the nine months ending September 2013, total assets of $11.7 billion and an equity ratio of 1.31 percent. The equity ratio exceeds the statutory normal operating level of 1.30 percent. The equity ratio is calculated on the actual insured share level of $869 billion as of June 30, 2013. Because the Share Insurance Fund remains in a strong position, NCUA will not charge federally insured credit unions a premium in 2013.

For the third quarter, investment and other income was $50.5 million, operating expenses were $42.3 million, and insurance loss expenses were $10.5 million.

Also for the third quarter, NCUA's Chief Financial Officer reported:

- The number of CAMEL code 4 and 5 credit unions dropped 3.9 percent to 317 from 330 in the second quarter. More than half were credit unions with less than $10 million in assets.
- Total assets of the CAMEL code 4 and 5 credit unions rose 4 percent, to $15.6 billion from $15 billion in the second quarter.
- The number of CAMEL code 3 credit unions dropped 1.7 percent to 1,483 from 1,508 in the second quarter. Approximately 47 percent of these credit unions had less than $10 million in assets.
- Total assets of the CAMEL code 3 credit unions fell by 2.1 percent, to $108.4 billion from $110.7 billion in the second quarter.

Fourteen federally insured credit unions have failed during the first nine months of 2013. The total amount of losses associated with these failures is $65.2 million. Because of the industry's improved performance, NCUA reduced the reserve balance for the Share Insurance Fund to $243.8 million from $248.1 million at the end of the second quarter.

The Sept. 30, 2013, financial statement for the Share Insurance Fund is preliminary and unaudited.

Federal Financial Regulators Proposing Standards for Assessing Diversity

Recognizing that promoting diversity in the workforce and in commercial practices also promotes stronger and more innovative businesses, NCUA has joined five other federal financial services regulators in proposing standards for assessing diversity among the institutions they regulate. The standards are required by the Dodd-Frank Act.

"Expanding diversity is not only the right thing to do; it's good business," Matz said. "We encourage credit unions to ensure their boards and staffs reflect their memberships, and within NCUA, we're working to promote a more diverse workforce and to consider minority- and women-owned firms when we contract for services. All these steps lead to a stronger, more vibrant industry and economy."

Matz noted the diversity assessments would not be part of traditional examinations or supervisory activities, but credit unions meeting the Equal Employment Oppportunity Commission filing criteria threshold with at least 100 employees would report their self-assessments to NCUA. NCUA would then report the aggregate results to Congress annually. Currently, about 600 federally insured credit unions have more than 100 employees. All credit unions are encouraged to adopt the self-assessment standards voluntarily.

The proposed standards would address four key areas:

- Organizational commitment to diversity and inclusion;
- Workforce profile and employment practices;
- Procurement and business practices; and
- Practices to promote transparency of organizational diversity and inclusion.

The Dodd-Frank Act required NCUA and other regulators to each create an Office of Minority and Women Inclusion, which is responsible for developing standards for assessing diversity policies and practices of regulated entities. The proposed standards are aimed at creating uniformity across the regulating agencies.

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

Flood Insurance Rule Proposed by Regulators

The Board received a briefing on proposed amendments (Part 760) to regulations on loans in areas that have special flood hazards.

Jointly prepared by NCUA and four other agencies, the proposed rule amends federal flood insurance regulations to implement provisions of the Biggert-Waters Flood Insurance Reform Act. The proposed rule requires regulated lending institutions to accept "private flood insurance," as defined in Biggert-Waters, as satisfaction of the flood insurance requirement. Additionally, it expands the escrow requirement for flood insurance payments to all residential loans secured by residential real estate. The proposed rule also clarifies the provisions relating to the forced placement of flood insurance when homeowners' policies lapse.

Comments on the proposed rule, available online here, must be received by Dec. 10, 2013.

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