Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR NOV. 21, 2013

NCUA Board Anticipates No Corporate Stabilization Fund Assessment in 2014

Final CUSO Rule Enhances Transparency and Protects Credit Unions from Losses

ALEXANDRIA, Va. (Nov. 21, 2013) – The National Credit Union Administration Board convened its tenth scheduled open meeting of 2013 at the agency's headquarters here today. The Board announced that it anticipates that federally insured credit unions will pay no Corporate Stabilization Fund assessment in 2014. The Board also unanimously approved four items:

- A final rule with targeted amendments to the agency's Credit Union Service Organization regulation to enhance transparency and reduce Share Insurance Fund losses.
- A budget of $268.3 million to fund NCUA's activities in 2014, including no increase in authorized staffing levels.
- A decrease of 18.4 percent in the 2014 federal credit union Operating Fee scale that also exempts 303 credit unions with assets below $1 million.
- A 2014 Overhead Transfer Rate of 69.2 percent to fund the Share Insurance Fund's activities.

Additionally, Board members received a quarterly report on the Corporate Stabilization Fund, which continues to show improvement, and a briefing on the estimated range of zero to five basis points for 2014 Share Insurance Fund premiums.

NCUA Expects No Stabilization Fund Assessment for 2014

In light of recent legal settlements and the continued strong performance of the legacy assets underlying the NCUA Guaranteed Notes portfolio, NCUA staff recommended against setting a 2014 assessment range for the Temporary Corporate Credit Union Stabilization Fund.

"Earlier this week, NCUA announced its participation in the landmark $13 billion legal settlement between the U.S. Department of Justice and JPMorgan Chase; NCUA will receive $1.417 billion from this agreement," NCUA Board Chairman Debbie Matz said.

"NCUA will use the settlement's net proceeds to pay down outstanding U.S. Treasury borrowings and greatly reduce Corporate Stabilization Fund assessments that all federally insured credit unions will pay going forward. We will also continue to work diligently to hold accountable the parties responsible for contributing to the corporate credit union crisis."

Notwithstanding a major, unexpected development, such as a severe economic downturn, the Corporate Stabilization Fund assessment is expected to be zero for 2014. However, if adverse conditions develop, the NCUA Board may have to reconsider an assessment.

CUSO Final Rule Protects Share Insurance Fund, Cuts Credit Union Paperwork

NCUA will take a significant step forward on anticipating potential risk from Credit Union Service Organizations, or CUSOs, with the Board's approval of a final rule (Parts 712 and 741) requiring greater transparency from those organizations.

"CUSOs are an essential part of the credit union system, but they also represent a significant potential risk that is not transparent," Matz said. "It is very important that NCUA have the information needed to assess that risk. Since proposing this rule two years ago, we have continued an open dialogue with stakeholders. We listened carefully and made substantial changes to reduce reporting burdens and target the final rule at CUSOs posing the most risk."

Since 2008, nine CUSOs have caused more than $300 million in direct losses to the Share Insurance Fund and led to the failures of credit unions with combined assets of more than $2 billion.

"This rule will finally shed some light on a regulatory blind spot," Matz said. "Risks that have been moving off of credit unions' balance sheets to CUSOs will become transparent, and NCUA will be better positioned to inform credit unions if we find CUSOs that pose excessive risks to credit unions or the Share Insurance Fund."

Matz noted the rule will give credit unions a measure of regulatory relief, as the reporting burden for CUSOs will shift from credit unions to CUSOs. Once the National CUSO Registry is up and running by year-end 2015, NCUA will be able to reduce the amount of CUSO information collected from credit unions on Call Reports and Credit Union Online profiles.

Other provisions of the new rule include:

- Extension, for consistency, of sections of the current CUSO rule, which currently apply only to federal credit unions, to all federally insured credit unions. A CUSO must agree to:
  - Account for its transactions in accordance with generally accepted accounting principles;
  - Prepare quarterly financial statements; and
  - Obtain an annual financial statement audit by a licensed certified public accountant.
- A new requirement that CUSOs must agree to report information directly to NCUA and to the state regulator, as applicable. CUSOs that offer complex or high-risk services—like credit and lending; information technology; and custody, safekeeping and investment management services—must report more detailed information, including financial statements and general customer information.
- Any subsidiary in which a CUSO has an ownership interest in any amount will be subject to the rule if the subsidiary is primarily engaged in providing products or services to credit unions or their members.
- A requirement that a state-chartered credit union that is or would be rendered less than adequately capitalized by additional investment in a CUSO must obtain approval from its state regulator and notify an NCUA regional director prior to making the investment.

Credit unions will need to update their written CUSO agreements to include the new requirements in the final rule. NCUA will shortly issue a Letter to Credit Unions outlining all changes and actions required with timetables.

The new rule, available online [here](), will take effect June 30, 2014, and CUSOs will begin submitting reports after Dec. 31, 2015, through a registration system NCUA is creating.

Staffing Levels Flat in NCUA's 2014 Budget

The Board approved a 2014 budget of $268.3 million, a 6.7 percent increase from 2013, with no net increase in staffing levels. The 2014 budget was formulated using zero-based budgeting, where every projected expense was justified.

"The 2014 budget reflects both the demands of a changing regulatory environment and the agency's determination to fulfill its mission while making the most prudent use of available resources," Matz said. "This budget is a reasonable investment to protect the safety and soundness of a $1 trillion industry that will pay off by minimizing Share Insurance Fund losses. We have been able to offset some rising costs through greater efficiencies, and we will continue to make budget discipline a top priority."

The budget provides modest pay increases for NCUA staff for the first time in recent years, as Congress has not extended the federal employee pay freeze into 2014. Staff represented by the bargaining unit and most non-bargaining unit staff did not receive a base pay increase in 2012 or 2013. Senior managers have not received a base pay increase since 2010.

The table below summarizes changes to the major components of NCUA's 2014 budget.

Budget Expense Category	**Percentage Increase**	**Primary Driver of Budgetary Change**
Employee Pay and Benefits	4.1	Merit and locality pay increases primarily resulting from the collective bargaining agreement
	1.9	Promotions and position changes due to staffing realignments and projected low vacancy rates for 2014
Travel	2.3	Government-wide average increase of 8 percent in General Services Administration lodging rates, increased examiner hours and decreased vacancies, offset by savings realized by the 2014 regional realignment
Rent, Communications and Utilities	6.0	Computer network upgrades, to expand bandwidth capacity to meet industry standards and mitigate network disruption risks
Administrative	13.1	Depreciation expenses, information technology upgrades and building maintenance
Contracted Services	14.8	Cybersecurity improvements

Operating Fee for Credit Unions above $1 Million Decreases 18.4 Percent

The 2014 Operating Fee will decrease 18.4 percent after the Board approved a recommendation from the Chief Financial Officer. For the second year in a row, the Operating Fee exempts all federal credit unions with less than $1 million in assets.

NCUA uses the Operating Fee to pay the costs of regulating federal credit unions.

Several factors resulted in the decrease, including the Board's July vote to reduce the 2013 operating budget by $2.6 million. Assets of federal credit unions are projected to grow by 5.1 percent. The Operating Fee will be due by April 15, 2014.

Overhead Transfer Rate Set at 69.2 Percent

The Board approved a recommendation from the Office of Examination and Insurance for an Overhead Transfer Rate of 69.2 percent that uses the same methodology consistently applied since 2003.

NCUA refined the definition of insurance-related activities in 2012, providing greater clarity and consistency to examiners. The resulting increase in the Overhead Transfer Rate was a result of examiners better identifying their work as related to insurance.

The overhead transfer from the Share Insurance Fund covers expenses associated with NCUA's insurance-related activities. For 2013, the rate was 59.1 percent. The main cause for the increase is the greater amount of time examiners engage in insurance-related activities.

In 2013, NCUA contracted with PriceWaterhouseCoopers, LLP, to review the definitions used for insurance-related versus regulatory-related activities. The review responded to the Board's desire to ensure transparency to all credit unions, both federal and state charters, in the application of the Overhead Transfer Rate. The firm's report concluded there is a sound basis for determining the appropriate allocation of examiners' time spent between insurance and regulatory activities.

"We have been working to make setting the Overhead Transfer Rate more transparent and equitable," Matz said. "The Overhead Transfer Rate is based purely on data with an independent, third-party review confirming our findings."

The independent review by PriceWaterhouseCoopers of the Overhead Transfer Rate is available online at http://go.usa.gov/WdfG.

Corporate Stabilization Fund Improves

The Chief Financial Officer reported on the Corporate Stabilization Fund's operations, based on preliminary and unaudited information.

For the quarter ending Sept. 30, 2013, the Corporate Stabilization Fund showed a net income of nearly $1.4 billion, reflecting primarily the eight basis points assessment—the lowest point of the projected assessment range—collected in October and a reduction in the provision for insurance losses. The Corporate Stabilization Fund had $4.7 billion in outstanding borrowings with the

U.S. Treasury as of Sept. 30. The fund remains stable and ended the third quarter of 2013 with an estimated accumulated deficit of $864.7 million.

Share Insurance Fund Premium Range Proposed

The Board received a briefing on the proposed range of the 2014 Share Insurance Fund premium. Staff recommended a range of zero to five basis points. A follow-up Letter to Credit Unions will detail the factors involved in calculating the range.

As previously reported, NCUA will not charge federally insured credit unions a 2013 premium.

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