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# Board Action Bulletin

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PREPARED BY THE OFFICE OF PUBLIC AND CONGRESSIONAL AFFAIRS

NCUA BOARD MEETING RESULTS FOR DEC. 12, 2013

## NCUA Board Approves New Charitable Accounts for Federal Credit Unions

*2014 Corporate Stabilization Fund Budget Decreases; Changes for Home-Based Federal Credit Union Operations Proposed*

**ALEXANDRIA, Va. (Dec. 12, 2013)** – The National Credit Union Administration Board convened its final scheduled open meeting of 2013 at the agency’s headquarters here today and approved four items:

- A final rule under NCUA’s Regulatory Modernization Initiative to allow federal credit unions to invest in hybrid accounts to fund charitable causes under certain conditions.
- A reduced budget for overseeing the Temporary Corporate Credit Union Stabilization Fund in 2014.
- A proposed rule to enhance member access, better preserve member privacy and ensure examiner safety at home-based federal credit unions.
- Final technical amendments to conform NCUA regulations with the Board’s September 2013 Board action to end the use of the Corporate Risk Information System for corporate credit unions and replace it with the CAMEL rating system.

The Board also received a briefing on a joint agency rule about appraisals for higher-priced mortgage loans. This supplement to a previously approved joint agency rule clarifies exemptions for the use of appraisals for certain high-priced mortgages.

### ***New Charitable Donations Rule Approved***

With the Board’s unanimous approval of a final rule (Parts 703 and 721), federal credit unions will soon be able to fund hybrid charitable and investment vehicles designated as charitable donation accounts, under certain conditions.

“Developed as part of NCUA’s Regulatory Modernization Initiative, this new rule allows federal credit unions to invest in accounts to fund charitable causes, and it sets safeguards to ensure that these accounts are used for their intended purposes,” NCUA Board Chairman Debbie Matz said. “This innovative rule strikes the right balance to provide flexibility, but ensures that the majority of earnings received from the account will benefit charities and communities, rather than propping up a credit union’s income statement.”

To protect safety and soundness, the final rule caps aggregate funding of a charitable donation account at five percent of a federal credit union's net worth for the duration of the account. As proposed, the rule would have capped these accounts at three percent. This change aligns the final rule with a cap on public welfare investments that banks are allowed to make.

The final rule clarifies that a federal credit union may hold investments within a charitable donation account that are not allowed otherwise, so long as the account is primarily charitable in nature and structured to preserve the safety and soundness of the federal credit union.

As in the proposed rule, the final rule requires federal credit unions to ensure that:

- A minimum of 51 percent of the total return from such an account must be distributed to one or more 501(c)(3) charities.
- Distributions must be made to qualified charities no less frequently than every five years.
- Assets in a charitable donation account must be held in segregated custodial accounts or special purpose entities regulated by the Office of the Comptroller of the Currency, the U.S. Securities and Exchange Commission or other federal or state financial regulatory agency.

The charitable donations rule, available [here](#), is effective immediately upon publication in the *Federal Register*.

### **2014 Corporate Stabilization Fund Oversight Budget Shrinks 26 Percent**

The Board unanimously approved the Temporary Corporate Credit Union Stabilization Fund oversight budget of \$4,525,000 for 2014. The 2014 budget is 26 percent less than the 2013 budget of \$6,145,000. The 2014 budget includes no net change in staffing.

“It’s a positive sign that the Corporate Stabilization Fund budget has decreased by more than 20 percent for each of the past two years,” Matz said. “It is also testament to the hard work and efficiency of NCUA’s staff in managing the fund, which has a perfect history of clean audits.”

The Corporate Stabilization Fund oversight budget finances the activities of the NCUA Guaranteed Notes Securities Management and Oversight Committee. It also covers 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 oversight budget is directly funded by the Corporate Stabilization Fund. The Corporate Stabilization Fund budget has no impact on NCUA’s 2014 Operating Budget approved at the Nov. 21, 2013 open Board meeting.

### **Home-Based Proposal Addresses Privacy, Access and Safety Concerns**

To address concerns about member privacy, public access and the safety and working conditions of NCUA’s examination staff, the Board approved by a vote of 2 to 1 a proposed rule (Part 701) that would modify the operations of home-based federal credit unions.

“This proposed rule is designed to bring home-based credit unions into the 21<sup>st</sup> Century and address a number of serious concerns,” Matz said. “In this day and age, most credit union

members, especially young members, want to conduct business from their homes online, not visit someone else's private home to conduct business. As the prudential regulator, what concerns me is that by operating inside the manager's home, with no internal controls, there is ample opportunity for fraud and violation of members' privacy. And just as important as the safety and soundness issues, examiner safety is threatened when an examiner enters a home-based credit union and is exposed to hazardous working conditions.

“In the long run, relocation for these home-based credit unions could not only enhance the ability of these credit unions to grow and provide modern financial services, but also strengthen NCUA's ability to conduct exams while protecting examiners' safety and members' privacy.”

Operating out of private residences raises regulatory and supervisory concerns, including:

- **Operational Risk.** Many home-based federal credit unions store records in areas at risk for accidental destruction or theft. Also, when an official operating a home-based credit union dies or becomes disabled, NCUA can face barriers to accessing the institution's records.
- **Privacy Risk.** Member privacy can be at risk if records are stored where other residents or visitors to the household could access them.
- **Conflicts of Interest.** Having a home-based credit union pay rent for its space at a residence creates disincentives for management to procure appropriate office space and poses a potential conflict of interest.

To protect examiner safety, the proposed rule would prohibit federal credit union exams and other contacts with NCUA staff from occurring at a private residence or home. Instead, any future supervisory meetings between any federal credit union and NCUA staff must occur at a federal credit union's commercial office space, or another alternative public location where confidential discussions can occur.

The proposed rule would also require federal credit unions to establish and monitor a dedicated telephone line or email address, or both, to ensure timely communications with members and regulators. This change and the change in examination procedures would become effective 30 days after approval of the final rule.

Additionally, the proposed rule would require home-based federal credit unions to obtain and maintain a business office, not located in a private residence. This change would become effective two years after the Board approves a final rule. This change also would prohibit the storage of federal credit union records at residential locations.

The proposed rule only would apply to federal credit unions. NCUA estimates that approximately 93 federally insured credit unions operate on the premises of a private address. Of this total, approximately 79 are federal credit unions, with assets ranging from \$34,000 to \$12 million.

“NCUA realizes home-based credit unions will need a reasonable amount of time and assistance to find and move to a new retail location,” said Matz. “That's why we propose giving home-based federal credit unions two years to relocate and why we will provide grants and other assistance to these institutions.”

NCUA's Office of Small Credit Union Initiatives has already reached out to home-based federal credit unions offering them assistance in obtaining retail space.

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

***Technical Amendments Complete Conversion to CAMEL Ratings for Corporates***

The Board unanimously approved technical amendments (Parts 700, 701 and 704) to conform to a recent policy change that ended the use of the Corporate Risk Information System to evaluate corporate credit unions and replaced it with the CAMEL rating system. These technical amendments only update NCUA's regulations to reflect the adoption of the new system for rating corporate credit unions.

In September, the NCUA Board unanimously approved applying the CAMEL rating system currently used by consumer credit unions to corporate credit unions to improve consistency and understanding of the risk evaluations for corporate credit unions.

NCUA will begin evaluating corporate credit unions under the CAMEL system on Jan. 1, 2014.

***Board Briefed on Supplemental Appraisal Rule for Higher-Priced Mortgages***

Finally, the Board received a staff briefing on a final supplemental rule for appraisals for higher-priced mortgage loans. This new rule amends a joint rule previously approved by six federal regulators, including NCUA, last January.

Specifically, the supplemental final rule provides that loans of \$25,000 or less and certain "streamlined" refinancings are exempt from the appraisal requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which go into effect Jan. 18, 2014.

In addition, the final rule contains special provisions for manufactured homes, which can present unique issues in determining the appropriate valuation method. To ensure that consumers' access to affordable housing options is not hindered while creditors make the necessary adjustments, the requirements for manufactured home loans will not become effective for 18 months.

A copy of the supplemental final rule will be posted on the Recent Final Regulations page of NCUA's website at <http://1.usa.gov/1brgCCL>.

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