Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR JULY 31, 2014

Board Plans to Eliminate Fixed-Asset Cap

Mid-Year Budget Adjustments Save Credit Unions $1.1 Million

ALEXANDRIA, Va. (July 31, 2014) – The National Credit Union Administration Board convened its seventh scheduled open meeting of 2014 at the agency's headquarters here today. The Board unanimously approved three items:

- A proposed rule to provide federal credit unions with regulatory relief and greater flexibility managing fixed assets by removing the waiver requirement for credit unions to exceed the 5-percent aggregate limit on fixed-asset investments.
- Reprogramming NCUA's 2014 operating budget with a net reduction in overall expenditures of $1.1 million for the remainder of the year.
- Expanding the community charter of Call Federal Credit Union to serve the entire Richmond, Virginia, Metropolitan Statistical Area.

The Board also received two briefings on:

- The performance of the corporate credit union legacy assets and the NCUA Guaranteed Notes program, which concluded that, at present, future Corporate Stabilization Fund assessments are unlikely.
- The performance of the National Credit Union Share Insurance Fund, which showed positive second-quarter results.

Board Seeks to Provide Credit Unions More Flexibility in Managing Fixed Assets

Federal credit unions would gain greater flexibility in their management of fixed assets under a proposed rule (Part 701.36) approved by the Board.

The proposed rule would eliminate the current requirement that a federal credit union with assets of $1 million or more that wants to make investments in fixed assets exceeding 5 percent of shares and retained earnings must obtain an agency waiver.

"I want to thank Board Member Metsger for initiating this effort to streamline the fixed-assets rule," NCUA Board Chairman Debbie Matz said. "Our intent is to allow federal credit unions to manage their own fixed-asset purchases without having to seek permission or waivers from

NCUA. So, the proposed rule will cut red tape and provide regulatory relief for more than 3,500 federal credit unions."

The fixed-assets proposed rule would:

- Allow federal credit unions to exceed the 5-percent limit without prior NCUA approval, provided they do so safely and soundly by establishing and following a fixed-asset management policies and programs.
- Simplify the partial occupancy requirement for premises acquired for future expansion.
- Eliminate or streamline certain aspects of the fixed-asset waiver requirements.

"NCUA shouldn't micromanage credit union business decisions like upgrading technology, updating facilities or making other purchases that have no impact on safety and soundness," Matz said. "Rather than spending hours writing a waiver application, credit unions could better devote their time to developing a fixed-assets management program under this proposed rule."

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

Mid-Year Review Reduces 2014 Budget by $1.1 Million

After completing the annual mid-year budget review, the Board approved a revised and reprogrammed operating budget that reduces overall expenditures for the remainder of 2014.

"The NCUA Board takes stewardship of the NCUA budget very seriously, and we have done our due diligence to ensure that this budget is a prudent use of credit union funds," Matz said. "The $1.1 million in 2014 budget savings reflect a concerted effort by every NCUA office to increase efficiencies and reduce line items wherever possible, and the agency will still have the resources needed to achieve its statutory mission. Savings this year will offset credit union fees for NCUA's 2015 operating budget."

NCUA's revised operating budget will be $266.9 million for 2014. A net decrease of more than $1.5 million in employee pay and benefits produced the largest savings, followed by a reduction in travel expenses of $289,000. These reductions will more than offset spending increases in the areas of contracted services, administration, and rent, communications and utilities. Most of the increases are related to needs for increased security and information system upgrades. NCUA plans to add two full-time positions, one in the Office of the Inspector General and the other in the Office of Continuity and Security Management, both necessary due to increased workloads.

An overview of the changes to NCUA's 2014 operating budget is available online here.

Future Corporate Stabilization Fund Assessments Unlikely

Future Corporate Credit Union Stabilization Fund assessments are unlikely, according to a review of the corporate credit union legacy assets and the NCUA Guaranteed Notes.

Total projected Corporate Stabilization Fund costs at the end of 2013 ranged from $2.8 billion to $4.2 billion, compared to a range of $6 billion to $9.3 billion in 2011, after all the Guaranteed

Notes had been issued, Examination and Insurance Director Larry Fazio said. Both ends of the range of net projected remaining assessments on credit unions are negative.

Matz said prudent and transparent management of the Corporate Stabilization Fund and the Corporate Resolution Plan as a whole helped mitigate the effects of the recent financial crisis on federally insured credit unions.

“We’ve come a long way since 2010, and we truly appreciate how the Corporate Resolution and the NCUA Guaranteed Notes program saved thousands of credit unions from failing,” Matz said. “The current double-negative projected assessment range is positive news for credit unions.”

Continued economic recovery improved the performance of the legacy assets and the NCUA Guaranteed Notes, and that, coupled with more than $1.75 billion in settlements from Wall Street firms over sales of faulty mortgage-backed securities, resulted in improved performance of the Corporate Stabilization Fund. The Corporate Stabilization Fund is currently projected to conclude in 2021 with a surplus of $600 million to $2 billion.

Fazio said the negative projected assessments range, however, does not mean there are funds available to provide credit unions with a refund at this time. The improving values of the legacy assets are not available, as they secure the NCUA Guaranteed Notes. NCUA also still must repay $2.6 billion borrowed from the U.S. Treasury. Finally, the projections are estimates, and future changes in the economy or the performance of the legacy assets could alter those estimates.

The next quarterly report on the Corporate Stabilization Fund is scheduled for the September open Board meeting.

Details on the NCUA Guaranteed Notes program are available on the agency’s website here. Details on the costs of the Corporate Resolution are available online here.

Positive Second-Quarter Results for Share Insurance Fund

The Share Insurance Fund ended the second quarter of 2014 with a net income of $52.8 million and an equity ratio of 1.29 percent.

The equity ratio is calculated on an estimated insured share base of $903 billion and reflects the additional 1.0 percent capitalization deposit that will be billed in September. Second-quarter investment and other income was $52.3 million, operating expenses were $43 million, and the provision for insurance losses was reduced by $43.5 million. Assets of troubled credit unions, those rated CAMEL code 4 or 5, was 1.46 percent of federally insured credit union assets for the second quarter.

“NCUA’s core mission is to protect the Share Insurance Fund and the safety and soundness of credit unions,” Matz said. “The number of troubled credit unions continues to decline, and insurance losses for the second quarter remained manageable. The steady position of the Share Insurance Fund reflects the stability of the system overall and NCUA’s careful management.”

Two federally insured credit unions failed during the second quarter of 2014. Total year-to-date losses associated with credit union failures was $28 million, of which $24 million was due to employee fraud.

For the second quarter, the Chief Financial Officer reported:

- The number of CAMEL code 4 and 5 credit unions declined 11 percent from the second quarter of 2013, to 295.
- Assets of CAMEL code 4 and 5 credit unions were $14.9 billion, a slight decline from the second quarter of 2013.
- The number of CAMEL code 3 credit unions declined 3.0 percent from the second quarter of 2013, to 1,466.
- Assets of CAMEL code 3 credit unions were $106.2 billion, a 4.0 percent decline from the second quarter of 2013.

The second-quarter figures are preliminary and unaudited.

Charter Expansion Will Allow Call Federal Credit Union to Serve Nearly 1.3 Million

Almost 1.3 million people are now potential members of Call Federal Credit Union, headquartered in Richmond, Virginia, after the NCUA Board unanimously approved expansion of the credit union's community charter to serve the entire Metropolitan Statistical Area.

The full-service, community-chartered credit union requested the field-of-membership expansion in order to ensure future membership growth and to provide low-cost loans and financial literacy to a broader segment of the local population. The credit union has 28,437 members and $360.3 million in assets, according to its most recent Call Report.

"Call Federal Credit Union makes a good case to expand its community charter," Matz said. "They've identified different age and income groups and tailored specific products and financial literacy presentations for each demographic group. The credit union also offers a host of free products and services for people of modest means and underserved areas. Additionally, I commend the credit union for forming community partnerships and focus groups."

Call was originally chartered in 1962 to serve employees of the Philip Morris Tobacco Company in Richmond, Hopewell and Williamsburg, Virginia, as well as in Cabarrus County, North Carolina. The credit union subsequently added more than 100 occupational and associational groups, including underserved areas of Richmond and 22 U.S. Census tracts in Rowan and Cabarrus counties in North Carolina. The credit union received approval in 2010 to convert to a community charter to serve the city of Richmond and Virginia's Henrico, Chesterfield and Hanover counties.

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

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