Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR JAN. 15, 2015

Revised Risk-Based Capital Proposed Rule Reduces Impact, Delays Implementation

Board Approves Annual Performance Plan and Revised Stress Testing Schedule

ALEXANDRIA, Va. (Jan. 15, 2015) – The National Credit Union Administration Board convened its first open meeting of 2015 at the agency's headquarters today. The Board approved four items:

- A revised proposed rule to better protect the credit union system and the Share Insurance Fund by strengthening and modernizing the agency's existing risk-based capital requirements for complex federally insured credit unions.
- The 2015–2016 Annual Performance Plan to establish the agency's goals and priorities in the coming year.
- An amendment to agency regulations governing credit union capital planning and stress testing to ensure consistency with the stress tests of federal banking agencies.
- A request from 360 Federal Credit Union of Windsor Locks, Connecticut, to convert to a community charter.

Revised Risk-Based Capital Proposed Rule Incorporates Significant Changes

Only 22 percent of federally insured credit unions would be subject to the agency's risk-based capital requirements under a revised proposed rule (Part 702) approved by NCUA's Board. The revised proposed rule would require 27 outlying credit unions taking certain risks to hold additional capital commensurate with those risks. The Board approved the proposal by a 2 to 1 vote.

"There is a compelling need for this rule, as well as a statutory obligation," NCUA Board Chairman Debbie Matz said. "Both the Government Accountability Office and our Inspector General found that the existing NCUA rule on risk-based net worth failed to prevent credit union losses as a result of the recent financial crisis—losses that had to be paid by all surviving credit unions. Addressing the threat of high-risk outliers holding inadequate capital will better protect the entire system.

“The revised proposal is also flexible and forward-looking. In the future, as more credit unions become complex, it would prevent even more costly failures and the losses to surviving credit unions that would result from those failures.

“Additionally, the revised proposed rule is well targeted. It applies to the 22 percent of credit unions holding more than $100 million in assets, and it covers 89 percent of credit union system assets, which better protects the Share Insurance Fund.”

The Board previously proposed a risk-based capital rule at its January 2014 meeting. Credit union system stakeholders and other parties filed 2,056 comment letters with the agency. Chairman Matz said the agency carefully reviewed all comments and made significant changes based on those comments before issuing the revised proposed rule.

“I want to thank the commenters who took the time to read the first proposed rule and send letters,” Matz said. “These letters were invaluable to us in evaluating the original proposal and developing the revised proposed rule. I am confident this new proposal fulfills our statutory responsibility while exempting most credit unions and—most importantly—protecting the credit union system.”

In all, the revised proposed rule would bolster the capital base for 27 complex credit unions with high-risk portfolios. Nineteen of these affected credit unions would be downgraded under the revised proposal.

Changes made in the revised proposed rule include:

- Exempting credit unions with up to $100 million in total assets, up from $50 million in last year’s proposed rule.
- Lowering the risk-based capital ratio level for a “well-capitalized” credit union to 10 percent from the previously proposed 10.5 percent.
- Significantly lowering risk weights for many asset classes, including investments, real estate loans, member business loans, corporate credit unions, and credit union service organizations.
- Removing interest-rate risk from the risk weights.
- Removing the individual minimum capital requirement.
- Extending the effective date to January 1, 2019, significantly longer than the 18-month implementation period in the original proposal.

The agency estimates that using the newly proposed formula, the average complex credit union would have a risk-based capital ratio of more than 19 percent.

Comments on the revised proposed rule, available online here, must be received within 90 days of publication in the *Federal Register*. The agency has also created a risk-based capital resource page with more detailed information, including a downloadable estimator tool for credit unions to determine the potential impact the proposed rule would have on them.

NCUA's Annual Performance Plan Sets Direction for Agency

The NCUA Board by a unanimous vote approved the 2015–2016 Annual Performance Plan. The plan provides specific direction toward achieving the agency's mission and the strategic goals outlined in NCUA's 2014–2017 Strategic Plan.

"On my first day as Chairman in 2009, I established six goals for the agency," Matz said. "Those six goals are the foundation for the agency's Strategic Plan, which the Board updated last year. The Annual Performance Plan is the yardstick we use to measure how well we're doing in terms of reaching the goals we've set for ourselves."

The Annual Performance Plan highlights goals, indicators and targets to measure agency performance. NCUA designates these performance goals as priorities:

- Implement a robust supervision framework for financial services reform regulations, including interest rate risk, liquidity and contingency funding plans, derivative authority and capital planning and stress testing.
- Issue industry guidance related to emerging cybersecurity risks and related threats.
- Monitor issues or trends in consumer complaints to develop and promote financial literacy education and consumer protection programs.
- Develop and communicate guidance to credit unions to explain regulatory changes and best practices.
- Increase women and minority representation at all levels within the agency's workforce, particularly within NCUA's management ranks.
- Strengthen security programs and communications.

Copies of the agency's Annual Performance Plan, as well as the Strategic Plan and public comments, can be found online here.

Proposed Rule Would Amend Stress Testing Timing

The Board by a unanimous vote approved a proposed rule (Part 702) to amend NCUA's capital planning and stress testing regulation to adjust the timing of certain events in the planning and testing cycles, generally by three months. This rule only affects the five federally insured credit unions with more than $10 billion in assets.

A critical date in the stress testing process is when NCUA releases various economic scenarios that are the basis of the testing. NCUA plans to base the scenarios on those developed by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

When NCUA's Board approved the final rule on capital planning and stress testing in April 2014, the three other regulators were scheduled to provide scenarios by Nov. 15 of each year. That date has since moved to Feb. 15, necessitating adjusting NCUA's schedule.

"It makes sense to modify our schedule to provide consistency among the largest regulated institutions," Matz said. "Even though the Dodd-Frank Act did not require stress testing of credit unions, the tests are equally important, as credit unions with more than $10 billion in assets are systemically important within the system. The benefit of preventing a potential failure of even one credit union with more than $10 billion in assets far out-weighs the maximum cost of stress testing."

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

Community Charter Approved for 360 Federal Credit Union

People living in the greater Hartford, Connecticut, area will have a new option for obtaining affordable financial services after the Board unanimously approved a request from 360 Federal Credit Union to convert to a community charter.

The credit union will now be able to serve members from Hartford, Middlesex and Tolland counties in Connecticut. According to the credit union's most recent Call Report, 360 Federal Credit Union has 16,559 members and assets of $205 million.

The area 360 Federal Credit Union will serve has a population of 1.2 million, which requires NCUA Board approval.

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