# Board Action Bulletin

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**NCUA BOARD MEETING RESULTS FOR JULY 23, 2015**

# Fixed-Asset Rule Provides Relief to More than 3,800 Federal Credit Unions

***Mid-Year Budget Adjustments Save Credit Unions More Than $1.3 Million***

**ALEXANDRIA, Va. (July 23, 2015) –** The National Credit Union Administration Board convened its seventh open meeting of 2015 at the agency's headquarters here today and approved three items:

- A final rule providing regulatory relief to more than 3,800 federal credit unions by removing the 5-percent aggregate limit on fixed-asset investments.
- Reprogramming the agency's 2015 operating budget with a net reduction in overall expenditures of more than $1.3 million for the remainder of the year.
- A final rule amending the agency's capital planning and stress testing rule to set new deadlines for various activities in the annual planning and testing cycle.

The Director of the Office of Examination and Insurance briefed the Board on the performance of the corporate credit union legacy assets and the NCUA Guaranteed Notes program, updating projections on a possible future Corporate Stabilization Fund rebate in 2021. The Chief Financial Officer briefed the Board on the performance of the National Credit Union Share Insurance Fund, which continued to show positive results.

### *Fixed-Asset Cap Eliminated*

With the unanimous approval of a final rule (Part 701) amending the regulation on fixed assets, NCUA's Board eliminated the 5-percent cap on fixed-asset investments for federal credit unions and provided other relief.

"This final rule is another significant milestone in our Year of Regulatory Relief," NCUA Board Chairman Debbie Matz said. "This final rule removes outdated regulatory limits, cuts unnecessary paperwork and provides credit unions with well-deserved freedom to make their own decisions.

"As soon as this final rule takes effect, federal credit union boards of directors will have the freedom to prudently make their own decisions about the appropriate level of fixed assets to hold. Then decisions to upgrade facilities, update technology, and purchase other fixed assets will be made by credit union management without regulatory micro-management."

In addition to eliminating the fixed-asset cap, the final rule simplifies partial occupancy requirements for federal credit union premises acquired for future expansion.

The final rule, available online here, will become effective 60 days after publication in the *Federal Register*.

### *Mid-Year Budget Review Yields More Than $1.3 Million in Savings for 2015*

Overall agency expenditures for 2015 will be reduced by more than $1.3 million in a revised and reprogrammed budget approved by a majority of the Board.

"For the sixth straight year, NCUA's mid-year budget review has yielded more than $1 million in savings," Matz said. "The agency began this year with the lowest budget increase in eight years, and approving this reprogrammed budget will drive that still lower. These savings reflect a concentrated effort by every NCUA office to increase efficiencies and reduce costs wherever possible.

"This budget represents two-hundredths of a percentage point of the $1.1 trillion in credit union assets. The budget provides the resources to not just keep up with the system's growth, but to stay ahead. As NCUA provides regulatory relief, enhances credit union powers and anticipates emerging risks, the agency must have the qualified staff and resources to supervise effectively. Effective regulation goes hand-in-hand with the success of the credit union system."

NCUA's revised operating budget will be $276.5 million. A net decrease of more than $1.4 million in employee pay and benefits produced the largest savings, followed by a reduction in contracted services of $588,000. Total reductions will reduce costs by more than $2.9 million, more than offsetting a necessary $1.6 million increase in the capital budget and other time-sensitive expenditures. More than 86 percent of the newly approved expenditures are necessary to keep up with rapidly evolving cybersecurity and technology standards.

More details on the changes to NCUA's 2015 operating budget are available online here.

### *Capital Planning and Stress Testing Amendment Sets New Deadlines*

The Board unanimously approved a final rule (Part 702) amending the regulation governing capital planning and stress testing for federally insured credit unions with assets of $10 billion or greater.

The final rule adopts new annual deadlines for the stress testing and capital planning annual cycle. Credit unions will have until May 31, instead of the former deadline of Feb. 28, to submit capital plans to the agency. NCUA will have until Aug. 31 to provide stress testing results to covered credit unions and accept or reject their capital plans.

The final rule, available online here, will become effective Jan. 1, 2016.

### ***Future Projected Corporate Stabilization Fund Assessments Remain Unlikely***

A review of the performance of the legacy assets of five failed corporate credit unions and the NCUA Guaranteed Notes Program indicates that future Corporate Stabilization Fund assessments are unlikely.

"We have come a long way since 2009, when corporate credit unions were holding toxic assets that had lost $33 billion, more than half their market value," Matz said. "If those losses had cascaded through the Share Insurance Fund, nearly 2,000 credit unions could have failed. Today, the worst is behind us. The Stabilization Fund has recorded four straight quarters of positive net position, and the NCUA Guaranteed Notes' performance continues to improve.

"Our careful management of the Stabilization Fund and the NCUA Guaranteed Notes, combined with an aggressive recovery strategy against Wall Street firms that contributed to the corporate crisis, has saved credit unions from covering tens of billions of dollars in losses."

Examination and Insurance Director Larry Fazio said both ends of the range of net projected remaining assessments are negative.

The continuing economic recovery improved the performance of the legacy assets and the NCUA Guaranteed Notes. Combined with more than $1.75 billion in settlements with firms that sold faulty mortgage-backed securities to the five failed corporate credit unions, this has resulted in the improved performance of the Stabilization Fund.

The Stabilization Fund is currently projected to conclude in 2021 with a surplus of $700 million to $2.5 billion, Matz said. Federally insured credit unions could receive a rebate after the Stabilization Fund expires.

However, Fazio cautioned that there are not funds currently available to provide a rebate. NCUA must first repay $2.6 billion to the U.S. Treasury. The improving values of the corporate credit unions' legacy assets secure the NCUA Guaranteed Notes. Moreover, the current projections are estimates, and future economic changes 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. Information about the costs of the Corporate System Resolution are available online here.

### ***Share Insurance Fund Remains Stable***

The second quarter of 2015 saw continued stable trends in income and operating expenses for the Share Insurance Fund, due to continued improvement in the performance of federally insured credit unions.

The Share Insurance Fund ended the second quarter of 2015 with a net loss of $8.8 million and an equity ratio of 1.29 percent. The equity ratio is calculated on an estimated insured base of

$935.6 billion and reflects the additional 1.0 percent capitalization deposit that will be billed in September.

“I want to thank staff who have managed the Share Insurance Fund so prudently and transparently,” Matz said. “Total income is on target with budget estimates for the first half of the year, while operating expenses are lower than budgeted. The Share Insurance Fund’s yield has remained remarkably steady, despite ups and downs in interest rates.”

Second-quarter investment and other income was $55.2 million. Operating expenses were $49.9 million. The provision for insurance losses increased by $14.1 million. Overall, the amount of assets in CAMEL codes 3, 4 and 5 credit unions has decreased 49 percent since reaching a high of $205.6 billion in September 2010. The continuation of these positive trends and other factors contributed to a slight decrease of $400,000 in the Share Insurance Fund’s provision for insurance losses during the first two quarters of 2015.

For the second quarter of 2015, the Chief Financial Officer reported:

- The number of CAMEL code 4 and 5 credit unions declined 14.9 percent from the second quarter of 2014 to 251. More than half were credit unions with assets of $10 million or less.
- Assets of CAMEL code 4 and 5 credit unions were $11.4 billion, a 23.5 percent decline from the second quarter of 2014.
- The number of CAMEL code 3 credit unions declined 8.9 percent from the second quarter of 2014 to 1,336.
- Assets of CAMEL 3 credit unions were $94.1 billion, an 11.4 percent decline from the second quarter of 2014.

One federally insured credit union failed during the second quarter. The total losses associated with failures through the second quarter was $4.2 million.

The second-quarter figures are preliminary and unaudited.

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