Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR SEPT. 22, 2011

NCUA Board Enhances Timeliness in Corporate Credit Union Rule

Net Worth, Equity Ratio Definitions Finalized

ALEXANDRIA, Va. (Sept. 22, 2011) – The National Credit Union Administration (NCUA) Board convened its tenth open meeting at the agency's headquarters here today and unanimously approved two items:

- Delegation of authority to the Director of the Office of Corporate Credit Unions (OCCU) to decide actions established under NCUA's corporate credit union rules, enhancing the effectiveness of the corporate rule by reducing timelines; and
- A final rule for net worth and equity ratio definitions conforming to public law.

The Board also received updates on the performance of the NCUSIF and the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund). The NCUSIF equity ratio at the end of August stood at 1.31 percent, up from 1.28 percent at the end of June. The Stabilization Fund's net position increased $2.1 billion over the last month.

Board Delegates Authority to OCCU; Enhances Response Time

During the adoption of the final corporate credit union rule (Parts 704.3 and 704.4), the Board amended authorities previously explicitly granted by regulation to the OCCU director to indicate NCUA approval. Subsequently, the Board delegated authority to address certain regulatory changes, but did not include authority relating to capital and prompt corrective action (PCA) which go into effect Oct. 20, 2011.

As the effective date approaches, the Board approved the delegation of authority to the OCCU director to approve or disapprove the following seven actions:

- Corporate credit union retained earnings accumulation;
- A corporate credit union releasing non-perpetual capital accounts (NCA) to facilitate the payout of shares in a liquidation;
- A corporate credit union redeeming NCAs prior to maturity or prior to the end of the notice period;

- A corporate credit union releasing perpetual contributed capital (PCC) instruments to facilitate the payout of shares in a liquidation;
- A corporate credit union calling PCC instruments;
- The establishment of individual minimum capital requirements; and
- Actions required or authorized with respect to capital restoration plans.

The delegations of authority will enhance the effectiveness of the revised corporate credit union rule by empowering OCCU to act more timely on corporate requests.

Net worth and equity ratio rule addresses statutory revisions

The Board issued a final rule to amend the definition of "net worth" as it appears in NCUA's PCA regulation, Part 702, and the definition of "equity ratio" as it appears in NCUA's Requirements for Insurance regulation, Part 741.

These amendments implement changes to the "net worth" and "equity ratio" definitions made by S. 4036, which President Obama signed into law Jan. 4, 2011 (P.L. 111-382). The rule also makes technical changes in Parts 700 and 701 to ensure clarity and consistency in the use of the term "net worth" as it relates to federally insured credit unions.

Section 2 of S. 4036 amends the Federal Credit Union Act by redefining "equity ratio" as it relates to the NCUSIF. Under the amended definition, the equity ratio will be calculated using the financial statements of the NCUSIF alone, without any consolidation or combination with the financial statements of any other fund or entity. The final rule amends the definition of "equity ratio" in NCUA's regulations to implement the change made by the new law.

Section 3 of the new law authorizes the Board to include §208 assistance in the computation of a federally insured credit union's net worth for PCA purposes. This final rule implements this change in NCUA's PCA regulation.

The final rule also contains technical change to the definition of "net worth" to eliminate the double counting of net worth in a combination resulting in a bargain purchase gain.

The Board considered 15 comments to the proposed rule issued in March 2011. In response to comments received on the technical change, the Board noted that this change will comport with generally accepted accounting principles and is consistent with the Congressional objective in the 2006 Relief Act. The Board also noted that most mergers will be unaffected by this change, since most mergers do not include a bargain purchase gain. Moreover, analysis showed none of the recent mergers that did include a bargain purchase gain would have resulted in a significant decrease in net worth because of this technical change.

For these reasons, the Board retained the technical change in the final rule that requires the subtraction of any bargain purchase gain from the acquired credit union's retained earnings before the latter amount is included in the acquirer's net worth.

Additionally, the Board recognized the difference in definition of "net worth" between PCA and member business lending regulations, but noted NCUA's regulations reflect the corresponding definitions in the Act and would therefore require a statutory change.

The Board also revisited the language of the statutory amendments, considering comments received, and concurred with those who stated that §208 assistance as "net worth" should not be limited to only those instances when a merger is involved. The Board, therefore, clarified that §208 assistance can be counted in a credit union's net worth subject only to those limitations contained in the rule text.

This rule will become effective 30 days after publication in the *Federal Register*.

NCUSIF and TCCUSF Summary as of Aug. 31, 2011

The NCUSIF equity ratio was reported at 1.31 percent for Aug. 31, 2011. This ratio is based on an insured share base of $782.4 billion at June 30, 2011 and reflects the additional one percent deposit billed in September. The equity ratio will be recalculated at year end based upon the insured share base as of Dec. 31.

The NCUSIF ending reserve balance was $1.0 billion. This included $24.1 million in reserves for specific natural-person credit unions (NPCUs), and $975.9 million in non-specific reserves for NPCUs. Insurance loss expense was $3.2 million for the month of August.

Gross income for August was $19.1 million, with expenses of $14.7 million, resulting in net income of $4.4 million. Cumulative net income for the year is $227.1 million.

Thirteen credit unions have failed thus far in 2011 at a cost to the NCUSIF of $46.8 million.

As of August, 369 federally insured credit unions with assets of $34.8 billion and shares of $30.9 billion had CAMEL code 4 or 5 designations. Additionally, 1,791 CAMEL code 3 credit unions had assets of $147.2 billion and shares of $131.0 billion. Overall, approximately 18 percent of all credit union assets were in CAMEL code 3, 4 or 5 institutions. The percentage of assets in CAMEL code 1 and 2 credit unions has increased slightly in each of the past six months.

The Stabilization Fund total liabilities and net position stood at approximately $6.1 billion at the end of August, about $2.1 billion higher than the end of July.

Financial data reported in 2011 for both the NCUSIF and the Stabilization Fund are preliminary and unaudited.

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