



## BOARD ACTION MEMORANDUM

**TO:** NCUA Board **DATE:** November 20, 2008  
**FROM:** Executive Director **SUBJ:** 12-Month Program

**ACTION REQUESTED:** Board approval of the proposed changes to the risk-based scheduling policy. The new policy will be referenced the "12-month" program.

**DATE ACTION REQUESTED:** November 20, 2008

**OTHER OFFICES CONSULTED:** All Regional Directors, Office of Examination and Insurance

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**BUDGET IMPACT:** \$6.8 million

**RESPONSIBLE STAFF MEMBERS:** Executive Director J. Leonard Skiles

**BACKGROUND:** In 2001 the NCUA Board approved a risk-based scheduling policy for the examination of federal credit unions (FCUs). The current risk-based scheduling program has as a target an examination every 18 months, and currently averages approximately 16 months between examinations, as compared to a 13 month average in the period from 1986 through 1997 under the annual examination program.

**SUMMARY:** The current adverse economic conditions and the distress in the nation's entire financial structure place credit unions at greater risk of loss. These are extraordinary times and economic conditions require NCUA to be proactive rather than reactive. All indications are that next year may be more difficult for financial institutions than 2008. To deal with these potential challenges effectively, NCUA must have more timely relevant qualitative and quantitative data to recognize any sudden turn in a credit union's performance.

Increased credit union losses, with resultant costs to the National Credit Union Share Insurance Fund and potential harm to insured credit union members, warrant more frequent onsite reviews by NCUA to provide for earlier problem detection and supervisory intervention. With the difficulties in the economy, it is prudent to move forward with changes to the current risk-based scheduling policy that will provide NCUA

a better opportunity to identify and mitigate safety and soundness problems at an earlier stage and mitigate any loss to the share insurance fund. The risk focused examination program will remain the foundation for the 12-month program.

Evidence suggests extended time between onsite contacts prior to the identification of a safety and soundness issue is not conducive to effective resolution. The goal is to have a more frequent onsite presence in credit unions to identify problems sooner so that the resolution of identified problems will have greater probability of success. The 12-month program will encompass the following:

- Federal credit unions - a risk focused examination or a material on-site supervision contact every 12 months based on risks being observed within a target cycle of 10-14 months; and
- Federally insured state chartered credit unions - NCUA will monitor all CAMEL coded 3 and 4 credit unions, negatively trending credit unions, and credit unions with a high risk profile. As appropriate and required, an on-site insurance review will be conducted within a target cycle of 10-14 months. The focus will be on those States where market dislocations are the greatest. NCUA will consult and work with the State regulators in coordinating insurance reviews.

**BUDGET IMPACT:** In total, **\$6,841,000** has been budgeted for this program in 2009. The program authorizes 56 positions, including 50 examiners, five (5) supervisory examiners, and one (1) human resource specialist. Because the hiring for 56 positions will occur throughout the year, these positions equate to 45 full time equivalents (FTEs). Therefore, the program adds 45 FTEs to the budget for 2009. The 2010 budget provides for the program at full performance. Accordingly, the remaining 11 FTEs are added to the 2010 budget. The cost elements for this program in 2009 are:

<b>Cost Element</b>	<b>Cost</b>
Pay and Benefits	\$3,172,000
Travel <sup>1</sup>	\$1,682,000
Telecommunications <sup>2</sup>	\$43,000
Equipment and supplies	\$196,000
Contracted services <sup>3</sup>	\$1,748,000

<sup>1</sup> This includes two components: 1) examiner program travel of \$853,000; and 2) new hire travel for training of \$829,000.

<sup>2</sup> Wireless broadband access and cell phones for new examiners.

<sup>3</sup> This budget item represents hiring ten temporary contractors to aid in the training of new examiners. The use of outside contractors will allow experienced examiners to remain productive and focused on credit union examination and supervision. Normally, experienced examiners would spend a significant amount of time training new examiners. The agency plans to contract with retired examiners to provide some of this specialized training.

**RECOMMENDED ACTIONS:** The NCUA Board approve the following:

1. The revisions to the risk-based scheduling policy as outlined for the 12-month program.
2. Vest the Executive Director the authority to develop the specific operational policies and procedures needed to implement this revised scheduling policy within the costs and FTEs allocated for the program.
3. Receive a written report and briefing on the 12-month program from the Executive Director at the October 2009 Board meeting.

---

Executive Director