
Board Action Bulletin



Prepared by the Office of External Affairs

NCUA BOARD MEETING RESULTS FOR JANUARY 19, 2006

FOM amendments proposed

The NCUA Board issued a proposed rule change to IRPS 06-1 amending the *Chartering and Field of Membership Manual* by limiting underserved area expansions to multiple common bond credit unions and by revising underserved area service facility requirements.

The NCUA issued a moratorium suspending the addition of new underserved areas in single common bond and community federal credit unions in December 2005. The moratorium was in response to an American Bankers Association lawsuit challenging NCUA's approval of America First FCU's addition of underserved areas. Following a thorough review of underserved area policy, NCUA believes it prudent to prospectively limit underserved area expansions because a degree of uncertainty now exists about the continued authority of non-multiple common-bond credit unions to serve underserved areas.

The NCUA Board also recommends the rule include a provision insuring a physical presence be established in an added underserved area to ensure an active credit union role and better serve local residents. The proposal was issued with a 60-day comment period.

RegFlex eligibility criteria modified

The NCUA Board issued a final rule reducing minimum net worth and extending the time frame it must be maintained to qualify for RegFlex.

The final rule reduces minimum qualifying net worth from 9 to 7 percent, the "well capitalized" net worth classification. The final rule aligns RegFlex eligibility with the minimum 7 percent net worth requirement Congress set as "well capitalized" under PCA (prompt corrective action).

To ensure the 7 percent minimum qualifying net worth is a reliable indicator of sustained superior performance, the final rule extends the minimum time from 1 to 6 quarters when 7 percent net worth must be maintained to qualify for RegFlex.

The rule eliminates the requirement NCUA notify credit unions that automatically qualify for RegFlex while it retains the requirement NCUA notify a credit union that applies for RegFlex designation, whether it is granted or denied. The rule is effective 30 days after publication in the *Federal Register*.

Uninsured secondary capital amendments issued

The NCUA Board voted to amend Section 701.34 to permit low-income designated credit unions to begin redeeming funds in uninsured secondary capital accounts in 20 percent annual increments beginning five years before maturity and to require prior approval of a plan for the use of secondary capital before a credit union can accept funds. The rule also clarifies that uninsured secondary capital cannot be used to pay dividends.

Redeeming secondary capital

By permitting low-income designated credit unions to redeem uninsured secondary capital at the same rate net worth value is discounted, the rule prevents the dilution of a credit union's net worth ratio under prompt correction action (PCA). Low-income designated credit unions with uninsured capital accounts are required to discount the net worth value of these accounts in 20 percent annual increments beginning five years before maturity. However, the prior rule prohibited the redemption of discounted secondary capital before maturity, thus inflating the asset side of a credit union's net worth ratio.

Approved use plan for secondary capital

To enhance oversight of uninsured secondary capital and ensure its proper use, the final rule requires regional director and state supervisory authority to give prior approval to a low-income credit union's plan for the use of uninsured secondary capital.

The rule becomes effective 30 days after publication in the *Federal Register*.

Call report modifications approved

The NCUA Board approved revisions to subsection 741.6(a) to require all federally insured credit unions to file the same quarterly report in order to reduce cost, confusion and errors while adding consistency, efficiency and improved financial trend analysis.

NCUA will introduce the revised 5300 call report form at mid-year 2006 so all federally insured credit unions will be using the same reporting form to supply second and third quarter data.

The revised call report consolidates information, reduces ancillary schedules and is easier to read and use. Reduced from 19 to 16 pages, the new 5300 is designed so small credit unions generally will not complete supporting schedules. Only the first 10 pages require input from all credit unions. Additionally, with comprehensive quantitative data reported by all credit unions, both internal and external quarterly financial trend analysis will improve, and trend reports will be more consistent and detailed for smaller credit unions.

Board votes are unanimous unless indicated

