Board Action Bulletin

Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETING RESULTS FOR SEPTEMBER 16, 2010

Chairman Debbie Matz announced at the conclusion of today's meeting that the NCUA Board plans to consider the final corporate credit union rule and hear an update on legacy assets at an open NCUA Board meeting Friday, September 24 at 2:30 p.m.

FCUs can combat predatory lending with short-term, small loans

The NCUA Board issued a final rule change to the general lending rule, §701.21, that allows federal credit unions (FCUs) to charge a higher interest rate for short-term, small amount (STS) loans, provided FCUs offer the loans in accordance with the requirements of the rule. The final rule provides FCUs with the ability to offer a viable alternative to predatory payday loans.

The amendment sets an interest rate ceiling for STS loans of 1000 basis points above the general interest rate ceiling, as set by the Board. Based on the current interest rate ceiling, the maximum APR under this rule is 28 percent. To take advantage of this higher APR, FCUs must make loans in accordance with the requirements of the rule, which include limitations on the permissible term, amount, and fees associated with an STS loan and requires that the loans be fully amortized. The final rule also requires an FCU to set a cap on the aggregate dollar amount of STS loans outstanding and to set a minimum length of membership requirement.

The STS loan alternative will help FCUs fulfill their mission of promoting thrift and meeting members' credit needs, particularly the needs of members of modest means. Permitting a higher interest rate for STS loans will allow FCUs to make cost-effective loans while limitations will appropriately constrain the product to the role of an alternative to predatory credit products.

STS Rule Specifics

The new rule enables a federal credit union to charge an interest rate of up to 1000 basis points above the current maximum 18 percent interest rate established by the NCUA Board, provided that the federal credit union is making a closed-end loan in accordance with the following requirements:

(1) The principal of the loan is not less than $200 or more than $1000;

(2) The loan term is between 1 month and 6 months;

(3) A borrower is limited no more than three small-amount loans in any rolling 6-month period; and a borrower is limited to no more than one, short-term, small amount loan at a time;

(4) The federal credit union must not roll over any small-amount loan; however,

(a) The prohibition against rollovers does not apply to an extension of the loan term within the maximum 6-month loan term, and the federal credit union cannot charge additional fees or extend any new credit.

(5) The federal credit union must fully amortize the loan;

*(*6*)* The federal credit union sets a minimum 1-month membership requirement;

(7) The federal credit union charges an application fee reflecting actual costs associated with processing the application. The application fee cannot exceed $20; and

(8) The federal credit union includes, in written lending policies, a limit on the aggregate dollar amount of STS loans of a maximum 20 percent of net worth and implements appropriate underwriting guidelines to minimize risk; for example, requiring a borrower to verify employment by producing at least two recent pay stubs.

The final rule also includes "best practices" to help FCUs develop a successful STS loan program, minimizing risk, and developing appropriate underwriting standards. The rule becomes effective 30 days after publication in the *Federal Register*.

NCUSIF 2010 Premium Set at 0.1242 percent

The NCUA Board established a 0.1242 percent insurance premium for federally insured credit unions (FICUs) to meet statutory demands and restore the NCUSIF equity ratio to 1.30 percent. August 31, 2010, financial statements indicate the NCUSIF equity ratio is 1.176 percent.

Although the $933 million premium, due in late November, will temporarily increase the NCUSIF equity ratio to 1.30 percent, the equity ratio is projected to continue to decline. Analysis indicates this premium assessment will maintain the level above 1.20 percent through June 30, 2011.

Actual losses in failed natural person credit unions; potential losses based on trends in troubled CAMEL codes; earnings on NCUSIF assets; and growth in insured shares have adversely impacted the equity ratio in 2010 -- a trend that is expected to continue in the near term. NCUSIF recorded $642 million in provision for insurance loss expenses through August 2010. The provision for insurance loss expense, combined with low earnings on NCUSIF assets, has resulted in a $570 million reduction in NCUSIF retained earnings.

Credit union CAMEL codes also have a material impact on the NCUSIF's required reserve level. At June 30, 2010, 366 FICUs, with total assets of $48.8 billion, were designated as problem institutions (defined as those credit unions having a composite CAMEL rating of 4 or 5). This compares to 291 problem credit unions with total assets of $28 billion on June 30, 2009. Additionally, the number and asset size of CAMEL 3 rated credit unions has increased to 1,739 at June 30, 2010, with assets of $149.8 billion, compared to 1,485 credit unions with assets of $86 billion on June 30, 2009.

When the equity ratio is expected to fall, or actually falls below 1.20 percent, the Helping Families Save Their Homes Act of 2009 requires the NCUSIF to implement a restoration plan within 90 days. The plan must include actions to restore the NCUSIF equity ratio to at least 1.20 percent before the end of an eight-year period, and the NCUA Board must publish in the Federal Register a detailed analysis of the factors considered and the basis for the actions taken with regard to the plan.

June 2010 call reports disclose modest improvement in the operating condition of federally insured credit unions. However, credit quality remains a concern, with continued high levels of delinquent loans and charge-offs, along with increasing inventories of foreclosed assets. FICUs reported a return on assets (ROA) before assessments of 0.62 percent for the first half of 2010.

This 2010 NCUSIF premium, combined with the Stabilization Fund assessment approved in June 2010, totals 0.2582 percent of insured shares and will cost federally insured credit unions (FICUs) $1.9 billion, which represents 2.3 percent of FICU net worth as of December 31, 2009. The combined charges are within the 0.15 to 0.40 percent of insured shares range projected by NCUA in November 2009.

The combined assessment is expected to reduce credit unions' 2010 return on assets by 22 basis points. Based on core earnings trends through mid-year, 855 FICUs may experience negative net income for 2010 due to the impact of the combined insurance premium and stabilization fund assessment.

Chairman Matz's statement on the NCUSIF insurance premium is available online at http://www.ncua.gov/GenInfo/Members/Matz/speeches/10-0916MatzStatementNCUSIFPremium.pdf.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law July 21, 2010. The measure is widely viewed as the most sweeping reform of financial regulation since the Great Depression. The intent of the legislation is to:

- Promote financial stability by improving accountability in the financial system;
- Grow the economy and create jobs;
- Enhance consumer protections including mortgage reform and prohibiting unfair lending practices;
- End "too big to fail" bailouts; and
- Prevent another financial crisis like the most recent.

Title I, Systemic Risk, creates the Financial Stability Oversight Council, a body consisting of leaders of the eight primary federal financial regulatory agencies, the Director of the Consumer Financial Protection Bureau, and an independent Presidential appointee.

The NCUA Chairman is a voting member of the Council, which is charged with monitoring potential systemic risks and maintaining the country's financial stability. The Council is authorized to recommend, or in some instances to mandate, that financial regulatory agencies implement certain rules and policies. As a member of the Financial Stability Oversight Council, NCUA will be able to petition the full Council to stay or set aside Bureau regulations that it believes could compromise the safety and soundness of the credit union system.

Title X, CFPB, creates the Consumer Financial Protection Bureau, within the Board of Governors of the Federal Reserve System, to protect financial consumers. The Bureau will regulate the offering and provision of consumer financial products or services under the federal consumer financial laws, and it has greater jurisdictional authority over financial institutions with assets in excess of $10 billion.

Two insurance coverage provisions affecting NCUA include:

1. Makes permanent the standard maximum share insurance amount of $250,000; and

2. Temporarily authorizes NCUA to fully insure the net amount maintained in non-interest-bearing transaction accounts through December 31, 2012, in addition to other share insurance coverage provided by the National Credit Union Share Insurance Fund.

Title III requires NCUA and other agencies, not later than 6 months after the date of enactment, to establish an Office of Minority and Women Inclusion responsible for all matters relating to diversity in management, employment and business activities.

Secondary capital redemption rule confirmed

The NCUA Board today confirmed an interim final rule issued February 9, 2010, that allows low-income-designated credit unions ("LICUs") to redeem secondary capital ("SC") accepted from the United States Government any time after it has been on deposit for two years. The interim final rule was issued to facilitate LICU participation in the Community Development Capital Initiative ("CDCI"), an initiative developed by the Treasury Department under the Troubled Asset Relief Program.

Today's final rule includes technical changes and clarifications. The rule continues to permit redemption of all or part of government-funded SC, along with its matching SC, subject to NCUA regional director approval. It also leaves in place loss-distribution procedures applicable to SC accepted pursuant to the CDCI. Finally, the rule clarifies the net-worth recognition of an SC account so that, in the event of early redemption, the net-worth recognized will be the lesser of the balance remaining in the account or the amount specified in the regulation's net-worth schedule.

Federal Credit Union Charter Conversion Denied

The NCUA Board, by a 2 to 1 vote, upheld the regional director's decision denying Vantage Credit Union's request to convert to a federal community charter because the proposed field of membership does not qualify as a local community under NCUA's chartering standards.

Vantage Credit Union, a Missouri-chartered geographic-area credit union located in the St. Louis area, applied to convert to a federal community charter, requesting the City of St. Louis and seven additional counties, including four Missouri counties and three Illinois counties. The population exceeds 2.5 million people. NCUA's regional director denied the application and request based on lack of adequate interaction and common interests of the residents of the proposed community.

Board Adopts Federal Accounting Standard for the NCUSIF

The NCUA Board adopted Federal Accounting Standards Advisory Board (FASAB) standards, also known as Federal Accounting Standards, for the National Credit Union Share Insurance Fund (NCUSIF), retroactive to January 1, 2010.

This Board action follows a similar June 17, 2010, action that adopted the same accounting standards for the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). Since then, NCUA has gained more experience with FASAB standards and has seen firsthand that FASAB standards more appropriately meet the financial reporting requirements of the NCUSIF and its stakeholders.

FASAB is the preferred method of reporting for federal entities. The American Institute of Certified Public Accountants (AICPA) recognizes FASAB as the board that promulgates generally accepted accounting principles (GAAP) for federal entities. FASAB is responsible for designating GAAP for federal entities.

National Credit Union Share Insurance Fund Report

NCUA's Chief Financial Officer reported a National Credit Union Share Insurance Fund reserve balance of $1.2 billion at August 31, 2010, with $211.6 million charged to insurance loss expense in August, and a total of $641.6 million charged to total insurance loss expense year-to-date 2010.

The NCUSIF equity ratio was reported at 1.18 percent for August 2010, which includes the 1 percent capitalization deposit adjustment associated with the June 30, 2010, increase in insured shares. The requirement to file a restoration plan in the Federal Register when the equity ratio drops below 1.20 percent was brought to the Board by the Director of Examination and Insurance.

Twenty-three federally insured credit unions have failed thus far in 2010 at a cost to the Fund of $215 million. Through August, there were 14 involuntary liquidations and 9 assisted mergers.

There were 360 CAMEL code 4&5 credit unions at August 31, representing 5.26 percent of mid-year 2010 total insured shares. Through August, NCUSIF's annual revenue and expenses included income of $180.5 million and expenses of $750.3 million, resulting in negative NCUSIF net income of $569.9 million.

Temporary Corporate Credit Union Stabilization Fund (TCCUSF) total revenue is $1.0 billion and total costs are $4.7 million, resulting in a net cost of operations of negative $995.6 million through August 31, 2010. Results reported include the special premium assessment of $999.7 million that was invoiced in July and collected in August 2010. TCCUSF has assets of $1.9 billion, liabilities of $7.9 billion and a total net position of negative $6.0 billion.

Board votes are unanimous unless otherwise indicated. NCUA rule changes are posted online at www.ncua.gov under Resources/Regulations, Legal Opinions and Laws.