Board Action Bulletin

Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETING RESULTS FOR JUNE 21, 2007

Eligible obligations rule amendment proposed

The NCUA Board issued a proposed change that would add a conflict of interest provision to the eligible obligations rule, similar to the conflict of interest provision in the general lending regulation, to help ensure decisions regarding the purchase, sale and pledge of eligible obligations are made in the best interest of a federal credit union (FCU).

As proposed, an FCU official, employee or immediate family member may not receive direct or indirect commission, fee or other compensation in connection with eligible obligation transactions, which includes the buying and selling of FCU member loans. The proposal was issued with a 60-day comment period.

Prompt corrective action reform proposed

The NCUA Board issued an update to its prompt corrective action (PCA) reform proposal. The changes to credit union's PCA system recommended in today's proposal would allow for more active management of capital levels by credit unions, ensure PCA is more risk-based and align NCUA's PCA system with sound risk management principles.

Originally introduced in 2000, PCA was mandated by the Credit Union Membership Access Act of 1998 to ensure problems in federally insured credit unions are resolved with the least economic impact to the National Credit Union Share Insurance Fund (NCUSIF). However, statutory limitations resulted in a rigid one-size-fits-all PCA system. Based on experience, a more risk-based PCA system reform proposal was issued in March 2005. With input from the U.S. Treasury, the proposal is being revised to:

- Raise the proposed new leverage ratio thresholds for all categories except credit unions critically undercapitalized by 25 basis points.

- Increase the risk-based net worth threshold to 10 from 8 percent for the well-capitalized category.

- Recommend elimination of the earnings retention requirement, substituting discretionary authority for NCUA to require a net worth restoration plan for adequately capitalized credit unions when needed.

- Limit the recommended authority for NCUA to waive submission of a net worth restoration plan to cases involving a major disaster.

The proposed PCA system is rigorous and more effective at relating risk to capital levels. It is more aggressive in relation to thinly capitalized institutions and it provides NCUA with more supervisory tools to address capital weakness. What's more, the proposed PCA reform balances the need for healthy credit unions to utilize capital efficiently to best serve members and maintain safety and soundness.

Enacting legislation must become law before the PCA proposal can be finalized.

Rule changes are effective upon publication in the Federal Register.
Board votes are unanimous unless indicated