
Board Action Bulletin



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NCUA BOARD MEETING RESULTS FOR JULY 20, 2006

Loan interest rate ceiling remains 18 percent

The NCUA Board voted to maintain the current 18 percent loan interest rate ceiling to ensure federal credit unions can continue to meet their current lending programs and to permit the necessary flexibility for credit unions to react to adverse economic developments.

The current 18 percent per year federal credit union maximum loan interest rate was scheduled to revert to 15 percent September 9, 2006, unless actions are taken by the NCUA Board. A 15 percent ceiling could restrict certain categories of credit and adversely affect the financial condition of a number of federal credit unions currently making loans above 15 percent.

Mid-year review reduces NCUA budget by \$1.4 million.

The NCUA Board approved the reprogramming of the 2006 operating budget with a decrease of \$1.4 million. The decrease is primarily driven by vacant positions that have existed during the year. Vacant positions reduce the cost of pay and benefits. At mid-year, NCUA has 28 vacancies with an authorized staffing level of 958, which is the lowest sustained vacancy figure since 1997.

Based on various funding requests and because spending is typically higher during the second half of the year, the Board approved a \$1.4 million decrease in the fiscal year 2006 budget, which reduced the original \$150,788,525 budget to an adjusted \$149,356,578.

Loan interest rate ceiling rule modified

The NCUA Board issued a final rule amending Section 701.21(c)(7), NCUA's lending rule, to include the criteria the Board considers in setting a permissible interest rate ceiling for federal credit unions that exceeds 15 percent.

With the interest rate ceiling currently reviewed every 18 months, the rule change is designed to eliminate unnecessary, periodic regulatory amendments and provide a more efficient and effective means of informing federal credit unions of the permissible interest rate ceiling. The rule also specifies that NCUA will notify federal credit unions of any change in the interest rate ceiling through a *Letter to Federal Credit Unions*, other official publications and a statement to the press. The rule change is effective September 9, 2006.

Investment rule proposal issued

The NCUA Board issued a proposed rule change to Part 703 that would permit federal credit unions to invest in mortgage note repurchase transactions when the instrument consists of first-lien mortgage loans.

Issued with a 60-day comment period, the proposed rule includes requirements to help FCU's manage the risks associated with these investments. The proposal establishes a credit concentration limit, minimum credit rating, requirement for an independent assessment of market value, a maximum term, and custodial requirements for the transactions.

Quarterly insurance report

The National Credit Union Share Insurance Fund ended the second quarter of 2006 with a 1.27 percent equity ratio based on estimated insured shares of \$527.8 billion at June 30. With insured share growth expected to be 4 percent at year-end, the equity ratio is projected to be 1.29 percent at December 31, 2006.

Gross income in the first six months of 2006 was \$120.4 million, operating expenses totaled \$40.0 million, insurance losses totaled \$1.7 million and net income was \$78.6 million. Thus far during the year 10 credit unions have failed – 7 credit unions were liquidated and 3 credit unions were merged with assistance. The number of problem code credit unions has declined to 269 at June 30, 2006, from 280 at year-end 2005.

Charter conversions

The NCUA Board approved the application of \$150.5 million **Aerospace Community Credit Union**, St. Charles, Missouri, to convert from a state to a federal community charter serving the people who live, work, worship, attend school, businesses and other legal entities located in the City of St. Louis, as well as St. Louis or St. Charles Counties, Missouri.

The NCUA Board approved the application of \$885 million **American Eagle Federal Credit Union**, East Hartford, Connecticut, to convert from a multiple common bond to a community charter serving the people who live, work, worship, attend school, businesses and other legal entities located in Hartford, Middlesex or Tolland Counties, Connecticut.

Board votes are unanimous unless indicated