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CORPORATE CREDIT UNIONS:

Condition, Issues, and Concerns

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CORPORATE CREDIT UNIONS: Condition, Issues, and Concerns

Summary of Statement by
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Thousands of insured credit unions have placed about $30 billion --a substantial part of their unloaned deposits--in the 44 corporate credit unions for investment purposes. This concentration of credit union assets represents a large potential risk to the Insurance Fund, so the safe and sound operation of corporates is a necessity. If the investment products offered by corporates are safe and sound, then small credit unions and others who use them, should not need as much investment expertise to manage their portfolios.

Similarly, the 42 corporates have forwarded a substantial portion of their funds to U.S. Central Credit Union for investments. This further concentration of industry assets means that the safety and soundness of U.S. Central is also crucial to the Insurance Fund. The structure of corporates and U.S. Central is also designed to provide liquidity loans to credit unions, but there has been little need for this service in recent years.

The capital of the corporates and U.S. Central has improved significantly in the past few years through retained earnings. However, the rapid growth of corporates and U.S. Central in the early 1990s leveled off in 1993, partly because of increased loan demand by member credit union customers and partly because credit unions are investing more of their funds directly in the market. Extension of federal insurance to seven corporates and to U.S. Central since 1991 has improved the National Credit Union Administration (NCUA) enforcement authority. However, five other corporates are still not federally insured and thus are not subject to NCUA enforcement.

GAO discusses four potential issues that warrant consideration including: the risk-based capital system, interlocks between the boards of corporates and trade associations, NCUA oversight, and the importance of corporates to small credit unions.

Mr. Chairman:

It is a pleasure to appear again before the Committee to continue our discussion of the credit union industry and its regulator, the National Credit Union Administration (NCUA). As you requested, our statement addresses issues regarding the 44 corporate credit unions, which we refer to simply as corporates, and U.S. Central Credit Union. We highlight the combined financial condition of these institutions, their investment policies and practices, and current issues they are facing. We conclude with our views about potential problems that could affect the financial health of the corporates, the credit union industry, and the National Credit Union Share Insurance Fund (Insurance Fund).

Corporate credit unions are nonprofit cooperatives that are owned by their respective member credit unions.[1] They serve only these credit unions, providing liquidity loans, investment products, and other operational services such as share draft (i.e., check) processing. Similarly, U.S. Central is a nonprofit cooperative that is owned by 42 corporates and serves them in similar ways that the 44 corporates serve credit unions.

In our 1991 report, we emphasized the important role corporates play in the credit union industry.[2] Currently, they hold about 10 percent of the total assets of their member credit unions for investment purposes. Similarly, as of June 30, 1994, nearly 42 percent of the combined assets of the 44 corporates were invested in U.S. Central. These concentrations of investments by federally insured credit unions make safe operation of the corporates and U.S. Central crucial to the credit unions that invest in them.

While we talk about the corporates as a group, we should bear in mind that their financial condition varies.[3] We have not tried to assess the safety and soundness of corporates either as a group or individually. The data used in preparing our testimony was obtained from NCUA. We have not independently verified the data.

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[1]A credit union is a not-for-profit cooperative association that offers a variety of financial services. Its member/owners have a "common bond," such as working for the same employer, which is specifically defined in credit union's charter.

[2]Credit Unions: Reforms For Ensuring Future Soundness, (GAO/GGD-91-85, July 10, 1991).

[3]One very small corporate, with $73.8 million in total assets, was placed into conservatorship by NCUA last month, although NCUA expects this event will not have serious effects on the Insurance Fund. We have no evidence that any of the other corporates is financially troubled at this time.

Reported Financial Condition of the 44 Corporates

As of June 30, 1994, the unaudited combined financial statements of the 44 corporates, excluding U.S. Central, showed total assets of $41.8 billion of which 92 percent were in the form of investments. These investments were primarily funded by deposits of member credit unions. However, member credit unions have borrowed only about $1 billion from their corporates. Thus, credit unions are now looking to their corporates primarily for investment services rather than for credit.

The proportion of credit union funds placed in the 44 corporates for investments has declined. At year end 1990, 35.2 percent of total credit union investments were placed in corporates, declining to 26.2 percent as of June 30, 1994. Nevertheless, since credit union shares grew rapidly during that period, the amount of credit union assets placed in corporates grew from $21.8 billion in 1990 to $30.3 billion in 1994. The amount invested in corporates reached a year-end peak of $34.5 billion in 1992. In part, the decrease since that time reflects increased customer loan demand resulting in fewer deposits available for other investments. However, it also appears to reflect a decision by many credit unions to invest their funds directly rather than through their corporates.

The combined annual net income of the 44 corporates has grown each year from 1990 to 1993, and was $146 million in 1993. Unaudited statements for the first half of 1994 showed a $64 million net income. This income growth has added significantly to corporate capital. Our 1991 report noted that the capital of the corporates was low compared to other credit unions and financial institutions, and that special NCUA regulations that were intended to increase corporate capital had, to that point, been ineffective. Since year-end 1990, that condition has improved, although it is still true that nearly all corporates are highly leveraged institutions. Between year-end 1990 and June 30, 1994, corporate capital increased from $413 million to $939 million, and the ratio of this capital to total assets improved from 1.34 percent to 2.25 percent. Even so, as of July 31, 1994, six corporates reported capital ratios of less than 2 percent, and 1.52 percent was the lowest ratio among them.

Capital of the corporates has been further augmented by a new class of investments that member credit unions have made in the corporates. These investments are called membership capital share deposits (MCSD). MCSDs are subordinated to other claims on corporates, and their withdrawal is somewhat restricted. In NCUA's view, these features allow MCSDs to be considered as secondary capital for corporates. MCSDs totaled $775 million as of June 30, 1994, and their inclusion as capital would result in a combined total capital-to-asset ratio of 4.05 percent.

In our 1991 report, we said that MCSDs should be seen as a positive step in improving corporate capital, but only as an interim measure. They are clearly not equivalent to primary capital. Our concern had been and still remains that even though they are subordinated obligations if a corporate should fail, they can nevertheless be withdrawn over a 12-month period if the corporate is operating.

Corporates are reporting that they generally continue to invest in relatively high-quality securities, but they may be taking more interest-rate risk. For example, between 1990 and 1993, investments in collateralized mortgage obligations (CMO) and similar securities more than doubled, from $4.8 billion to $10.2 billion. As we noted in last week's testimony,[4] it is difficult to assess interest rate risk based on call report data because the data are not sufficiently detailed to permit more than a rough approximation of the match or mismatch of corporate assets and liabilities. As of June 30, 1994, the corporates appeared to be very liquid, with 79 percent of investments maturing or repricing in less than one year. Call report data also show that 78 percent of corporate savings savings mature in less than one year. On the surface, this indicates that assets and liabilities for the corporates as a group are closely matched. However, because the data are not sufficiently detailed, this apparent match could conceal problems.

NCUA has tried to address interest-rate risk in investments like CMOs. The Federal Financial Institutions Examination Council in its April 15, 1994, revised policy statement on securities activities, noted that credit unions can hold high-risk mortgage securities only under very limited circumstances. While we have not reviewed the particulars of NCUA's program, which applies to corporates and natural person credit unions, this conservative approach seems appropriate, especially for the highly leveraged corporates.

At this time, only one corporate, in addition to U.S. Central, is permitted by NCUA to engage in derivatives transactions. An NCUA official told us that this corporate's derivative transactions are strictly confined to hedging interest-rate risk.

Condition of U.S. Central

As of June 30, 1994, the unaudited statements of U.S. Central showed total assets of $19.8 billion. This represented a 28 percent decline from total assets of $27.6 billion on December 31, 1993. However, this decline is not as significant as it might at first appear, because the year-end closing balance of

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[4]Credit Unions: Both Industry and Insurance Fund Appear Financially Sound, (GAO/T-GGD-94-142, Sept. 29,1994).

total assets was not representative of U.S. Central's size on an average basis. The daily average balance of U.S. Central's total assets for December 1993 was $19.6 billion, and decreased to $18.1 billion for June 1994.

Still, there has been a declining trend in the use of U.S. Central by its 42 member corporates. In its 1993 annual report, U.S. Central stated that on a year-to-date basis, average daily share account balances had decreased from approximately $26 billion in 1992 to approximately $24 billion. U.S. Central attributed this decline to increased loan demand at the credit union level, in addition to the trend toward direct investing by the member corporates.

Until the first half of 1994, U.S. Central's annual net income had grown gradually but steadily from $18.1 million in 1990 to $27.8 million in 1993. We have been advised by NCUA that U.S. Central's capital declined by about $2 million, or 1 percent, for the first 6 months of 1994. NCUA said this was due to a $10.5 million write-down in the value of certain investments that were marked to their market value.

U.S. Central has historically been allowed by NCUA to maintain capital at a level well below that of the other corporates. As of June 30, 1994, its capital was $201 million, or about 1.01 percent of assets, and at year-end 1993 it was only 0.73 percent of assets. NCUA's justification for accepting this low ratio has been based on two points. First, from the standpoint of member credit unions, any portion of the investment they make in their corporate that is, in turn, passed on to U.S. Central for investment would be protected by the capital of the corporate plus the capital of U.S. Central. Because of this procedure, we agree it is reasonable to require less capital in U.S. Central than is required of the corporate. This does, however, assume that the risk of the investment made by U.S. Central on behalf of the corporate is not materially different from the risk if the corporate itself had made the investment.

Second, NCUA has accepted a lower capital level because U.S. Central's investment policies have been very conservative. At the time of our 1991 report, we agreed with NCUA's characterization of U.S. Central's investment policies. Now, however, there are indications that U.S. Central may in recent years have been making riskier investments than was previously the case. One indication is that the NCUA Board waived, in U.S. Central's case, certain standard restrictions on corporate investment activities. For example, in 1993 U.S. Central was permitted to invest in lower-rated securities than other corporates and was exempted from the divesture requirements for certain investments. And, the well-publicized U.S. Central investment in Banco Espanol de Credito was one that we believe would not have been consistent with U.S. Central's policies 4 years ago.

Importance of U.S. Central to Small Corporates

U.S. Central's investment services are important to many corporates, especially the smaller ones. As of June 30, 1994, 23 corporates had at least 85 percent of their total investments in accounts at U.S. Central and 10 more had over 50 percent of total investments there.

As investment management increases in complexity, small corporates in general may not will have the resources to develop full-fledged investment staffs of their own. Therefore, it seems sensible for them to be able to rely on the services of U.S. Central. This reliance, however, adds more weight to the need for U.S. Central to be a safe and sound investment manager.

Increased Coverage of Corporates
By the Insurance Fund

In our 1991 report we noted that 12 corporates, in addition to U.S. central, were not covered by the Insurance Fund. Since that time, seven of them have become federally insured.[5] As of June 30, 1994, these corporates reported total assets of about $3.4 billion. Only 5 corporates remain without federal insurance. They are headquartered in Missouri, Montana, New Jersey, North Dakota, and Wisconsin. They reported about $2.1 billion in assets in mid-1994. We have insufficient evidence to judge the safety or soundness of any of these institutions. And, as our report stated, each of them agrees to abide by NCUA's rules and regulations for federally insured corporates. On September 29, we reiterated our recommendation that all corporates should be federally insured. We believe this is needed because NCUA does not have enforcement powers over these five institutions that are not federally insured.

POTENTIAL ISSUES

We have been asked for our views on potential problems of the corporates and U.S. Central. We identified four potential issues that warrant consideration:

-- the risk-based capital system,

-- interlocks between the boards of corporates and trade associations,

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[5]These corporates are headquartered in Massachusetts, West Virginia, Kansas, Idaho, Washington, Tennessee, and Michigan.

-- NCUA oversight, and

-- the importance of corporates to small credit unions.

Risk-Based Capital System

We have long favored tailoring the capital requirements for a depository institution to the risks that it takes. In our 1991 report, we recommended that NCUA institute a risk-based capital system for corporates.[6] Since our report, NCUA has implemented such a risked-based capital system for corporates, although there is no risk-based capital system in place for natural person credit unions.

NCUA's system for measuring the capital adequacy of corporates is similar to the system applied to banks by the Federal Deposit Insurance Corporation Improvement Act of 1991. Simply stated, less capital is required to support assets that have less credit risk, that is risk that borrowers will not repay. The risk weights used in NCUA's system generally follow the weights promulgated for banks under the so-called Basle Accords.[7] The risk weights that NCUA applies range from 100 percent, for example, on commercial paper to zero percent for presumably risk-free assets such as U.S. government securities. However, NCUA's capital standards differs from the bank standards in that they do not include a second minimum capital requirement, referred to as leverage, that relates capital to total assets.

Several aspects of NCUA's capital standards pose potential issues for consideration. Our questions in this regard are not audit findings, for we have not conducted the audits required to make such findings. Nevertheless, we believe the committee should be aware of them.

First, NCUA's system specifies minimum levels of primary and secondary capital based on risk-adjusted assets only; there is no requirement for a minimum level of capital to total assets or leverage ratio. Minimum capital levels would provide additional protection because the present system does not take into account interest-rate or management risk. Omitting interest-rate risk can give corporates an incentive to invest in the highest

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[6]The eight recommendations on corporates that we made in our 1991 report are listed in appendix I.

[7]Risk weighting is a procedure that reduces the amount of capital required if the type of asset has lower credit risk. For example, if an asset is deemed to be half as risky as the normal risk assets, only 50 percent of the amount of that asset is counted as part of the total risk assets that need capital support.

yielding security within any risk-weighted group, and that security may carry more interest rate risk. For example, the NCUA regulation specifies a 20 percent risk weight for collateralized fixed-rate CMOs maturing in 3 years and the same 20 percent risk weight for short term collateralized repurchase agreements. The former has substantially more interest-rate risk than the latter. NCUA is aware of this problem. It requires both credit unions and corporates to test for interest-rate risk in such investments as CMOs, and its procedures, if followed, should help to identify problems caused by changes in market interest rates. However, this would not fully compensate for the failure of the risk-based capital system to require capital needed because of this risk.

Second, NCUA's system, like the Basle Accords, does not address the issue of management risk. A corporate could invest almost exclusively in assets that are weighted at zero credit risk, and thus be required to maintain practically no capital at all. Obviously, this would be unsafe and unsound since it would not allow for the possibility of management mistakes. A fixed minimum leverage ratio for corporates would better ensure that every corporate has at least some capital as a cushion against management failures.

The two concerns with the corporate capital standard previously mentioned can be addressed by the same type of minimum capital standard that applies to banks, the leverage ratio. There are three additional potential issues that apply to corporate credit unions only. First, NCUA's corporate capital standard counts membership capital share deposits (MCSD) as secondary capital. We question the wisdom of this position because of the way MCSDs are presently structured. Specifically, we believe that the minimum 12 month notice required for withdrawal of MCSDs is not enough time and the period should be lengthened. If a corporate's condition deteriorates, the 12 month withdrawal provision could destabilize the corporate before it had time to recover. We recognize that credit unions might want to withdraw these deposits on shorter notice in order to meet loan demand. This issue could be addressed by providing that NCUA could approve early withdrawals if they would not have a material adverse effect on the corporate's condition. In addition, NCUA could provide for the gradual release of these deposits as the primary capital of each corporate accumulates.

Second, NCUA's minimum risk-weighted capital standards as they are now written could conceivably allow corporates to actually reduce the levels of capital they now hold. For example, NCUA data showed that all corporates met both minimum standards in the regulation--a 4 percent primary capital ratio and an 8 percent total capital ratio--calculated on a risk-weighted basis. Moreover, many corporates exceed these requirements by a wide margin. This implies that they could reduce their capital and still be in compliance with NCUA's current requirements. If a minimum leverage ratio were introduced, it could set a more effective floor under corporate capital to reduce the potential for this reduction.

Third, for those corporates that do not have enough capital, NCUA's requirements for additions to capital are at rates that seem low. NCUA has requirements for monthly additions to capital at five different rates depending on the level of the corporate's capital at the time (see table 1). Additions continue until a corporate achieves the appropriate risk adjusted ratios.[8] As of July 1994, 26 of the 44 corporates were subject to any requirement for adding to capital. The 7 corporates with the lowest capital ratios were being required to add to reserves at an annual rate of only 15 basis points times their average assets. At that rate of reserving, it would take about 7 years for a corporate to raise its ratio of primary capital to unweighted assets by one percentage point. Thus, if a corporate is not adequately capitalized, we question whether NCUA's regulation can address that condition quickly enough.

[8]These are more than 12 percent for primary capital and more than 18 percent for total capital.

Table 1: Required Per Annum Rates of Transfers to Capital: Distribution of 44 Corporates Among 6 Categories, for the months of January, April, and July 1994.

	Number of corporates[a]			
Category	Jan. 94	Apr. 94	July 94	Annual rate of transfer[b]
1	0	0	0	25 basis points
2	1	1	0	20
3	8	7	7	15
4	14	16	9	10
5	10	8	10	5
6	11	12	18	0

Note: U.S. Central is excluded from this table.

[a]Corporates are categorized in accordance with their levels of risk-adjusted capital ratios.

[b]The dollar amount required to be transferred to reserves is calculated monthly. The average daily assets (with certain exclusions) times basis points (hundredths of 1 percent) in the appropriate category, times number of days in the period, divided by 365.

Source: NCUA Rules and Regulations (Sec. 704.11) and NCUA information.

Another recommendation from our 1991 report pertains to limiting loans or investments in a single obligor to 1 percent of the corporate's total assets. NCUA has not changed its position that a 5 percent of assets limit is satisfactory for investments, but is now considering ways to reduce the limit on loans or to require collateral in some cases. Our position has not changed. We believe the need for lower exposure limits may be reinforced by the fact that NCUA's risk-based capital system has no minimum requirement for primary capital compared to assets that are not adjusted for risk.

Interlocks Between the Boards of Corporates and Trade Associations

Historically, there have been close ties between corporates and their related trade associations. These trade associations are generally referred to as credit union leagues. Most leagues are organized on a state-by-state basis, as are most corporates. In the case of U.S. Central, the related entity is the Credit Union National Association. Our 1991 report noted that these interrelationships were a cause for concern. We said, "NCUA has recognized that corporates' relationships with leagues can create difficulties... We were told by some NCUA regional directors that corporate credit union loans to leagues and their affiliates continued to be an 'overriding concern' and that there should be a ban on financial transactions between corporates and leagues and their affiliates." Our report contained no recommendations on this issue. However, we agreed with NCUA's proposed efforts at the time to avoid or reduce the possible conflicts of interest that could arise in this respect.

On September 16, 1994, the NCUA Board proposed a new rule that would reduce the permissable extent of these ties. The rule, among other things, requires that the chairperson and a majority of the corporate's directors be individuals who represent member credit unions none of whose individual members may be officers, directors, or employees of a credit-union-related organization such as a trade association. The Board stated that there are cases currently under review that raise concerns with respect to possible abuses. Because of the fact that corporate-related organizations such as leagues can continue to have substantial representation on any corporate board, we consider the proposal to be appropriate but minimal in terms of avoiding potential conflicts of interest.

We note that NCUA requested comment on the possibility of a much stricter alternative: that the prohibition against dual service on a corporate board and official connection to a trade association should apply to all directors of a corporate. If in fact the NCUA board finds actual cases of abuse, and if it believes that abuses might continue to occur even under the newly proposed rule, it would have a strong case for adopting this outright prohibition.

NCUA Faces Added Supervisory Challenges

Like all federal financial regulators, NCUA has been trying to keep up with the increasing complexity of financial markets. Advances in technology and in the complexity of financial transactions will continue to test the supervisory staff. New laws and regulations increase the burden on credit unions and corporates and increase the workload of NCUA examiners and headquarters staff as well.

Because of the concentration of credit union investments in their corporates, NCUA has a special interest in the safety and soundness of corporates. This interest flows primarily from NCUA's need to protect the Insurance Fund. Indeed, NCUA appears to have given increased priority and visibility to the supervision of corporates, as is demonstrated by the recent creation of a separate office for corporates' supervision reporting directly to the NCUA Board, as well as the independent study of corporates that was undertaken.

NCUA is actively considering expanding the fields of membership for all corporates. The result could be an increase in competition among the corporates. Thus, NCUA would need to have policies and staff in place that will help realize the benefits of competition, such as reduced servicing costs, while minimizing potential risks.

One remaining recommendation from our 1991 report is the need for better and more timely information from the corporates. While improvements have been made, it is still not possible to measure the extent of interest-rate risks that corporates may be taking on very large credit exposures. Also, NCUA's receipt of the monthly corporate call reports is not timely, although we have been told that this delay will be reduced in the near future.

Corporate Services to Small Credit Unions

Because small credit unions place a substantial proportion of their investments in corporates, the safety and soundness of corporates are particularly important to this segment of the industry. On September 29, we noted that credit unions kept about 26 percent of their investments in their respective corporates as of June 30, 1994. However, this statistic does not reveal the relatively great importance of corporates to small credit unions. Despite industry consolidation, small credit unions abound. 8,116 or 67 percent of all insured credit unions had less than $10 million in total assets at that time. On average 43.9 percent of their total investments were in their corporates. And, on average, they had 1.7 full time employees (see table 2).

Small credit unions continue an historical tradition of volunteer, nonprofessional management and part-time clerical and accounting support. Because most of them lack financial expertise, small credit unions have relied heavily on their respective corporates for investment and liquidity services. We believe these services should include objective and informed advice about all investment products. In addition, because of the equity commitment that a credit union makes to its corporate (the membership capital share deposit) it is in the interest of protecting the Insurance Fund that corporates need to pursue a low-risk investment policy. Higher risk investments are abundantly available elsewhere, but a small credit union should be entitled to safe investments in its corporates.

Table 2: Selected Statistics for Small Credit Unions as of June 30, 1994

Asset size of credit union	Under $2 million	$2 million to $10 million	Total of small credit unions
Number of credit unions	3,848	4,268	8,116
Number of members[a]	1,945,426	7,441,709	9,387,135
Total assets (billions)	$3.229	$21.357	$24.586
Total investments (billions)	$1.208	$8.579	$9.787
Investments in corporates (billions)	$0.595	$3.704	$4.299
Percent invested in corporates	49.3%	43.2%	43.9%
Full time staff	2,399	11,380	13,779
Average staff per credit union	0.60	2.7	1.7

Source: Data calculated from financial and statistical reports provided by NCUA.

[a]Number of members as of December 31, 1993.

CONCLUSIONS

The investment portfolios of the corporates as a group appear to have changed in the years since our study. Investments in federal funds have dropped sharply while holdings of CMOs and similar securities now comprise an important share of total investments. Also, the average maturity of investments has increased somewhat. These changes may well have increased interest-rate risk. Increased risk taking by corporates could be an issue that bears watching. The improved but still low capitalization of corporates and the high concentration of member credit union investments in the corporates argues against corporates taking on much more risk.

At this time, some of NCUA's established policies regarding the corporates and U.S. Central are being revisited. For example, one important issue is whether corporates should be allowed to expand their fields of membership and thus to compete with each other nationwide. There are potential benefits from such competition as well as risks. If this is adopted, it would be essential that NCUA have policies and staff in place that ensure that the benefits are achieved and the risks to the Insurance Fund are minimized.

Another potential issue for consideration involves the availability of services to small credit unions. These institutions, with their voluntary leadership and limited full time staffs, cannot be expected to have the professional competence in all the areas that even the smallest banks must have. Yet, they have the highest proportion of their portfolios invested in their corporates. Thus, we believe that the smallest credit unions have a great need for corporates, especially to provide investment services.

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This completes our statement. We would be pleased to answer any questions you may have.

Current Status of Recommendations Regarding 44 Corporates and U.S. Central as Contained in GAO Report GAO/GGD-91-85.

RECOMMENDATIONS	NCUA ACTION/RESPONSE
1. Chapter 6, Congressional Recommendation - Require NCUA to establish a program to promptly increase the capital of corporates and to establish minimum capital standards.	In April 1993, NCUA established a program to improve the capital of corporates. However, NCUA has not indicated whether it supports congressional action on this issue.
2. Chapter 6, NCUA Recommendation - Establish minimum capital requirements for corporates and U.S. Central, taking all risks into account. In the interim, establish a minimum level based on assets, and a timeframe for achieving this level. This could be done through increased reserving requirements and use of subordinated debt arrangements such as the membership capital share deposits.	In April 1993, NCUA changed its regulation for corporates to include a minimum standard for risk-based capital and required that they be in compliance by January 1, 1994, or to develop an acceptable plan for achieving the minimum standard. NCUA states that all corporates have reached the minimum standard except U.S. Central, which has submitted a plan to do so and, which NCUA finds acceptable. Also, NCUA states it is studying the possibility of introducing an additional regulation in the near future that will "focus on primary capital to total assets as opposed to risk based capital."
3. Chapter 6, NCUA Recommendation - Restrict the investment powers of state-chartered corporates to the limits imposed on federal corporates.	Partially completed: federal credit unions can only invest in corporates that comply with NCUA regulations and agree to be examined by NCUA.

RECOMMENDATIONS	NCUA ACTION/RESPONSE
4. Chapter 6, NCUA Recommendation - Limit corporate credit union and U.S. Central investments in a single obligor to 1 percent of the investor's total assets. Exceptions should include obligations of the U.S. government, repurchase agreements up to 2 percent of assets, and all investments by corporates in U.S. Central.	NCUA has not changed its original response that a 5 percent of assets limitation on exposure to single obligors would be satisfactory. NCUA has set minimum quality standards for certain types of investments based on rating categories used by recognized investment rating services.
5. Chapter 6, NCUA Recommendation - Limit corporate credit union and U.S. Central loans to 1 borrower to 1 percent of the lender's assets. NCUA should be authorized to make exceptions on a loan-by-loan basis.	NCUA continues to oppose this recommendation. However, NCUA states that the current limit on loans to borrowers is too high, and that it is reviewing the issue. NCUA is also considering a formal requirement for collateralizing loans that are larger than the corporate's capital.
6. Chapter 6, NCUA Recommendation - Obtain more complete and timely information about corporate financial operations.	NCUA states that since the GAO report, it has obtained substantially more detailed financial information on corporates on a monthly basis, and plans to reduce the time lag in reporting to 20 days by December 31, 1994.
7. Chapter 6, NCUA Recommendation - Establish a unit at NCUA headquarters with responsibility for corporate oversight, examination, and enforcement actions.	Completed. Corporate oversight was centralized in October 1992.
8. Chapter 6, NCUA Recommendation - Review the CAMEL Rating System for corporate credit unions to reduce the inconsistencies and focus more clearly on the component being rated.	NCUA states that it has quantified and provided clearer guidance to examiners regarding the capital and the earnings components in CAMEL ratings. NCUA states it is trying to find better ways to rate the corporates on the other components.

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