February 2009 Number 2

NCUA News National Credit Union Administration

NCUA stabilizes corporates

The NCUA Board, January 28, 2009, approved a series of actions designed to enhance and support a corporate credit union system facing unprecedented strains on liquidity and capital due to extraordinary market disruptions and the current economic climate. Corporate credit unions provide investment and liquidity services to consumer-owned natural person credit unions.

"The corporate credit union system is an integral part of the credit union industry, and for over three decades it has enabled credit unions to better provide services to almost 90 million consumers. I call upon the credit union industry to work with NCUA in this important cooperative effort," commented NCUA Chairman Michael Fryzel.

"Through these actions, natural person credit union members are provided important safeguards by drawing upon the significant aggregate levels of capital already within the credit union system."

NCUA is acting to add stability and strengthen corporate credit unions utilizing a three-pronged approach designed to: 1. maintain liquidity; 2. strengthen capital; and 3. restructure the corporate system. Using readily available resources to achieve these objectives, the NCUA Board approved the following:

- Guarantee uninsured shares at all corporate credit unions through February 2009, and establish a voluntary guarantee program for uninsured shares of all corporate credit union through December 31, 2010;
- Issue a $1 billion capital note to U.S. Central Corporate Federal Credit Union (U.S. Central);
- Issue an Advance Notice of Public Rulemaking (ANPR) on restructuring the corporate credit union system; and
- Declare a premium assessment to restore the National Credit Union Share Insurance Fund (NCUSIF) equity ratio to 1.30 percent, which will be collected in 2009.

The NCUSIF is issuing a temporary guarantee of member shares in corporate credit unions through February and will extend the guarantee on a voluntary basis to all corporate credit unions through December 31, 2010. (This guarantee is in addition to the temporary corporate credit union liquidity guarantee program announced October 16, 2008.)

Additionally, to immediately stabilize the corporate credit union system, the NCUSIF is issuing a capital note injecting $1 billion into U.S. Central, thereby providing reserves to offset anticipated realized losses on some of the mortgage- and asset-based securities held by U.S. Central.

Corporate credit unions are restricted to investing in highly rated securities, and their interest rate risk exposure is constrained by net economic value limits. Historically, these securities could be readily sold in the market or used for collateralized borrowing to obtain liquidity, and the value of securities experienced little or no loss. However, credit markets are disrupted world-wide, resulting in depressed pricing, inactive trading of debt securities, and a severe contraction of wholesale lending. Like financial institutions worldwide, corporate credit unions are not immune to the effects of these conditions. Corporate investment portfolios have diminished significantly as a basis for collateralizing borrowings, increasing liquidity pressures.

Beginning in 2007, NCUA implemented supervisory actions for affected corporate credit unions to restrict purchases of mortgage-related securities, restrict terms of investments to not exceed four months, establish commercial paper and medium-term note programs, and acquire third-party stress test modeling of their mortgage related securities.

Previous NCUA actions to address the situation include approving USC's conversion of membership capital to paid-in capital, implementing a temporary corporate credit union liquidity guarantee program on new unsecured debt

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January 30, 2009, Geneva, Switzerland— *NCUA Vice Chairman Rodney E. Hood honors United Nations Federal Credit Union (UNFCU) Business Development Officer Timothy Challen with the Vice Chairman's Distinguished Service Award presented at the UNFCU Representative Office in Geneva, Switzerland.*

HIGHLIGHTS

195 credit unions awarded grant funds

The Community Development Revolving Loan Fund (CDRLF), administered by NCUA's Office of Small Credit Union Initiatives (OSCUI), awarded 240 grants totaling $1.2 million to low-income designated credit unions in 2008. Grants were awarded from a $975,000 Congressional appropriation plus CDRLF loan and investment earnings.

OSCUI received 383 applications from credit unions requesting $2.2 million, more than twice the amount available from appropriations. Grants were awarded, in full or in part, to 195 individual credit unions.

Grant initiatives are designed to assist credit unions provide new and better services to their communities. 2008 initiatives included the following:

Building Internal Capacity/Building Technology provided funding for projects to improve the overall operation or financial condition of a credit union. Credit unions used the Building Capacity funds for projects such as contracting a grant writer; hiring a consultant to perform "due diligence" reviews; and implementing Check-21 services. Credit unions used the Building Technology funds to upgrade hardware and software; to purchase new printers, copiers, and phone systems; and to design websites.

Enhancing Member Services encouraged credit unions to undertake projects that provided new or better services to members and their communities. Credit unions used these grants to provide greater access to services through ATMs and debit and credit cards; implement share draft programs for members and new loan programs; and provide counseling for using credit, foreclosure prevention, and home buying.

Staff, Official, and Board Member Training provided opportunities for credit union representatives to attend seminars or take advantage of other training opportunities, such as contracting for on-site training, downloading e-Training courses; participating in webinars; and attending seminars and workshops sponsored by league and trade organizations.

Student Internships helped credit unions defray the cost of training college students and exposed students to the operation and management of credit unions. Student interns engaged in marketing; cross selling; serving as tellers; reconciling and accounting; and conducting preliminary review of member loan applications.

Volunteer Income Tax Assistance provided funds to credit unions wishing to help existing and potential members prepare their tax returns, especially members eligible for the Earned Income Tax Credit (EITC). Credit unions receiving grants from NCUA reported filing 16,000 tax returns; accepting $6.8 million in tax refund deposits; and returning $3.5 million in EITCs.

In addition, the **Urgent Needs** grant provided assistance to credit unions experiencing unplanned costs where, left unaddressed, the issue might disrupt services to members. Last year, credit unions used grant monies for computer hardware and software, frequently because vendors unexpectedly changed specifications. Credit unions also used Urgent Needs grants for black mold removal, repairing facilities, and installing security systems after robberies.

A list of grants provided to individual credit unions is available online at www.ncua.gov/ReportsandPlans/CDRLF/Statements.html.

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures most credit unions.

Michael E. Fryzel, *Chairman*
Rodney E. Hood, *Vice Chairman*
Christiane Gigi Hyland, *Board Member*

Information about NCUA and its services may be secured by contacting 703-518-6330.

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Guidance issued for remote deposits

The Federal Financial Institutions Examination Council (FFIEC) recently issued guidance for examiners, financial institutions, and technology service providers to identify risks, evaluate controls, and assess risk management practices related to remote deposit capture (RDC) systems.

RDC enables customers to make deposits from their homes or businesses instead of taking the deposits to their financial institutions. Digital information captured at the home or business is transmitted to a financial institution or its service provider for clearing and settlement. Financial institutions may also use RDC at branches and automated teller machines (ATMs) to accommodate deposit processing.

When properly managed, RDC can reduce processing costs, support new and existing financial institution products, and accelerate available customer funds. However, RDC also introduces new risks and increases existing risks in processing deposits originated by an institution's commercial or retail customers, or by customers of other financial institutions domestic and abroad.

The guidance, *Risk Management of Remote Deposit Capture*, addresses the essential elements of RDC risk management: identifying, assessing, and mitigating risk, as well as measuring and monitoring residual risk exposure. The guidance also discusses the responsibilities of senior managers in overseeing the

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Board actions January 22, 2009

Shared branching rule deleted from agenda

The NCUA Board removed from the agenda and did not consider the final rule on shared branching to accommodate the January 20 White House request that agencies defer from sending proposed and final rules to the Federal Register. The agency is attempting to clarify that as an independent agency the accommodation does not apply to NCUA.

Central Liquidity Facility loan documentation modified

The NCUA Board, by a 2 to 1 vote, delegated authority to the CLF president to sign an amendment to the Repayment, Security and Credit Reporting Agreement, currently in place between US Central FCU (USC) and the CLF, (Amendment) together with an Assignment Agreement (Assignment) between USC and CLF.

By modifying how outstanding CLF loans are booked by the corporates and USC, the change allows both USC and participating corporates to assign the loans, without recourse, to the CLF. The loans had been booked as assets by both USC and the corporate, with USC having a primary obligation to repay the advance to the CLF. Removing the loans from the books of USC and participating corporate, via the Assignment, will alleviate pressure on corporate balance sheets created by holding these assets.

The Amendment also has the effect of changing the way loans are administered in the future. USC will fulfill the role as master servicer and the relevant corporate will continue to service the loan. The loans will be booked exclusively as an asset of the CLF. In connection with this change, the corporate servicing the loan will agree in an ancillary agreement with USC (to which CLF is not a party) to subordinate any claims it may have to collateral also pledged to secure the CLF indebtedness.

The documents will be published in the Federal Register, and the change becomes effective January 30, 2009.

NCUSIF status report

Through December 31, 2008, National Credit Union Share Insurance Fund (NCUSIF) unaudited statements reflect gross income of $395.6 million, operating expense of $81.5 million, insurance loss expense of $290.4 million, and net income of $23.8 million.

Eighteen federally insured credit unions failed through December. Fifteen were involuntary liquidations and three were assisted mergers. The number of problem code 4 and 5 credit unions has risen from 211 at year-end 2007 to 271 at year-end 2008. These institutions represent 2.70 percent of total insured shares. Fifty-nine percent of problem code credit unions have less than $10 million in shares, while four of these credit unions hold over $1 billion in total shares.

The NCUSIF had $7.68 billion in equity at December 31, 2008. Insurance loss expense totaled $290.4 million through December and $284.6 million was charged to reserves during the year. The provision for CU losses (reserve) account totaled $278.3 million at December 31, 2008—$46.0 million for identified problem credit unions, and $232.3 million in unallocated reserves.

The NCUSIF equity ratio is 1.27 percent, based on December 31, 2008, estimated insured shares of $604.2 billion.

Given the situation in the financial markets, during December NCUA took the proactive, measured step of making a short-term advance to insure liquidity in the credit union system. This required the sale of securities, which generated $106.5 million in income. The advance is another in a series of contingency moves taken by NCUA as a proactive approach during these times of economic difficulty. The advance was repaid December 31 and reinvested consistent with NCUA's laddering investment policy.

Next month, the report on January financial statements will include income related to CU HARP and CU SIP programs.

Board votes are unanimous unless otherwise indicated

January 22, 2009, NCUA Board Room—NCUA staff presents an agenda item before the NCUA Board during the January meeting.

My Government Listens

Date: Wednesday, February 11, 2009
Who: Vice Chairman Rodney E. Hood
Event: Louisiana Credit Union League's Large Asset Roundtable
Location: Baton Rouge, LA
Contact: Sally Thompson at sridgely@ncua.gov

Date: Thursday, February 12, 2009
Who: Vice Chairman Rodney E. Hood
Event: Texas Credit Union League – CEO Roundtable
Location: Houston, TX
Contact: Sally Thompson at sridgely@ncua.gov

Date: February 18, 2009
Who: Board Member Gigi Hyland
Event: Iowa Credit Union League Annual Conference
Location: Des Moines, IA
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Wednesday, February 19, 2009
Who: Vice Chairman Rodney E. Hood
Event: Risk Mitigation Summit
Location: Atlanta, GA
Contact: Sally Thompson at sridgely@ncua.gov

Date: Tuesday, March 3, 2009
Who: Vice Chairman Rodney E. Hood
Event: North Carolina CUL Town Hall Forum
Location: Charlotte, NC
Contact: Sally Thompson at sridgely@ncua.gov

Date: Friday, March 6, 2009
Who: Vice Chairman Rodney E. Hood
Event: OSCUI Small CU Workshop
Location: Richmond, VA
Contact: Sally Thompson at sridgely@ncua.gov

Date: Monday, March 9, 2009
Who: Vice Chairman Rodney E. Hood
Event: NASCUS/NCUA State Regulators' Summit
Location: Chicago, IL
Contact: Sally Thompson at sridgely@ncua.gov

Date: March 10, 2009
Who: Board Member Gigi Hyland
Event: NASCUS/NCUA State Regulators' Summit
Location: Chicago, IL
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Monday, March 16, 2009
Who: Vice Chairman Rodney E. Hood
Event: CA/NV CUL's Annual Big Valley Conference
Location: Monterey, CA
Contact: Sally Thompson at sridgely@ncua.gov

Skiles honored with NCUA's gold medal

***January 28, 2009, NCUA Headquarters**—Board Member Gigi Hyland, former Executive Director Len Skiles and Chairman Michael Fryzel at the agency's farewell retirement party for Mr. Skiles.*

Former NCUA Executive Director J. Leonard Skiles was presented with the NCUA Distinguished Service Award gold medal at a retirement ceremony January 25, 2009, held to honor his 36 years of distinguished service at NCUA and a total 40 years of government service.

Skiles served three NCUA Chairman as executive director during his tenure and guided the agency through several significant organizational challenges including:

- Developing new chartering and field of membership policies and procedures following the AT&T lawsuit;
- Unionizing the agency workforce;
- Realigning the regional offices;
- Spearheading the Member Service Assessment Pilot and being an instrumental member of the Outreach Taskforce; and
- Reestablishing NCUA's delegated examination authority.

Guidance issued continued from page 2

development, implementation, and operation of RDC in their financial institutions. Interagency RDC examination procedures will be published in an updated FFIEC Retail Payment Systems booklet scheduled for release in early 2009.

The guidance, issued in *Letter to Credit Unions 09-CU-01*, is available online at http://www.ncua.gov/letters/letters.html.

NCUA HISTORY AND FUTURE

After 36 years, NCUA becomes independent

NCUA became an independent agency within the executive branch of the federal government in 1970, after operating 36 years as the Bureau of Federal Credit Unions, which was housed at various federal agencies over the years. An agency seal was created illustrating NCUA and the credit unions it serves.

January 20, 1971, President Richard Nixon signed Executive Order 11580, which established the seal for the National Credit Union Administration described as follows:

- A ROOF symbolic of the credit union concept of cooperative protection, shared by the common bond members of all federal credit unions since the chartering of the first one in 1934;
- A DOOR symbolic of both opportunity and of the protection given members' shares through a newly instituted program of insurance by an agency of the Federal government;
- ALL in white against a blue background of four sections symbolic of the major advantages of credit union membership: cultivation of thrift; encouragement to save regularly; granting of loans for provident purposes at a reasonable interest rate; and budget and consumer counseling circled by the title National Credit Union Administration.

While NCUA is seeking to revise the seal to ensure it easily identifies NCUA as a federal government agency, the protective roof and open door depicted on NCUA's current seal has served the agency well for nearly 40 years.

For the general public, NCUA's identifying trademark is the blue NCUA insurance sign. It began appearing in federally insured credit unions in 1970, with creation of the National Credit Union Share Insurance Fund, and remains the primary signal that credit union member accounts are federally insured and backed by the full faith and credit of the U.S. government.

Evolving outreach is vital

In the digital age, NCUA and credit unions strive to reach the American people through innovative methods of advertising and outreach including print advertising, audio, video and the Internet.

Several U.S. credit unions utilize the power of combining all communication mediums to reach consumers. The newest, most innovative methods involve interactive credit union websites featuring savings calculators, financial education portals, and even customer reviews of popular financial products. The latest trend in credit union outreach can be found on popular video sites such as YouTube, which has a vast collection of videos posted by credit unions. Some of the most popular include "Banks vs. Credit Unions" videos (based on the famous Mac vs. PC television commercials), and a mini-series entitled "The Difference Between Banks and Credit Unions," featuring two-dimensional paper animation. Credit unions create diverse advertising campaigns by combining print display ads with mailings, interactive websites, and virtual videos.

NCUA uses various means and focuses on outreach and education for credit unions and the public. The NCUA News newsletter contains valuable information on NCUA actions, Board news and policy updates. The newsletter is distributed in print or electronic format to all federally insured credit unions, state regulators, league and trade associations, and credit union media outlets.

The NCUA website, www.ncua.gov contains virtually all NCUA documents and information that is available to the public as well as valuable credit union information, plus interactive features such as the NCUA Share Insurance Estimator.

Last fall, in response to the Emergency Economic Stabilization Act, NCUA executed a nationwide media campaign about credit union share insurance increasing to $250,000. The campaign included posters for every federally insured credit union, print ads in 23 major newspapers, public service announcements, and radio ads placed in designated markets. In combination with a comprehensive online Share Insurance Toolkit, the campaign was designed to reassure consumers that their credit union accounts are safe, federally insured, and backed by the U.S. government.

NCUA looks forward to adapting innovative techniques over the next 75 years to reach the credit union community and help it thrive and grow.

Fryzel welcomes Geithner, requests TARP aid for CUs

NCUA Chairman Michael E. Fryzel, January 27, 2009, congratulated newly confirmed Treasury Secretary Timothy F. Geithner on his appointment and called on the Secretary to expand options for credit union participation in the Troubled Assets Relief Program (TARP).

"Knowing of your commitment, and that of President Obama, to reform the Troubled Assets Relief Program (TARP), I request that you take a fresh look at two issues of the greatest concern to me as the Federal regulator with responsibility for the safety and soundness of the credit union system," stated Chairman Fryzel.

He specifically identified past Treasury Department decisions to not institute the illiquid asset purchase feature of TARP, and the absence of guidelines for participation for cooperatives such as credit unions, as issues that should be reconsidered by Secretary Geithner.

"Although I can understand the initial actions that the Treasury Department has taken to help the large banks, insurance companies, and other major financial institutions that have faltered or failed, I am concerned about the second-place status into which credit unions and other smaller financial institutions have been placed," noted Chairman Fryzel.

Additionally, Fryzel addressed the need for the Treasury Department to allow the National Credit Union Share Insurance Fund to establish a guarantee for credit union deposits in non-interest bearing transaction accounts, parallel to authority granted to the FDIC. The Chairman also asked the Secretary to "bear in mind the key role played by credit unions and credit union members in our financial system as you reevaluate the Federal response to the ongoing economic crisis."

Link to Chairman Fryzel's letter to Secretary Geithner at http://www.ncua.gov/news/press_releases/2009/MA09-0127.htm.

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obligations, obtaining a temporary lifting of the appropriations cap on the Central Liquidity Facility (CLF), negotiating assistance from both the Federal Reserve and Treasury, and sending letters of support to the Federal Home Loan Banks. Using CLF lending authority in concert with the Treasury, NCUA also initiated the Credit Union System Investment Program (CU SIP) and Credit Union Homeowners Affordability Relief Program (CU HARP). These programs provide additional liquidity resources to CCUs, with the first offering funding nearly $5 billion in January 2009. The next offering is scheduling to fund in early February 2009.

Restructuring the corporate system

The NCUA Board also issued an ANPR, with a 60 day comment period, that includes the entire range of areas of potential reform and restructuring related to the Corporate Credit Union system. Simultaneously issuing the ANPR with the announcement of the guarantee program demonstrates NCUA's commitment to reform the system and achieve proper accountability.

All documents relating to the Board actions concerning NCUA's Corporate Stabilization Program are available online at http://www.ncua.gov.

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