

# The NCUA

# REPORT

NATIONAL CREDIT UNION ADMINISTRATION



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## NCUA FINALIZES VOLUNTARY PREPAYMENT OF STABILIZATION FUND ASSESSMENTS PLAN

Revised Plan Could Greatly Lower 2011 Assessments; Commitments Due July 29

Responding to requests and feedback from credit unions, the NCUA Board on June 29 unanimously adopted a plan to permit voluntary prepayments of \$500 million in Corporate Stabilization Fund assessments. The approved program has the potential to decrease the currently projected 2011 Stabilization Fund assessment by 6.4 basis points from 24.9 to 18.5 basis points of insured shares.

NCUA designed the voluntary prepayment of Stabilization Fund assessments program with the following principles in mind:

- Setting assessments in a counter-cyclical manner relative to credit union performance and providing resolution to the corporate crisis during this economic cycle;
- Maintaining a meaningful contingency in Treasury borrowing capacity; and
- Using credit union prepayments to meaningfully reduce near-term Stabilization Fund assessments.

At the May 19 open Board meeting, NCUA made available for public feedback a proposed program. NCUA received 184 comments. Overall, comments were positive, requested a dollar-for-dollar decrease in

assessments, and an increased aggregate minimum from the originally proposed \$300 million. Based on these public comments, the Board adopted this revised plan.

The key programmatic changes from the original proposal include:

- **Dedicated Use:** NCUA committed to using all received prepayments to decrease 2011 assessments dollar-for-dollar.
- **Program Size:** NCUA set the program's size at \$500 million.
- **Maximum Prepayment:** NCUA increased the maximum amount a credit union may voluntarily prepay to 48 basis points of March 31 insured shares; and
- **Minimum Contribution:** NCUA adopted a more inclusive minimum participation standard of \$1,000 or at least 5 basis points of March 31 insured shares—allowing 98 percent of credit unions to participate in the program.

Remaining from the original proposal, other elements of the approved program include:

- Participation will be purely voluntary and open to all federally insured credit unions able to meet the minimum participation amount;

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## Chairman's Corner

# MEMBER BUSINESS LENDING CAN DIVERSIFY CREDIT UNION PORTFOLIOS

When I testified before the Senate Banking Committee last month, senators asked why I, a financial regulator, support raising the statutory cap on credit union member business lending. My answer: As a safety and soundness regulator, I support greater diversity in credit union portfolios.

However, the current statutory cap on member business loans (12.25 percent of assets) artificially limits credit unions' ability to diversify their portfolios. Many credit union officials tell me that because of the cap, they will not make the investment in starting a member business loan program. The low cap, they fear, might prevent them from getting a favorable return on their investment.

Today, many credit unions are holding high concentrations of fixed-rate mortgages and long-term investments. As a result, these credit unions have tremendous exposure to interest rate risk.

By contrast, member business loans typically do not carry the same levels of interest rate risk.

So, although it may seem counter intuitive at first, allowing credit unions to make more member business loans would allow credit unions—and NCUA—to manage risks more prudently.



*A delegation representing the European Union visited NCUA headquarters to discuss how the agency developed NCUA Guaranteed Notes to resolve legacy assets of corporate credit unions. Pictured from left to right are Ms. Eva Maria Liebmann of Austria, Mr. Benjamin Nefussi of France, Ms. Gabriela Trieess of Germany, NCUA Board Chairman Debbie Matz, Ms. Montserrat Malmierca of Spain, and Mr. Antton Achiary of France.*

Of course, member business loans pose different risks. Our experience has shown that to succeed, credit unions making member business loans must carefully review cash flow, portfolio management, and liability issues, to name just a few.

**“Although it may seem counter intuitive at first, allowing credit unions to make more member business loans would allow credit unions—and NCUA—to manage risks more prudently.”**



**Debbie Matz**  
Chairman


Because of these unique risks, member business lending requires specialized rules and oversight. At NCUA, we take great care to ensure that our rules keep pace with market changes and that they emphasize sound underwriting, solid collateral, and experienced credit union business lenders.

With robust regulatory and credit union oversight, member business loans should not pose greater risks to credit unions than other products. In fact, despite the economic downturn, member business lending was the primary cause of only one credit union failure in 2009 and 2010.

Credit union member business loans serve an important segment of the marketplace. With the average member business loan only \$223,000, credit unions make loans that other lenders often turn away because they are too small. Credit unions offer opportunities to entrepreneurs and small business owners who want to start or expand a neighborhood business such as a day care center, boutique, or car repair shop. These loans are a win for the business owners, their communities and their credit unions.

Because credit unions play such a significant role in serving small business owners, Senator Mark Udall has proposed legislation to expand credit union service to the business community. S. 509 would increase the permissible level of member business lending from 12.25 percent of assets to 27.5 percent for credit unions meeting high standards. The bill's tiered approach would allow healthy, well-capitalized credit unions to increase business loans in small, manageable increments.

If Congress enacts these legislative changes, NCUA would revise our regulations to minimize the chance that there would be unintended safety and soundness issues. In addition, credit unions could expect continued vigilance from NCUA in carrying out our supervisory authorities with respect to such legislative changes.

Member business lending, if done properly, permits credit unions to meet an important member need while increasing their portfolios' diversity—thus reducing concentration risk and strengthening safety and soundness. 

Debbie Matz

## BOARD ACTIONS June 17, 2011

### NCUA EASES BURDEN FOR CREDIT UNIONS SEEKING LOW-INCOME DESIGNATION

Comments Sought on Hedging Interest Rate Risk;  
Golden Parachute Rule Refined

In June, the National Credit Union Administration (NCUA) Board convened its sixth regularly scheduled open meeting in 2011 at the agency's headquarters and unanimously approved three items:

- An amendment to NCUA's rules easing the burden on credit unions seeking a low-income designation that have lower-income members living in higher-income neighborhoods;
- An advance notice of proposed rulemaking to seek public comments about a potential rule that would permit consumer credit unions to engage in certain derivative activities that would hedge interest rate risk; and
- A technical change to NCUA's final rule imposing limits on golden parachute and indemnification payments to block unwarranted payouts to individuals whose actions undermine a credit union's finances.

The Board also received updates on the performance of the National Credit Union Share Insurance Fund (NCUSIF) and the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund). The NCUSIF remained steady at the end of May with a 1.29 percent equity ratio for the eighth straight month. The Stabilization Fund's net position increased \$7 million during May.

#### Alternative Sampling Ability Added to Low-Income Designation Rule

To ease the burden on credit unions that seek to prove their low-income designation, NCUA amended its final rule (Part 701) to allow the use of

income data drawn from surveys or statistically valid samples of member loan files.

This final rule permits federal credit unions to use statistically valid random samples of member income data, either garnered through surveys or loan data, to prove their low-income status.

This alternative approach helps credit unions that do not qualify as low-income according to NCUA's automated geocoding software, which uses member addresses and census data to evaluate qualification for low-income status.

Some credit unions have argued that they serve low-income members who generally live in higher-income neighborhoods and therefore the geocoding approach does not accurately capture their membership's income profile. These credit unions were previously burdened with an unduly difficult alternative to prove their low-income status.

Allowing federal credit unions to use statistically valid samples of member income data to qualify for low-income designation reduces a regulatory burden and responsibly responds to credit union concerns.

Federal credit unions will need to carry out sampling using consistent and careful methods, which the rule addresses.

The Board considered eight comments to the proposed rule that strongly supported its goal, and agreed with the basic structure and framework NCUA proposed.

The rule changes become effective 30 days following publication in the *Federal Register*.



#### Comments Sought on Using Derivatives to Manage Interest Rate Risk

Following up on previous indications that NCUA would consider allowing consumer credit unions to use financial derivatives to manage interest rate risk, the Board issued an advance notice of proposed rulemaking (Part 703) to seek comments on this concept.

NCUA generally prohibits credit unions from making derivatives transactions. Today, NCUA limits the number of credit unions engaging in such transactions to those approved to participate in a 12-year-old investment pilot program. Most credit unions are unfamiliar with the risks derivatives present, and demand for such instruments has been low.

However, given the Dodd-Frank Act's mandate related to clearing derivatives through clearinghouses, and after the experience of the pilot program, the Board agreed that it is timely to reconsider this regulatory arrangement.

The information request asks a series of questions for those who wish to comment. Among the considerations is whether to allow more credit unions to purchase derivatives under conditions that had been set forth in the pilot program. The advance notice of proposed rulemaking will also collect information about whether to allow derivative activities on a case-by-case basis, whether to allow federal credit unions to engage in derivative activities independently or through a third party, and what standards NCUA ought to set.

Comments must be received within 60 days of publication in the *Federal Register*.

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## The TDR Tango — Take II

FROM GIGI HYLAND, NCUA BOARD MEMBER

In February, I wrote about the “TDR Tango” and a webcast that NCUA hosted in early January entitled *Troubled Debt Restructurings (TDRs): What Are They and How Does the Accounting*

*Work?* Just like the tension maintained between two dancers performing a tango, credit unions must balance a number of competing interests when undertaking TDRs. Today’s economic realities have forced more credit unions to better understand these tensions.

In response to questions raised during that presentation and ongoing conversations with credit unions about TDRs, NCUA staff is considering a proposed Interpretive Ruling and Policy Statement (IRPS). In concept, the proposal would recommend adopting the charge-off, loan grading and limitations on frequency of modifications included in the banking agencies’ policies. This proposed IRPS would also

suggest that credit union nonaccrual policies conform to the banking regulators’ Call Report instructions. More information about the guidance previously adopted by banking agencies is available at <http://www.ffiec.gov/press/pr061200.htm> and <http://www.gpo.gov/fdsys/pkg/FR-2000-06-12/html/00-14704.htm>.

With respect to re-aging, extensions, deferrals, renewals, and rewrites of consumer loans, the proposed IRPS would separate the treatment for open-end and closed-end credits by providing standards for re-aging open-end credits (primarily credit card loans) and implementing extensions, deferrals, renewals and rewrites of closed-end loans. The proposal would mandate a once-in-12-months/twice-in-five-years limitation on re-aging open-end loans. For closed-end loans, the proposed IRPS would require credit unions to implement their own explicit standards that limit the number and frequency of extensions, deferrals, renewals and rewrites.

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The NCUA Report is published by the National Credit Union Administration, the federal agency that supervises and insures most credit unions.

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# Office of Consumer Protection Report

## CREDIT UNIONS AND THE SERVICEMEMBERS CIVIL RELIEF ACT

The number of military members called to deploy since Sept. 11, 2001, including the nearly 900,000 reservists and guardsmen, is exponential. Many of these volunteer soldiers, sailors, airmen and Marines are also members of credit unions with credit cards, mortgages, vehicle loans and other obligations.

Credit unions should be aware of the Servicemembers Civil Relief Act (SCRA), a federal statute enacted in 2003 (50 USC App. 501-597b). SCRA replaced the Soldiers' and Sailors' Civil Relief Act, which dates back to 1917.

Among other resources, NCUA's Office of Consumer Protection is developing a web page dedicated to SCRA compliance on [www.MyCreditUnion.gov](http://www.MyCreditUnion.gov), expected to launch later this summer. The page will include information for individual members of credit unions across the nation, and will be helpful to credit unions navigating this law as well.

Two hypothetical situations illustrate how this law protects military consumers.

### Joe Smith and His Credit Card

Staff Sgt. Joe Smith has a credit card issued by a credit union. Joe has fallen seriously behind on his payments, and the interest rate on the card's outstanding balance has risen to 18 percent.

The Army National Guard has just called Joe to active duty. The call-up has caused Joe's financial situation to go from bad to worse, as his military pay on active duty comes to only two-thirds of his civilian salary.

The SCRA entitles Joe to have the interest rate on this credit card—and all obligations that Joe incurred before his call to active duty—reduced to 6 percent. A court may grant the creditor relief from this limitation if the court finds that Joe's entry into military service has not materially affected his

ability to pay interest in excess of 6 percent. In this scenario, where the debtor's income has been reduced by a third due to his entry on active duty, no such finding is possible.

The credit union shall apply all payments that Joe makes while on active duty to principal and interest at the 6 percent rate, rather than the contractual 18 percent rate. The interest in excess of 6 percent is forgiven, not just deferred. When Joe leaves active duty, the interest rate will revert to the contract rate, but only as to the unpaid balance. For mortgages, the interest rate must remain at no more than 6 percent for the period of military service and one year thereafter.

### Mary Jones and Her Home

Mary Jones has a mortgage with her credit union. She has fallen seriously behind in her payments, and the credit union has initiated a foreclosure action in state court. The process server properly served Mary but did not actually see her. It is unlikely, but not impossible, that Mary is a member of the armed forces on active duty. The time for Mary to file an answer to the credit union's complaint has passed, and Mary has not responded.

Before getting a default judgment against Mary, the credit union needs to file an affidavit to the effect that Mary is, or is not, on active duty. Filing a false affidavit is a federal crime, punishable by up to one year of imprisonment and a substantial fine.

If it is established that Mary is on active duty, several procedural steps must be taken to ensure that her service to our country does not prejudice her rights in this pending civil lawsuit. First, the court must appoint an attorney to represent Mary's interests and to try to contact her. If Mary cannot be contacted, the court shall grant a stay of at least 90 days. If Mary is aware of the lawsuit and communicates to the court her inability to appear for the case because of her military duties, and if her commanding officer also communicates that her military duties preclude her appearance and that leave is not available to her, the court shall grant a stay of at least 90 days. A longer stay can be granted if the court determines that Mary's military duties preclude her appearance.

### Free Resources on the SCRA

The Defense Department operates a free service to assist attorneys, creditors, and others in determining whether a specific person is or is not currently on active duty. Go to <https://www.dmdc.osd.mil/appj/scra/scraHome.do> and input the individual's name, Social Security number, and date of




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birth. It is essential lenders use this free service and not automatically file an affidavit to the effect that a person is not on active duty in the armed forces. While the service does not offer safe harbor from law suits, it ensures lenders a level of due diligence.

The SCRA is an area of expertise of the Reserve Officers Association's Service Members Law Center, another free resource for credit unions. In its law review library at [www.roa.org/law\\_review](http://www.roa.org/law_review), credit unions can research more than 700 articles about the SCRA, the Uniformed Services Employment and Reemployment Rights Act, and other laws that are particularly pertinent to those who serve our nation in uniform.

### No More Military Predatory Lending

NCUA continues its work to protect consumers, especially those in the military often subject to predatory lending. To combat these irresponsible and deceptive payday lending products, NCUA released a rule (in Part 701) authorizing credit unions to develop sound alternative products for consumers in need of short-term, smaller-dollar loans. Not including a small application fee to cover costs, these new loans are limited to a maximum interest rate of 28 percent, which, while higher than the conventional loan cap of 18 percent, is a very attractive alternative to the triple-digit cost of payday loans, and is consistent with the spirit of the military cap of 36 percent, reinforcing the affordable pricing of loan products. Finally, this alternative, short-term loan product prohibits rollovers, helping end the spiral of debt payday loans often cause. NCUA remains oriented to improving SCRA compliance for all credit unions. 



*Capt. Samuel Wright, Director of the Service Members Law Center of the Reserve Officers Association and an expert on SCRA, contributed information for this article. He can be reached at (800) 809-9448, extension 730 or [SWright@roa.org](mailto:SWright@roa.org).*

### Technical Change to Golden Parachute Rule Better Represents Board's Intent

To clarify its implementation, the Board made technical modifications to its recent rule (Part 750) covering golden parachutes and indemnification payments to institution-affiliated parties.

After publication in the *Federal Register*, NCUA staff discovered the Board's intent regarding certain deferred compensation plans was not accurately reflected in the text of the rule. The technical change clarifies the Board's intent that plans permissible under §457(b) of the tax code be excluded outright from the definition of golden parachute payment in the same way the rule treats §401(k) plans. To conform the rule text to the intent of the Board, the reference in the rule to §457 was corrected to read §457(b).

The rule prevents federally insured credit unions from providing lucrative rewards to departing executives in certain troubled situations. The "golden parachute" provisions apply to troubled credit unions affected by insolvency, a conservatorship, or rated CAMEL 4 or 5.

The interim final rule was made effective the same date of the original rule to avoid confusion.


### NCUSIF Equity Ratio Remains Steady

For the eighth straight month, the NCUSIF equity ratio held stable at 1.29 percent as of May 31. The NCUSIF ending reserve balance stood at \$1.2 billion, which included an increase of \$4.3 million in reserves for May.

Gross income for May was \$19.4 million with expenses of \$16.2 million, resulting in net income of \$3.2 million. Cumulative net income for the year is \$39.5 million. Ten credit unions had failed at the time of the briefing at a cost to the NCUSIF of \$39.0 million.

As of May, 377 federally insured credit unions with assets of \$40.5 billion and shares of \$36.0 billion had CAMEL 4 or 5 designations. Additionally, 1,791 CAMEL 3 credit unions had assets of \$146.5 billion and shares of \$129.8 billion. Overall, approximately 20 percent of all credit union assets were in CAMEL 3, 4 or 5 institutions. The percentage of assets in CAMEL 1 and 2 credit unions has increased slightly in each of the past five months.

The Stabilization Fund total liabilities and net position stood at \$401 million at the end of May, about \$7 million higher than the end of April.

Financial data reported in 2011 for both the NCUSIF and the Stabilization Fund are preliminary and unaudited. 

All open NCUA Board meetings are tweeted live. Follow @TheNCUA on Twitter. Board Action Memorandums are available online at [www.ncua.gov](http://www.ncua.gov) under *Agency Leadership/NCUA Board and Actions/Draft Board Actions*. NCUA posts rule changes online at [www.ncua.gov](http://www.ncua.gov) under *Resources/Legal/Regulations, Legal Opinions and Laws*.

# Office of General Counsel Report

## SAFE ACT UPDATE: July 29 Registration Deadline Approaches

Time is quickly running out to register employees who are mortgage loan originators (MLO) in the Nationwide Mortgage Licensing System (NMLS). The NMLS is the legal system of record for federal registration, as well as for state licensing, of MLOs.

The NCUA has authority to take enforcement actions against federally insured credit unions and their employees who do not comply. Privately insured credit unions in those states signing a special agreement with NCUA must also comply.

Enacted as part of the Housing and Economic Recovery Act of 2008, the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) mandated a nationwide licensing for MLOs. Generally, the SAFE Act:

- Provides more effective regulatory oversight over the mortgage loan industry;
- Enhances consumer protection and access to information;
- Aims to reduce mortgage loan fraud; and
- Provides uniform license application and reporting requirements.

The SAFE Act specifically prohibits an individual who is employed by a depository institution from engaging in residential mortgage loan origination without first registering as an MLO and obtaining a unique identifier. The initial period for federal registration of residential mortgage loan originators runs through July 29.

### Credit Union Access to the NMLS

As of June 17, 3,191 federally insured credit unions and 127 non-federally insured credit unions have been granted access to the NMLS Federal Registry.

NMLS continues to receive many new Company Account Requests each week. On

average, 35 percent of these requests get rejected due to discrepancies between information provided by the institution and information contained in the Federal Reserve's National Information Center database.

Common reasons for rejection include incorrect legal name, incorrect numbers, and the existence of a company account on the state side of the NMLS. These requests, however, are generally approved in subsequent attempts. An analysis shows that 95 percent of these entities are ultimately granted access to the NMLS Federal Registry.

### Credit Union and MLO Filings

After gaining access to the Federal Registry, credit unions must file Form MU1R. Of the 3,191 federally insured credit unions with access to the NMLS Federal Registry, 2,537 of them have submitted Form MU1R by June 17, leaving 654 federally insured credit unions that have access but as yet have not filed the form. A credit union must file its Form MU1R before taking the other steps needed to register its MLOs.

Individual MLOs must complete, attest to and submit Form MU4R. Through June 17, thousands of Form MU4Rs had been attested to by credit union MLOs and formally submitted to the Federal Registry. The criminal background check (CBC) can only be performed after submission of Form MU4R. NMLS has processed thousands of CBCs for credit union employee MLO registrants.

Once a credit union completes these steps, the MLO is eligible for active registration, pending the employing credit union's confirmation. Through June 17, 20,487 federally insured credit union MLOs and 314 non-federally insured credit union MLOs are actively registered. As expected, the number of MLOs per credit union varies widely.

Some credit unions have also made use of the Federal Registry's batch upload functionality. These files have contained an average of 20 MLO records (both accepted and rejected).

### NMLS Call Center

In recent weeks, the NMLS Call Center has taken 18,000 calls from both financial institutions and individual MLOs regarding the federal registration process. The facility recently added 13 representatives in order to address the expected surge in call volume as the July 29 deadline approaches. The operators of the NMLS are currently assessing the need for extended Call Center hours during the initial transition period's last few weeks. Credit unions and MLOs can contact the NMLS Call Center at (240) 386-4444.

### NMLS Training

To encourage compliance with the SAFE Act, NMLS has offered a series of live webinars. Recordings of both the "Introduction to the NMLS Federal Registry" webinar and the four-part webinar series about NMLS registration are available at <http://mortgage.nationwidelicencingsystem.org/news/events/Pages/default.aspx>.

### NCUA Assistance

To determine if a credit union and any employees (such as residential mortgage loan officers and credit committee members) need to register as MLOs, and to obtain more information about the registration process, visit NCUA's website at <http://www.ncua.gov/Resources/SAFEAct.aspx>.



# Office of Examination & Insurance Report

## JULY 27 DEADLINE APPROACHES FOR CREDIT UNION DIRECTOR FINANCIAL LITERACY RULE COMPLIANCE

How do you measure your credit union's performance?

There are many answers to this question. People often cite the competitiveness of the credit union's share and loan rates, its attention to service through branch locations, friendly staff and online tools. Some may also seek to quantify member satisfaction through a formal survey. The truth is all these answers provide meaningful input into the value a credit union delivers to its membership.

While no single document can completely articulate the full measure of a credit union's performance, the financial statements of a credit union provide meaningful information in a concise and consistent format. For that reason, each month credit unions must post their financial statements in a conspicuous location for their member owners. It is also for that reason, in part, that NCUA recently adopted a new rule (Section 701.4) concerning the general authorities and duties of federal credit union (FCU) directors. The new rule takes effect on July 27.

Among other things, the new rule requires FCU board members to have a working familiarity with basic finance and accounting practices that is consistent with the size and complexity of their credit union. This requirement seeks to establish a baseline of financial statement understanding among FCU board members. More details regarding the financial literacy requirements of the rule can be found in NCUA Letter to Federal Credit Unions (11-FCU-02) issued in February 2011 and available at <http://go.usa.gov/WH9>.

### BOARD PERSPECTIVES (FROM PAGE 4)

In addition, the proposed IRPS would emphasize the need for comprehensive and effective risk management, reporting and internal controls related to these practices. The IRPS would also state that credit unions should adopt standards prohibiting additional advances that finance the unpaid interest and fees on these loans. The proposal would provide similar treatment for both closed-end and open-end loans secured by one- to four-family residential real estate.

Given the importance of these issues, particularly in today's economy, I urge credit unions to consider how to balance the issues concerning TDRs and the proposed IRPS. In this balancing act, it will take more than two to tango. 🔄



To help board members meet financial literacy requirements, NCUA offers a training module at <http://ncua.learn.com/directortraining>. The Office of Small Credit Union Initiatives has other opportunities too.

Designed to introduce financial statement concepts to FCU board members with non-financial backgrounds, the interactive training module takes approximately one hour to complete. The training covers income statements, statements of cash flow and balance sheets. The training costs \$15 per director.

Directors who already have the required financial skills do not have to receive additional financial training, and those individuals who need financial training are not required to receive it through NCUA. This training module is simply another opportunity available for credit unions seeking to improve financial literacy among their board members.

This training is intended to assist FCU board members in achieving regulatory financial literacy requirements. Completing this training alone, however, may not be sufficient for directors at larger or more complex FCUs. NCUA continues to encourage FCUs to develop policies to educate board members in a manner that is appropriate for the size and complexity of their institutions. 🔄



## Region II Report

# GUIDANCE ON FRAUDULENT ELECTRONIC FUNDS TRANSFERS

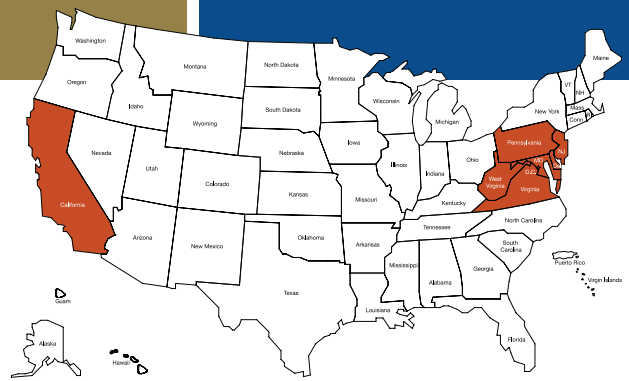
Six years ago, NCUA and the Federal Financial Institutions Examination Council (FFIEC) issued guidance on “Authentication in an Internet Banking Environment.” This guidance, was just supplemented.

Originally, the guidance came as a result of increases in the number and dollar amount of fraudulent Electronic Funds Transfer transactions. These increases include fraudulent wire and Automated Clearing House transactions originating from Internet banking websites via compromised login credentials. These compromises include: malware attacks, failure to properly patch data processing systems, and changes in the software used by data processing vendors.

Risk management starts with a sound contractual process. Contracts should require the maintenance of proper security controls including malware protection, an adequate firewall, and web filtering to prevent users from accessing malicious sites. Credit unions should also set limits per transaction, per day or per week.

Even if a credit union outsources its Internet banking website, it still retains overall responsibility for system security and software applications. Credit unions therefore ought to complete detailed assessments of all security controls both initially and on an ongoing basis.

A good fraud detection system starts with basic monitoring of a member’s activities. If actual activity on an account is over a dollar threshold limit and/or does not meet the normal



REGION II

pattern of the member, a credit union should have procedures in place to validate whether the transactions are legitimate.

A substantial amount of fraud involves small financial institutions and businesses. Fraudsters often succeed because they are able to steal the victim’s online credentials and initiate a series of bogus payroll payments directly to outside accomplices who are then instructed to withdraw the money and wire it overseas. A credit union’s authentication procedures should therefore address this potential problem.

Another common fraud technique involves a company’s financial institution allegedly sending a communication to an individual advising them of a new security program. Once the company’s employee opens the e-mail, it permits a Trojan horse computer virus to get into the system and read key strokes from the company’s computer. Perpetrators are then able to obtain banking and password information, and initiate fraudulent electronic wire transfers from the insured’s account.

System security and fraud prevention continue to be areas where credit unions and examiners must remain diligent. The new FFIEC guidance on “Authentication in an Internet Banking Environment” can be found online at <http://go.usa.gov/ZWu>. The original guidance is an attachment to LCU 05-CU-18.

### VOLUNTARY PREPAYMENT OF STABILIZATION FUND ASSESSMENTS PLAN (FROM PAGE 1)

- If credit unions commit to raising an aggregate amount (\$500 million), NCUA will implement the voluntary prepaid assessment program.
- Liquidity will be provided to the Stabilization Fund through an advance of assessments from participating credit unions.
- Participating credit unions will not accrue interest on prepaid assessments. NCUA has no independent authority to issue interest-bearing debt.
- NCUA will apply the program amounts as offsets against Stabilization Fund assessments for the years 2013 and thereafter, subject to any remaining balance.

**Voluntarily prepaying future assessments will not change the ultimate cost of the Corporate System Resolution.**

Credit unions wishing to participate should visit <http://go.usa.gov/ZgG>, download the participation form, and return it to NCUA no later than July 29.

On Aug. 9, NCUA will tally the responses to determine if credit unions commit to \$500 million and announce the results. If commitments total less than \$500 million, the program will not be executed and the regular scheduled assessment will be billed. If credit union commitments exceed the program amount, all credit unions participating would be debited a prorated amount of their commitment on Aug. 18—and a reduced assessment will follow.

Credit unions with further questions about the Voluntary Prepayment of Corporate Stabilization Fund Assessments program may call (703) 518-6337 or send an e-mail to [assessments@ncua.gov](mailto:assessments@ncua.gov) for more information.

## NEW ELECTRONIC NOTIFICATION SYSTEMS IMPROVE COMMUNICATION CHANNELS

As Access Expands to NCUA Express and  
NCUA Dispatch Gets Launched,  
Agency Turns Greener



NCUA Express is a voluntary electronic notification system that allows anyone to subscribe to receive e-mail or RSS feed announcements anytime something gets posted to the NCUA website. Sign up for electronic updates via NCUA Express at [www.ncua.gov/Pages/Express.aspx](http://www.ncua.gov/Pages/Express.aspx).

### Categories of mailings:

- News & Events
- Board Member News
- Accounting Bulletins
- Corporate Credit Union Guidance Letters
- Federal Credit Union Act Updates
- Federal Credit Union Bylaws Updates
- Interpretive Rulings & Policy Statements
- Legal Opinions
- Letters to Credit Unions
- Reports & Publications

Individuals with technical questions regarding either NCUA Express or NCUA Dispatch may contact:

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# The NCUA REPORT

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