NCUA News National Credit Union Administration
March 2009 Number 3

Net income declined in 2008 as loan loss reserves increased

According to call reports submitted by the nation's 7,806 federally insured credit unions, all savings categories and the majority of loan categories showed positive growth in 2008, while the return on average assets declined as loan loss reserves were increased. Net income decreased 47.5 percent, based primarily on a 112.3 percent increase in the provision for loan & lease losses as credit unions prepare for possible losses. Significant increases in delinquencies and charge-offs indicate ongoing stress in the financial sector.

"Membership grew and lending expanded as credit unions readily fulfilled their mission of serving members in these difficult financial times," said NCUA Chairman Michael E. Fryzel. "Adverse economic conditions and distress in the financial sector places credit unions at greater risk; however, net worth remains high helping stabilize the industry. With safety and soundness the priority, NCUA has proactively adopted a more frequent examination contact schedule and activated a national examination team with the knowledge, skill and experience to effectively deal with current issues."

Details of major balance sheet categories and membership growth in federally insured credit unions from December 31, 2007, to December 31, 2008, follows:

- Assets increased 7.7 percent to $813.4 billion from $755.0 billion;
- Loans increased 7.08 percent to $566.0 billion from $528.6 billion;
- Investments increased 16.7 percent to $166.3 billion from $142.5 billion;
- Shares increased 7.71 percent to $681.1 billion from $632.4 billion;
- Net worth increased 3.26 percent to $88.9 billion from $86.1 billion; and
- Membership increased 2.0 percent to 88.6 million members.

Reviewing 2008 asset figures, loan and investment activity fluctuated by category. Lending expanded in most categories, with the largest a 14.5 percent increase recorded in 1st mortgage real estate loans and lines of credit. Used vehicle loans increased 5.8 percent while new vehicle loans declined 6.2 percent.

Reflecting stress in the economic sector, foreclosed real estate grew 112.4 percent and repossessed automobiles increased 27.8 percent during 2008. While both indices saw significant gains, they continue to represent a relatively low percentage of the total credit union loan portfolio. Delinquent loans as a percentage of total loans increased from 0.93 percent at year-end 2007 to 1.37 percent at year-end 2008, while net charge-offs to average loans grew from 0.51 percent to 0.84 percent during the year.

The loan-to-share ratio remains a strong 83.1 percent, as total loans and total shares expanded at a similar pace. Regular shares increased 5.7 percent while money market shares increased 15.6 percent, share certificates increased 4.7 percent and IRA/KEOGH accounts increased 13.7 percent during 2008.

The return on average assets ratio declined from 0.63 percent to 0.31 percent primarily due to increased funds set aside for loan and lease losses and other non-operating expenses.

Details of 2008 year-end data are available in a Consolidated Balance Sheet and a December 2008 Facts Summary posted online at http://www.ncua.gov/data/FOIA/foia.html.

Fryzel calls credit unions a solution during troubled times

Chairman Michael E. Fryzel emphasized credit union's relatively strong position, noting that credit unions are the best capitalized segment of the nation's financial services industry before an audience of over 3,500 credit union leaders at the Credit Union National Association's (CUNA) Governmental Affairs Conference in Washington, D.C., February 24, 2009.

"In these troubled times, you are not the problem, you are the solution.

continued on page 4

HIGHLIGHTS

Regulatory agencies support mortgage modification

The federal credit union, bank, and thrift regulatory agencies encourage all federally regulated financial institutions that service or hold residential mortgage loans to participate in the U.S. Treasury "Making Home Affordable" loan modification program.

The Treasury previously indicated that institutions receiving financial assistance in the future under the Financial Stability Plan, established under the Troubled Assets Relief Program, will be required to implement loan modification programs in accordance with Treasury Department guidelines.

The regulatory agencies support the program's goal of promoting sustainable loan modifications for at-risk homeowners that appropriately balance the interest of homeowners, servicers, and investors. The federal bank, thrift, and credit union regulatory agencies worked closely with the Treasury Department in developing the guidelines.

By providing servicers and holders of eligible residential mortgages with incentives to modify loans at risk of foreclosure, the program will promote sustainable alternatives to foreclosures on owner-occupied residential properties. These incentives should help make affordable loan modifications more attractive than foreclosure. The program also provides incentives for homeowners whose mortgages are modified to remain current on their mortgage after modification. Taken together, these incentives should help responsible homeowners remain in their homes and avoid foreclosure, thereby easing downward pressures on home prices in many parts of the country and averting the cost to families, communities, and the economy from avoidable foreclosures.

Link to the U.S. Treasury release, with additional links to materials about the loan modification program, at http://www.ustreas.gov/press/releases/tg48.htm.

NCUA provides examiner guidance recognizing corporate impact, CU SIP

The National Credit Union Administration issued *Letter to Federal Credit Unions No: 09-FCU-09* providing NCUA's supervisory guidance to examination staff concerning what impact the Corporate Stabilization Program may have on credit union balance sheets.

Supervisory Letter 09-01 instructs examination staff to differentiate between the impact of recent NCUA Board actions and operational activities by credit union management when evaluating credit union performance and risk profile. The letter also provides guidance on allowing examiner recognition of possible temporary reductions in return on assets (ROA) resulting from credit union participation in the Credit Union System Investment Program (CU SIP).

"This supervisory letter is part of overall NCUA efforts to recognize and mitigate the impact of the Corporate Stabilization Program on credit union earnings and net worth," commented NCUA Chairman Michael E. Fryzel. "The letter makes clear and appropriate distinctions between NCUA Board actions related to the corporates and decisions made by an individual credit union. Members deserve to know the bigger picture factors that are having an effect on their credit union's bottom line, and they also need to know that the regulator is working with the industry to maintain a strong and vibrant credit union system despite the adverse environment."

The guidance identifies several areas of examiner responsibility that will be adjusted in response to the impact of recent NCUA Board actions to stabilize corporate credit unions: Assessment of Earnings, Assessment of Net Worth, Prompt Corrective Action/Net Worth Restoration Plans, Due Diligence and CAMEL rating.

Examiners are being directed to take into account both subjective and objective variables related to the factors that affect a credit union's financial condition when making determinations.

The letter to credit unions is posted here: http://www.ncua.gov/letters/letters.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*

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Evolution of NCUSIF continued from page 5

that "Capitalization of the Fund by credit unions would not be a 'reward' but a reaffirmation of those credit union ideals and goals of 'self help' first codified in the 1934 Federal Credit Union Act." In 2009, credit unions are being called upon to revise that role, replenish their Fund and continue their unique tradition of providing a financial safe haven for America's consumers.

Board actions February 26, 2009

Shared branch sign modification finalized

The NCUA Board approved a final rule change to §740.4 revising signage requirements for federally insured credit unions participating in shared branching networks.

Federally insured credit unions participating in shared branching networks that also serve non-federally insured credit unions must post a second sign, adjacent to the official NCUA insurance sign, noting that not all credit unions served by the teller are federally insured, and members should contact their credit union for more information.

The final rule replaces the former requirement that the second sign list each federally insured credit union served by the shared branching network. The new rule becomes effective 30 days after publication in the Federal Register.

Operating fee amendment proposal issued

The NCUA Board issued a proposal to amend Section 701.6, the rule on federal credit union operating fee assessments, to exclude from total assets those investments made under the Credit Union System Investment Program (CU SIP) and the Credit Union Homeowners Affordability Relief Program (CU HARP).

The operating fee is currently calculated based on total federal credit union assets. The Board believes this amendment, which affects the 2010 operating fee, would remove any disincentive from participating in CU SIP or CU HARP.

The outstanding loan balance under CU SIP is approximately $7.7 billion, and the outstanding loan balance under CU HARP is approximately $164 million.

Comments are due within 60 days of publication in the Federal Register.

NCUSIF status report

January 2009 National Credit Union Share Insurance Fund (NCUSIF) preliminary financial statements reflect actions taken by the NCUA Board to stabilize the corporate credit union system. The financial statements include the loss of $1 billion associated with a capital note made to US Central Corporate Credit Union and a $3.7 billion reserve associated with the guarantee of all shares in corporate credit unions.

At January 31, 2009, NCUSIF year-to-date revenue and expense included investment income of $16.4 million, accrued recapitalization and premium income of $4.8 billion, operating expense of $5.8 million, loss on investment—corporate—of $1 billion and insurance loss expense of $3.7 billion. January net income was $150.7 million.

NCUSIF reserves were $278.3 million January 1, 2009. With insurance loss expense of $3.7 billion, recoveries of $800,000, and charges of $3 million during the month, the NCUSIF reserve balance was $3.976 billion January 31, 2009.

Based on year-end 2008 insured shares of $611 billion, the NCUSIF equity ratio was 1.28 percent January 31, 2009.

Board votes are unanimous unless indicated

Board Member Hyland's statement on corporate stabilization *Alexandria, Va., February 4, 2009*

"Last Wednesday, NCUA took necessary, but unprecedented steps to stabilize the corporate credit union system. The actions were taken to preserve confidence in the corporate system and allow NCUA, natural person credit unions, and corporate credit unions to effectively manage this situation.

I understand that the actions come with considerable costs to natural person credit unions. While I believe the steps taken currently represent the least-cost alternative to the credit union system, all other reasonable alternatives to fund the corporate stabilization program and potentially reduce the premium assessment on natural person credit unions must be considered and actively pursued. The timing of the premium assessment for later this year affords NCUA and the credit union system an opportunity to explore and pursue such alternatives."

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

Date: Friday, March 20, 2009
Who: Vice Chairman Rodney E. Hood
Event: Members Health 1st Annual Credit Union HAS Roundtable
Location: Winston-Salem, NC
Contact: Sally Thompson at sridgely@ncua.gov

Date: March 30, 2009
Who: Board Member Gigi Hyland
Event: National Credit Union Roundtable for Board Leadership
Location: Henderson, NV
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Wednesday, April 1, 2009
Who: Vice Chairman Rodney E. Hood
Event: ACUMA Spring Meeting
Location: San Francisco, CA
Contact: Sally Thompson at sridgely@ncua.gov

Date: Saturday, April 18, 2009
Who: Vice Chairman Rodney E. Hood
Event: South Carolina Credit Union League Annual Meeting
Location: Myrtle Beach, SC
Contact: Sally Thompson at sridgely@ncua.gov

Date: April 24, 2009
Who: Board Member Gigi Hyland
Event: NAFCU Chief Executive Officer Conference
Location: Monterey, CA
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: April 28, 2009
Who: Board Member Gigi Hyland
Event: ACCU Annual Meeting
Location: LaJolla, CA
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

NCUA management changes

Love named E&I director, NET formed and temporary appointments announced

The NCUA Board named Region V Director Melinda Love the new Office of Examination and Insurance (E&I) director at NCUA headquarters in Alexandria effective March 16, 2009. As E&I director, Love will be responsible for overseeing the NCUA supervision and examination program, risk management and data collection programs.

NET activated

In other actions, the NCUA Board activated the Office of the National Examination Team (NET) within NCUA's Central office effective March 1, 2009. NET will be comprised of two full-time employees, a director and one loss risk analysis officer. Problem case officers as well as specialized and regular examiners will be assigned as necessary as cases are referred to NET. Kent Buckham is director of the NET office.

Temporary appointments

Effective March 1, 2009, Region I Director Mark Treichel became acting director of the Office of Corporate Credit Unions (OCCU), Anthony LaCreta is acting director of Region I, and and Region II Associate Director Scott Hunt is serving in OCCU as well.

Beginning March 16, Region II Director Jane Walters will be detailed to serve as acting Region V director and Larry Blankenberger will be detailed to Region II as the acting regional director.

Fryzel continued from page 1

Credit unions have never cost taxpayers a penny and Capitol Hill will be pleased to welcome you," Chairman Fryzel said. "However, there is much work to be done because our cooperative system has experienced a shock that has damaged the nation's entire financial network. Fortunately, our hands are not tied. We have strong capital position and the trust of the marketplace on which to build."

Fryzel, making his first appearance as NCUA Chairman before the CUNA Conference, stressed the credit union legacy of common purpose and cooperation, calling them "not just ideals, but useful tools to work through today's downturn." He noted the credit union level of loan growth exceeded $37.4 billion in a difficult economy and announced that total credit union loans reached a record $566 million in 2008.

Addressing the current difficulty in the corporate credit union segment, Chairman Fryzel encouraged credit unions to work with NCUA to reach a "systemic solution. With credit union input, we can create a collaborative regulatory framework that will lead to a stronger system."

"Credit unions have always been good at accepting and driving change," added Fryzel, and the credit union system and NCUA "should not lose this opportunity to set a course for credit unions in the 21st century. In the words of Lincoln, 'The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise to the occasion. As our case is new, so we must think anew and act anew.'"

Chairman Fryzel's speech is available online at http://www.ncua.gov/news/speeches/speeches_fryzel.html.

Evolution of the NCUSIF

The National Credit Union Share Insurance Fund (NCUSIF) was created by Congress in 1970 to insure member funds in federally insured credit unions. The NCUSIF is the only federal financial institution fund without an initial capital infusion by the federal government. Credit unions are the sole source of capital for the Share Insurance Fund. In 1970, Public Law 91-468 established the NCUISF and the annual credit union premium was set at 1/12 of 1 percent of insured shares to capitalize and grow the Fund. Insurance protection was $20,000 per member account in 1970.

It is reported that then House Banking Committee Chairman Wright Patman, an advocate of federal credit union insurance protection, described the Share Insurance Fund as a "reward for the outstanding job performed by credit unions."

In 1974, insurance coverage increased to $40,000, and by 1979 Fund equity was well beyond $120 million. Slowly building capital, the Fund equity ratio to insured shares peaked at .32 percent in 1979. Insurance coverage increased to $100,000 per account in 1980. Shortly thereafter, in 1981 unemployment, high interest rates and various economic sector market declines saw liquidations reach a record high 251 credit unions with $78.6 million in shares. The Fund experienced significant insurance losses, financial stress and declining capital. Credit unions were called upon to submit a second premium two years in a row; and at this point, the credit union community called upon Congress to approve a plan to capitalize the Fund.

In 1984, President Reagan signed the bill enabling credit unions to capitalize the NCUSIF and adopt a new, model structure whereby credit unions maintain 1 percent of insured shares in the Fund. January 21, 1985, saw the nation's federally insured credit unions voluntarily deposit $780 million to capitalize their Share Insurance Fund.

Since capitalization and restructuring of the NCUSIF, for nearly 25 years credit union failures have been low and the National Credit Union Share Insurance Fund has prospered. The NCUA Board has returned excess funds to credit unions when the Fund exceeded the maximum capitalization level and has charged only a few premiums. One occurred when three large New England credit unions failed in 1992 substantially increasing insurance losses.

However, recent years have seen dramatic increases in the amount of NCUSIF losses. Collapse in the subprime mortgage market, multiple foreclosures and a slowed housing market, tightening in the financial sector and a faltering economy reverberate through the credit union industry and corporate credit union investment quality suffers.

As federal credit unions mark a major 75 year milestone, once again they are called upon to demonstrate the credit union difference of working together to overcome financial difficulties. When federal credit union celebrated 50 years of operation, NCUA's 1984 Annual Report noted

continued on page 2

Share insurance protects the future of credit unions

A long history of share insurance has enhanced confidence in credit unions and has carried the industry through hard times and good. Today, and looking to the future, NCUA strives to inform everyone, credit union members and non-members alike, that credit unions are a safe place to keep their money!

In the second half of 2008, the passage of the Emergency Economic Stabilization Act resulted in an increase in share insurance to $250,000 for credit union accounts. The primary goal of this measure was to make certain that Americans maintain confidence in their financial system. NCUA's subsequent media campaign set out to inform the public about the increase and what it meant: that their hard-earned money placed in federally insured credit unions is safe.

In 2009, NCUA will continue to play an important role in informing Americans about the safety and soundness of credit unions. Enlisting the help of a respected public figure in the financial world, NCUA will harness the power of media outlets to spread the word that most credit union accounts are backed by the full faith and credit of the U.S. government. This time around, NCUA will look to ads on television and public transportation to bolster confidence and provide information for all Americans.

The future is difficult to predict and the current financial situation is daunting, but credit union members can be sure that their deposits are safe in federally insured credit unions. The strength of the National Credit Union Share Insurance Fund will continue to protect credit union members far into the next 75 years.

VC Hood continues to promote risk mitigation

NCUA Vice Chairman Rodney E. Hood hosted his third annual NCUA Risk Mitigation Summit February 19, 2009, at the Federal Reserve Bank of Atlanta. The event was filled to capacity with leaders from government and industry anxious to gain more knowledge about the current economic situation and what they can do to mitigate risk.

"I take risk management very seriously and believe that risk should be managed, not avoided. Implemented successfully, enterprise risk management (ERM) enables management to effectively deal with uncertainty and associated risks," said Vice Chairman Hood, a passionate advocate of enterprise risk management (ERM) throughout his tenure as Vice Chairman of NCUA.

This year's summit was particularly timely as the NCUA Corporate Stabilization Program was publically addressed for the first time during a question and answer session. Owen Cole, director of the NCUA Office of Capital Markets and Planning, together with John Kutchey, acting director of the NCUA Office of Examination and Insurance explained why it was necessary to institute such a program and they answered many questions probing for further details. Corporate Stabilization Program details are available at http://www.ncua.gov/CorporateStabilizationProgram.html.

The keynote address was delivered by Robert D. Manning, PhD, research professor and director of the Center for Consumer Financial Services, Rochester Institute of Technology and the creative force behind the Responsible Debt Relief (RDR) algorithm. Dr. Manning is a consumer finance expert and the author of Credit Card Nation. As the founder and president of the non-profit corporation, ResponsibleDebtRelief, Manning's innovative algorithmic breakthrough assesses household debt capacity and the debtor's ability to repay outstanding loans. The mission is to alleviate the debt problems of the "near bankrupt" and others undergoing serious financial stress.

"It gives credit unions the opportunity to recalibrate and get their members on an even keel during this extraordinarily difficult recessionary period," Manning said. As a fellow with the Filene Research Institute, Dr. Manning is launching an RDR pilot program with the California and Nevada Credit Union League's. The program meets the NCUA threshold for charge-offs and therefore will be able to meet examiners' standards of proof. For more information and a full downloadable copy of the Responsible Debt Relief report, please visit: http://filene.org/free/manning or http://www.creditcardnation.com/pdfs/Manning_RDR_Filene_08_F.pdf.

Richard Dorfman, president and CEO of the Federal Home Loan Bank of Atlanta delivered a message of partnership and cooperation. With 8,100 credit union partnerships, Dorfman pointed out that credit unions represent the Federal Home Loan Banks fastest growing segment and he encouraged them to tout their successful model… "Study yourselves because you will be called upon by regulators and others who want to know 'how did you do that."

In closing, Vice Chairman Hood thanked program participants and all in attendance for making the 2009 NCUA Risk Mitigation Summit such a success. "It is my hope that the insight and information gleaned from today's event will help promote the institution of successful ERM programs throughout the financial industry," he said.

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