

## NCUA's Office of Consumer Protection takes shape

The NCUA Board approved creation of the Office of Consumer Protection (OCP) to demonstrate the increased importance NCUA is placing on consumer protection. All NCUA activities associated with consumer protection regulations will be centralized in OCP to foster enhanced, efficient oversight of credit union compliance. In addition, OCP will have staff dedicated to assisting consumers improve their financial literacy. Strengthening consumers' financial health is a fundamental goal of credit unions and will now become a more prominent priority at NCUA.

As structured, OCP will be responsible for all consumer protection and consumer compliance policy, programs, and rulemaking; interagency liaison responsibilities for consumer protection and compliance issues; fair lending examinations; the member assistance call center; and consumer financial literacy programs.

NCUA's new Consumer Protection office consists of two divisions—Division of Consumer Compliance and Outreach and Division of Consumer Access.

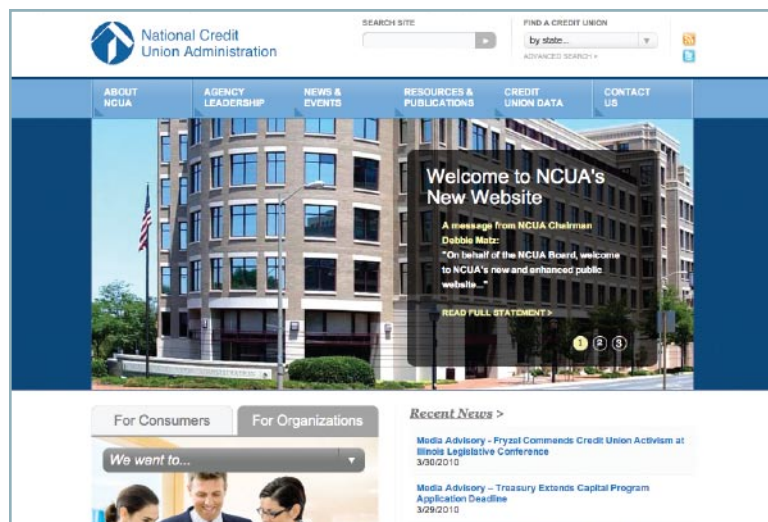
The Division of Consumer Compliance and Outreach will be responsible for:

1. Consumer compliance policy, program and rulemaking;
2. Fair lending examinations;
3. Interagency liaison for consumer protection and compliance issues;
4. Member complaint call center;
5. Financial literacy programs; and
6. Ombudsman duties.

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*Office of Consumer Protection Director Kent Buckham is working hard to organize his team and develop an NCUA program specifically designed to assist, protect and educate consumers.*



[www.ncua.gov](http://www.ncua.gov) now offers quick access, improved navigation

NCUA unveiled a new website in March that showcases an updated look and feel. The improved layout and design of [www.ncua.gov](http://www.ncua.gov) features a segmented approach designed to make information more accessible.

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# Chairman's Corner

## Corporate Resolution Plan is Highest Priority

**N**ow that the comment period has closed on NCUA's proposed rule to strengthen regulation of corporate credit unions, many stakeholders are asking, "What's next?" NCUA is currently reviewing over 800 comment letters—totaling over 2,500 pages—and we plan to further improve the rule this summer.

But first, NCUA must address what comment letters confirmed as the industry's highest priority: the toxic assets that caused the corporate crisis. Isolating these so-called "legacy assets" (mainly impaired mortgage-backed securities) is an enormous undertaking. There is no easy way to un-bundle over \$50 billion worth of long-term assets, repackage them into marketable bonds, and move them from corporates' balance sheets without realizing losses.

This effort is so huge—and so important—that NCUA is dedicating 20 top staff to work on it. Over the past several months, NCUA's team has been brainstorming every possible idea to safely resolve the corporate crisis at the lowest cost to credit unions. With nearly every possible solution, more questions (and more legal and accounting issues) are raised.

NCUA's team is getting closer to proposing a plan that would remove the riskiest legacy assets from ongoing corporates, while carrying forward the most valuable pieces of the corporate system. The plan would empower retail credit unions to choose which corporates they will support. And it would ensure that those corporates begin with clean balance sheets.

If the plan proceeds as we envision, it could even allow credit unions to recover future earnings from legacy assets that out-perform current loss projections.

The team is still working to answer a multitude of questions—about underwriting, funding and much more. But they are cautiously optimistic that this careful process will generate the best possible answers. They hope to bring a comprehensive corporate resolution plan to the NCUA Board by the end of June.

Like all stakeholders, I want to unveil NCUA's plan as quickly as possible. But I do not want to rush this critically important process.

In the meantime, NCUA will not finalize the corporate rule until after the solution for legacy assets is announced. While isolating the legacy assets will ensure that corporates begin with clean balance sheets, the final rule will ensure that corporates maintain those clean balance sheets. These new safeguards, when refined and implemented, will protect the system from another crisis.

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Missouri Credit Union Association President Rosie Holub invited NCUA Chairman Debbie Matz to the "Home of Missouri's Credit Unions" in Jefferson City. The first of its kind in a state capital, the refurbished historic two-story facility serves as a meeting site for credit unions from around the state. When speaking to nearly 100 officials at the Missouri Credit Union Association's 2010 Advocacy and Business Meeting March 23, Chairman Matz presented a timetable for NCUA's plan to resolve "legacy assets" of corporate credit unions.

### NCUA INSIGHTS

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

**Debbie Matz**, Chairman  
**Christiane Gigi Hyland**, Board Member  
**Michael E. Fryzel**, Board Member

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

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## NATIONAL CREDIT UNION SHARE INSURANCE FUND REPORT

NCUA's Chief Financial Officer reported the Fund's reserve balance totaled \$726.1 million February 28, 2010, with \$1.5 million charged to insurance loss expense thus far in 2010.

February 2010 ended with an NCUSIF equity ratio of 1.23 percent based on the amount of shares held by the nation's federally insured credit unions at year-end 2009. After credit unions are billed for their 1 percent capitalization deposit adjustment, due in April, the equity ratio will rise to 1.26 percent.

Six federally insured credit unions have failed thus far in 2010 at a cost to the Fund of \$6.7 million—4 were involuntary liquidations and 2 were assisted mergers.

There were 337 CAMEL code 4&5 credit unions at February 28, 2010; 20 fewer than reported last month.

The current distribution of federally insured credit union assets by CAMEL code follows:

- 81.37 percent of assets are in CAMEL code 1&2 credit unions;
- 13.25 percent of assets are in CAMEL code 3 credit unions; and
- 5.38 percent of assets are in CAMEL code 4&5 credit unions.

Through February, NCUSIF's annual revenue and expenses included total income of \$42.7 million and total expenses of \$23.2 million, resulting in net income of \$19.5 million.

During February, the Temporary Corporate Credit Union Stabilization Fund made a payment of \$310 million on the \$1 billion note payable to the U.S. Treasury.

## PROPOSAL ESTABLISHES FCU DIRECTOR DUTIES, CLARIFIES MERGER AND CONVERSION REQUIREMENTS

The NCUA Board issued a proposed rule-making, with a 60-day comment period, that addresses several related areas affecting

federal credit union operations, and it acts to protect member rights. The proposal documents and clarifies the fiduciary duties and responsibilities of federal credit union directors. It also adds new provisions establishing procedures for insured credit unions merging into banks, and it would amend some existing regulatory procedures related to insured credit unions merging with other credit unions and converting to banks.

Following-up on provisions addressed in an Advance Notice of Proposed Rulemaking (ANPR) issued in 2008, the proposed rulemaking includes a new §701.4, which defines the general authorities as well as management and fiduciary duties of federal credit union directors. This section responds to the need to provide federal credit union directors with uniform standards.

Revisions to Part 708a address credit union conversions to mutual savings banks and credit union mergers into banks. Proposed Part 708a would better protect the secrecy and integrity of the voting process during conversion to a mutual savings bank by providing members with additional information about how the conversion could affect them, and it requires converting credit unions to provide copies of correspondence with other agencies related to the conversion.

The proposed rule would define and standardize procedures for credit union mergers into banks. Based on NCUA's right and responsibility to regulate both the procedures and basic aspects of a credit union's merger into a bank, the regulation would establish the procedures and requirements for obtaining approval of the NCUA Board and credit union members.

Proposed Part 708b revisions address credit union mergers with other credit unions and termination or conversion of NCUA federal deposit insurance status. The proposal adds balloting and procedure requirements to protect the integrity of the vote and ensure full and accurate disclosure to the members and to NCUA.

## 2011-2016 STRATEGIC PLAN PRESENTED TO THE PUBLIC

The NCUA Board heard a briefing on the NCUA Strategic Plan 2011–2016. The plan focuses on ensuring and maintaining confidence in a dynamic, safe and sound credit union system. The plan was developed around four main objectives that include:

- Provide a broad, general, transparent roadmap of program and support operations;
- Encourage an innovative, flexible regulatory environment that increases access to financial services for all those eligible for credit union service;
- Increase alignment between essential mission functions and long-term strategic goals; and
- Align well-trained, diverse staff with existing resources and emerging issues.

The NCUA Strategic Plan 2011–2016 was issued with a 60-day public comment period. Comments should be sent to [Strategicplanning@ncua.gov](mailto:Strategicplanning@ncua.gov).

## SAFETY & SOUNDNESS REVISIONS PROPOSED FOR REGFLEX

The NCUA Board approved, by a 2 to 1 vote, proposed rule revisions to NCUA's Regulatory Flexibility Program to enhance safety and soundness for credit unions and adjust to the decline in the economy.

Amending Parts 701, 723 and 742, the proposal would revise RegFlex provisions affecting fixed assets, member business loans (MBLs), stress testing of investments, and discretionary control of investments. Some of these revisions will require conforming amendments to NCUA's fixed asset and MBL rules. The proposal was issued with a 60-day comment period.

**Board votes are unanimous unless otherwise indicated. NCUA rule changes are posted online at [www.ncua.gov](http://www.ncua.gov) under Resources & Publications/Legal/Regulations, Legal Opinions and Laws**



# Appearance calendar

**Date:** April 30, 2010  
**Who:** Board Member Gigi Hyland  
**Event:** Alaska Credit Union League Annual Meeting  
**Location:** Girdwood, AK  
**Contact:** Jessica Vogel at [jvogel@ncua.gov](mailto:jvogel@ncua.gov) or 703-518-6318

**Date:** April 30, 2010  
**Who:** Chairman Debbie Matz and Board Member Michael Fryzel  
**Event:** Illinois Credit Union League 80th Annual Convention  
**Location:** Chicago, IL  
**Contact:** Angela Sanders at [asanders@ncua.gov](mailto:asanders@ncua.gov)

**Date:** May 6, 2010  
**Who:** Board Member Michael Fryzel  
**Event:** NY Large Credit Union CEO Roundtable  
**Location:** West Point, NY  
**Contact:** Katie Supples at [ksupples@ncua.gov](mailto:ksupples@ncua.gov)

**Date:** May 7, 2010  
**Who:** Chairman Debbie Matz  
**Event:** Virginia Credit Union League's Annual Meeting  
**Location:** Reston, VA  
**Contact:** Angela Sanders at [asanders@ncua.gov](mailto:asanders@ncua.gov)

**Date:** May 13, 2010  
**Who:** Chairman Debbie Matz  
**Event:** Wisconsin Credit Union League's 2010 Convention and Annual Meeting  
**Location:** Green Bay, WI  
**Contact:** Angela Sanders at [asanders@ncua.gov](mailto:asanders@ncua.gov)

**Date:** May 14, 2010  
**Who:** Board Member Gigi Hyland  
**Event:** Hawaii Credit Union League 72nd Annual Convention  
**Location:** Maui, HI  
**Contact:** Jessica Vogel at [jvogel@ncua.gov](mailto:jvogel@ncua.gov) or 703-518-6318

**Date:** May 17, 2010  
**Who:** Chairman Debbie Matz  
**Event:** Pennsylvania Credit Union Association 2010 Annual Convention & Expo  
**Location:** Atlantic City, NJ  
**Contact:** Angela Sanders at [asanders@ncua.gov](mailto:asanders@ncua.gov)

**Date:** May 18, 2010  
**Who:** Chairman Debbie Matz  
**Event:** New Jersey Credit Union League Meeting with NCUA Chairman Debbie Matz  
**Location:** Monroe Township, NJ  
**Contact:** Angela Sanders at [asanders@ncua.gov](mailto:asanders@ncua.gov)

**Date:** May 21, 2010  
**Who:** Board Member Michael Fryzel  
**Event:** Michigan Credit Union League Annual Convention & Exhibition  
**Location:** Detroit, MI  
**Contact:** Katie Supples at [ksupples@ncua.gov](mailto:ksupples@ncua.gov)

NCUA is now on 

NCUA is a Twitterer NCUA is a Twitterer NCUA is a Twitterer

Join the conversation on Twitter at [www.twitter.com](http://www.twitter.com), and you'll be able to track what's happening at NCUA. Simply select to follow **TheNCUA**.

## CONSUMER PROTECTION from page 1

The Division of Consumer Access will be responsible for:

1. New charters;
2. Charter conversions;
3. Field of membership expansions;
4. Bylaw amendments; and
5. Low income designations

## Focus on Division of Consumer Compliance and Outreach

This article highlights the structure and responsibilities of the Consumer Compliance and Outreach (CCO) Division. The CCO Division will encompass a wide spectrum of NCUA consumer-related activities.

OCP's top priority is having the CCO Division operational as soon as feasible. Initially, 13 staff positions will be allocated to this division, and NCUA is in the process of reconfiguring space to accommodate staff in the Alexandria office. Several current employees will be transferred to the office. As a result, NCUA is partnering with the National Treasury Employees Union on transition and implementation plans affecting collective bargaining unit employees. In addition, NCUA's central and regional offices are coordinating a seamless transfer of responsibilities from regional offices to OCP.

The CCO Division is expected to be fully functional by fall 2010. A future article will describe formation and operation of the OCP Division of Consumer Access.



## April showers bring...

### FROM GIGI HYLAND



We all know the saying, “April showers bring May flowers.” This April brings the release of a white paper on supplemental capital prepared by the NCUA working group that I formed in December 2008. The genesis of the white paper was discussions with state regulators and their perspective that credit unions should have access to some form(s) of supplemental capital.

#### Supplemental capital acquisition and benefits

The white paper reflects analysis, research and dialogue with NCUA senior staff regarding the regulatory and safety and soundness considerations surrounding supplemental capital for credit unions. As noted in the white paper, it is up to Congress to grant credit unions the ability to raise and count supplemental capital towards the net worth ratio required by prompt corrective action (PCA). And, the devil is in the details.

The working group concluded that three key public policy considerations must be balanced in creating forms of supplemental capital for credit unions: (1) preservation of the cooperative mutual credit union model; (2) robust investor safeguards; and (3) prudential safety and soundness requirements. The white paper discusses three general categories, by claim priority, of supplemental capital instruments that could satisfy, to various degrees, the key public

policy principles. They include: Voluntary Patronage Capital (VPC); Mandatory Membership Capital (MMC); and Subordinated Debt (SD).

The Working Group also conducted an analysis based on the three categories of supplemental capital to assess how supplemental capital could impact credit unions. The analysis helps quantify the potential financial benefit to credit unions and may be helpful in assessing whether the benefits outweigh expending political capital in the pursuit of a legislative change in this area.

The impact of supplemental capital was evaluated using three scenarios:

1. **Maximum Benefit:** The maximum amount of supplemental capital that could be raised applying reasonable limitations;
2. **Potential Benefit:** The amount of supplemental capital that could be raised taking into account the limited resources of smaller credit unions and exclusion of all credit unions with current capital levels well in excess of regulatory requirements; and
3. **Expected Benefit:** An estimate of the amount of supplemental capital that could be raised by the credit unions likely to engage in the activity.

To a large degree, benefits are dependent upon a credit union’s asset size, as utilization of all the supplemental capital options will

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## A partnership of strength

### FROM MICHAEL E. FRYZEL



NCUA plays a unique role in the oversight of credit unions. We are charged with the chartering, regulation and examination of federal credit unions, are the insurer of member deposits for the same group, and provide deposit insurance for most state-chartered credit unions.

State-chartered credit unions are regulated and examined by the State Supervisory Authority (SSA) in the state they are chartered. Results of state examinations are shared with NCUA, and we work closely with SSA’s to conduct joint examinations whenever possible.

NCUA has always supported the dual chartering system, recognizing the rights of individual states to charter and regulate financial institutions located within their boundaries. Similarly, states recognize the role of NCUA as the federal insurer of depositor funds. This is not to say that at times disagreements do not occur between NCUA and SSA’s. However, for the most part we do agree and there is effective cooperation and communication between federal and state regulators.

In order to continue to foster effective communication and collaboration that will provide a safe and sound credit union system, NCUA maintains an open and close relationship with an association known as the National Association of State Credit Union Supervi-

sors (NASCUS). I am pleased to be the NCUA’s Board liaison to this distinguished group.

NASCUS was founded in 1965 with a mission to enhance the supervision of state credit unions and be an advocate for a safe and sound credit union system. Comprised of professional regulators from 47 state governmental agencies from across the country, the members of NASCUS play a key role not only in the examination process, but also in education, audit procedures, state and federal legislation and regulatory affairs.

As part of our working relationship, we meet with NASCUS and their Board leaders to maintain an open dialogue and an exchange of information. An example of those meetings is the NCUA/NASCUS National Regulators meeting held this past March. These gatherings are an opportunity to have a face-to-face discussion on emerging regulatory and compliance issues. Collaboration and communication are key, and as their liaison I intend to keep an open line of communication to continue to advance discussions of mutual interest as we all strive, in a working partnership, to manage the issues facing the credit unions we supervise and regulate.

Given these challenging times, communication amongst credit unions regulators allows for greater vigilance and oversight. Working together, we are dedicated to our mission. Our partnership is unique and distinct yet vital within the credit union system.



## OFFICE OF GENERAL COUNSEL

# General Counsel provides legal opinions and guidance

Among its responsibilities, NCUA's Office of General Counsel (OGC) provides the public with interpretations of the Federal Credit Union Act, NCUA regulations, and other

NCUA Board directives. OGC responds to requests for interpretations and guidance on legal matters from various sources, including attorneys, credit unions and their members, and credit union associations and leagues. Legal opinions deal with a broad range of questions including, for example, whether a particular activity is legally permissible for federal credit unions or credit union service organizations, or questions about meeting regulatory requirements. OGC legal opinions are available on the agency website: [www.ncua.gov](http://www.ncua.gov) under *Resources & Publications/Legal/Regulations, Legal Opinions and Laws*.

The "Legal Opinions" page is organized by year and has opinions from 1991 to the present, but users are cautioned that older letters may be outdated or superseded by subsequent opinions and changes in the law. Nevertheless, the older opinions are included because they are often very helpful for legal research or understanding how the agency's interpretations have evolved. Opinion letters are identified by individually assigned numbers and subject headings and can be retrieved by topic using the website's search function. Currently, to search for opinions on a particular topic, a user begins by entering a search for the topic on the home page and, from an initial list of "hits," may narrow the search to legal opinions.

Although OGC staff cannot provide written responses to all inquiries, OGC will generally respond to a request in writing if the request involves a new or substantial question of law or policy and the inquiry has provided sufficient information and analysis regarding the issue OGC is being asked to address. Unfortunately, OGC

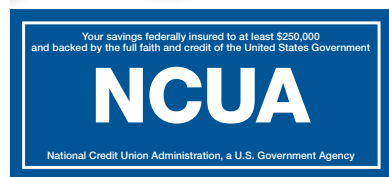
**OGC staff is glad to assist members of the public who call, write or email with questions involving the laws and regulations applicable to credit unions.**

staff cannot provide individual legal assistance to credit unions, their members, or the public, and generally, OGC does not address state law issues. Credit union members who have a complaint about a particular credit union should contact the appropriate regional office in the case of a federal credit union and the appropriate state supervisory agency in the case of a state-chartered credit union.

OGC staff is glad to assist members of the public who call, write or email with questions involving the laws and regulations applicable to credit unions. While unable to provide written responses to all inquiries, OGC staff can often provide assistance by directing people to previously issued opinions on the same topic or other agency guidance. You may call OGC at 703.518.6540, send an e-mail to [ogcmail@ncua.gov](mailto:ogcmail@ncua.gov), or write to the Office of General Counsel, NCUA, 1775 Duke Street, Alexandria, VA 22314. If you email or write, please include a daytime phone number where you can be reached.

## EXAMINATION AND INSURANCE REPORT

# How to evaluate concentration risk



NCUA is finalizing a Letter to Credit Unions that will share guidance provided to examiners regarding the evaluation of concentration risk, an essential facet in

determining the overall risk profile of credit unions. Concentration risk has increased in importance during the recent economic recession, and poor management of concentration risk has contributed to increased credit union failures and losses to the National Credit Union Share Insurance Fund (NCUSIF).

Credit union officials and management have a fiduciary responsibility to identify, measure, monitor and control concentration risk. Each product or service carries some risk of financial exposure or loss, and more so with a large concentration relative to net worth and assets. Management should perform a thorough risk assessment that demonstrates their understanding of the risk, quantifies the potential loss exposure, and documents a rational business decision with an acceptable concentration level based on this analysis. The larger the concentration, the more robust and sophisticated the

analysis (both initially and ongoing).

The forthcoming guidance addresses the core principles of managing concentration risk, including the following highlights:

- **Board policy & limits:** The board approved policy must address the board's philosophy on concentration risk, limits commensurate with net worth levels (both individual and aggregate concentration), and the rationale for how individual and aggregate limits fit into the overall strategic plan.
- **Data retention:** The credit union must have data processing systems capable of warehousing data on concentrations, commensurate with its size and complexity.
- **Oversight:** Credit union management should implement appropriate procedures, controls, and reports to comply with board approved concentration limits. In addition, when working with third parties, due diligence, both initially and ongoing, is essential to ensure risks are properly identified and managed.

The guidance also provides examiners with basic review procedures for evaluating concentration risk and options for corrective action should there be material concerns with the level and management of concentration risk.





## CAPITAL MARKETS

# Evaluating Risk: Private-Label Mortgage-Backed Securities

Private-label MBS are pools of home loans securitized by a party other than Fannie Mae, Freddie Mac, or Ginnie Mae (GSEs). These securities carry more credit and liquidity risk than traditional GSE-created or insured securities. While most U.S. depository institutions trimmed their MBS holdings in the wake of the financial crisis, roughly 200 credit unions bucked the trend. Indeed, these credit unions collectively boosted their MBS holding by \$333 million in 2009—a roughly 10 percent jump.

This article highlights the issues with private-label MBS for credit unions that have invested in these securities and those considering such investments. These structured securities carry significant risks that need to be properly evaluated prior to and subsequent to purchase.

Understanding the structure of private-label MBS is an essential component of limiting risks and capital exposure. The following discussion should not be considered a comprehensive checklist, but a starting point for a detailed, thorough analysis.

### Analysis is first and foremost

Prior to investing, a credit union should review the prospectus to determine the characteristics of the MBS (or structured security) and how it will perform under various scenarios. Scenario analysis should, at a minimum, cover changes in interest rates and changes in default rates and loss severity of the underlying collateral. Cash flows are a critical element of pre-purchase and ongoing analysis and should be thoroughly evaluated to understand when and under what circumstances cash flows may be redirected to other, more senior, bondholders. Subordinated positions are structured to provide protection to the more senior positions and may expose a credit union to increased levels of risk. Understanding where a

credit union's bond is in the overall structure of a MBS must be determined to properly evaluate its risk.

A credit union should be able to obtain and evaluate sufficient characteristics of the underlying collateral in a private-label MBS. Data on individual loans, such as geographic concentrations, credit score ranges, collateral types, delinquency and losses, should be analyzed both prior to purchase and periodically after purchase.

Some private-label MBS rely on credit enhancements and guarantees provided by third parties. A credit union should be able to monitor the counterparty credit risk associated with the third party and monitor its creditworthiness to meet its obligation under both normal and stressed scenarios.

**A credit union should be able to obtain and evaluate sufficient characteristics of the underlying collateral in a private-label MBS.**

A credit union should not solely rely on ratings from Nationally Recognized Statistical Rating Organizations, but can consider ratings as a factor in the analysis process, both pre-purchase and ongoing.

Valuing some private-label MBS can be difficult. Some trade infrequently, have limited or no secondary market, and have characteristics that cannot be compared to any other security for purposes of assigning a value. A credit union should have sufficient resources to properly value these complex securities.

A credit union should not invest in complex investments such as private-label MBS if management and staff lack the knowledge and experience to properly understand, measure, monitor and control the risks. Both pre-purchase and ongoing analysis is required.

### CHAIRMAN'S CORNER from page 2

There will still be difficult decisions—both for retail credit unions and NCUA—about what to do for the future of corporates. Credit unions will face the choice of either recapitalizing a corporate or finding other ways to obtain the same types of services.

I recognize that after suffering losses through a corporate, it may be difficult for some credit union boards to make the decision to recapitalize a corporate. All I can do is assure that after NCUA deals with the legacy assets and approves the final rule, corporates will be much better positioned to protect credit unions' hard-earned capital.

Debbie Matz

### GIGI HYLAND from page 5

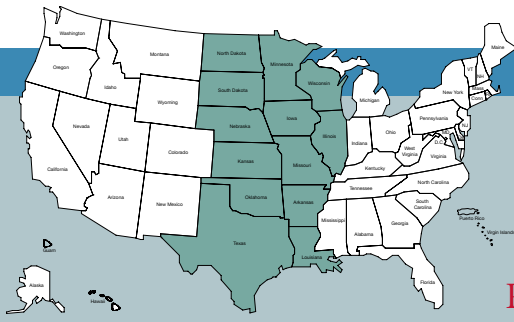
require retention of expertise in securities regulation along with robust capital measurement and planning.

It is my sincere hope that the white paper will stimulate robust and detailed discussion of this important issue by the NCUA Board, by the trade associations and most importantly, by the credit union movement. Supplemental capital can blossom into a tool for credit unions to utilize in the future if it is crafted (and watered) appropriately.



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[www.ncua.gov](http://www.ncua.gov) to access  
the latest information directly  
from NCUA.





Region IV

## Holding Steady in the Midwest

While the region has its share of challenges, financially the credit unions in Region IV have weathered the economic crisis well thus far. As anticipated, net worth declined in 2009 due to weakening asset quality and the challenges of corporate stabilization. Asset quality and earning levels both deteriorated, but remained tolerable given the circumstances. Looking forward in 2010, the ongoing concern remains the direct and ancillary effects of the economic downturn.

The overall economic slowdown means less business, and from less business derives cutbacks in employment and fewer job opportunities. Even successful markets and industries within the region saw a retraction as consumers reigned in spending. Government stimulus has dampened some of this effect, but a return to fundamentally sound business models and practices will be necessary to sustain recovery.

### VIGILANCE, CAUTION AND COMMUNICATION REMAIN KEY

Region IV has been fortunate to avoid the more significant real estate issues faced by other parts of the country. Outside of a few isolated pockets, the region’s real estate markets have avoided exuberant, speculative run-ups in prices and thus avoided dra-

matic price declines as the markets corrected. Despite this, much risk is present in the uncertainty of the markets and the number of credit unions with significant concentration risk. Ongoing steps to mitigate risk levels will be essential. And importantly, the distresses experienced on the two coasts provide an excellent reminder that seemingly “can’t lose” opportunities can and do fail to fulfill their promises.

New risk sources arise regularly. Whether the risk is in the form of loan participations, member business loans or investments in fixed assets, credit unions in Region IV have found some unexpected risk in these areas. Some have sought these riskier endeavors as a result of declining loan volume or depressed yields and have pursued “buying a yield” or designing a balance sheet through open market purchases. Caution and time-tested experience are essential in new programs and even more so in volatile economic times. Credit unions should avoid straying from the core mission of serving their members through products and services. Ultimately, the activities credit unions engage in should be member focused and benefit the members in some fashion.

As part of this, early and regular communication between examiners and credit unions can help mitigate risks. Each brings a talent and perspective the other can benefit from, and through mutual sharing of knowledge, experiences, and concerns, opportunities can be seized without placing the institution in a perilous position.

Through a collaborative effort and a dedication to time-tested business practices, both credit unions and NCUA will be prepared to meet the challenges waiting in the new, humbled economy.

