The NCUA Report

June 2010
Number 6
National Credit Union Administration

NCUA Financial Reports Receive Clean Audits

Auditors Share Unqualified Opinions for 2008, 2009

The National Credit Union Administration has released financial reports for 2008 and 2009, including audited statements of the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF received unqualified or "clean" audit opinions for both years.

"Credit unions and the more than 90 million consumers who have federally insured accounts should know the National Credit Union Share Insurance Fund that protects their deposits up to $250,000 has also now received two unqualified opinions of its financial condition," commented NCUA Chairman Debbie Matz.

In addition to the NCUSIF, auditors also certified the financial accuracy of three other funds overseen by NCUA: the Operating Fund, the Community Development Revolving Loan Fund, and the Central Liquidity Facility. All audits received unqualified opinions. The audits for 2008 were completed by Deloitte & Touche LLP, while the audits for 2009 were completed by KPMG LLP. An audit of the financial statements for the Temporary Corporate Credit Union Stabilization Fund will be issued in the near future.

"I am pleased that these audits have finally been completed by both accounting firms that conducted independent reviews of the permanent funds that support NCUA's operations," noted Chairman Matz. "As soon as these audits were signed by the accounting firms, NCUA released the complete financial statements and audit opinions to the public on our website. Transparency will continue to be a hallmark of NCUA's operations."

While Chairman Matz welcomed the clean audits for the two prior years, she added that NCUA is dedicating even more resources to protect federally insured credit union members now and into the future. "Given the difficult economic climate, we are being more

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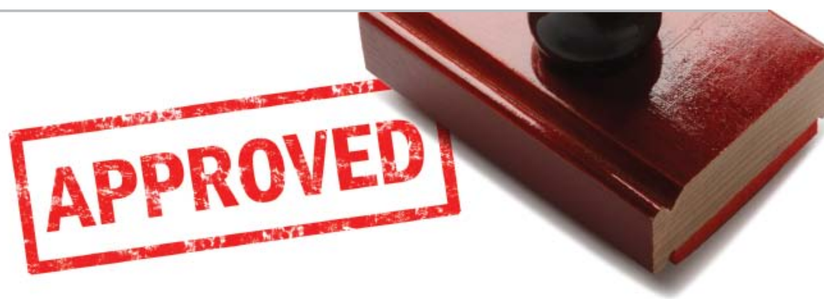

BRIEFING ON TCCUSF & NCUSIF OPERATION AND FUNDING

Chairman Debbie Matz opened the Board meeting noting the first anniversary of the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) and the vital role it plays in helping credit unions better manage costs associated with the corporate crisis. Details of the operation, funding and possible fee assessments of TCCUSF and the National Credit Union Share Insurance Fund (NCUSIF) were discussed during the meeting.

The TCCUSF was established by Congress in May 2009 to absorb losses related to corporate credit union investments. The NCUSIF, by contrast, is the federal insurance fund that stands behind consumer deposits. The briefing was NCUA's latest effort to maintain transparency regarding the role, cost and function of the two funds.

The NCUA Board is responsible for assessing credit unions an amount necessary to repay the Treasury for the $6 billion lending limit provided by the TCCUSF and for maintaining a strong NCUSIF equity ratio. Specifics concerning TCCUSF and NCUSIF assessment analyses follow.

The **Temporary Corporate Credit Union Stabilization Fund** authorizes NCUA to assess credit unions for corporate losses over a seven-year period, rather than having to do it in one lump sum.

Melinda Love, director of the Office of Examination and Insurance (E&I), told the Board there are two primary considerations that affect the timing and amount of TCCUSF assessments:

- **Total expected losses and time remaining (six years) on the life of TCCUSF.**
  The current reserve for corporate credit union losses is $6.4 billion. Most recent loss estimates are from $6.4 to $11 bil-

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HIGHLIGHTS

Chairman's Corner

Credit Union Boards Play Vital Role in System's Future

In the coming months, the board members of America's credit unions will be expected to make a number of decisions that will be vital to the future of the credit union system. Those decisions include:

- how to generate positive earnings despite a slow recovery;
- how to protect their balance sheets when interest rates rise; and
- whether to recapitalize their corporate credit union, or to switch to another corporate, or to seek similar services elsewhere.

More than ever, board members will confront complex decisions, which will require sound judgment and strategic vision.

NCUA understands the challenge that volunteer board members face in keeping up with the fast-paced evolution of credit union issues and economic trends. This is why NCUA is taking steps to strengthen credit union boards—giving board members added responsibilities, while providing those volunteers with added resources.

Fiduciary Duties

NCUA has proposed a new rule to clarify the fiduciary duties of board members. It would require federal credit union board members to have a working familiarity with basic principles of finance and accounting—including the ability to understand their credit union's balance sheet and income statement. This is especially critical at a time when rising share growth and falling loan demand threatens the balance sheet.

The proposed rule also emphasizes a timeless standard from the Federal Credit Union Act of 1934: Board members have a duty to act in the best interests of their credit union membership as a whole. Up to now, no uniform federal rule has been adopted to achieve this goal. Instead, board members have to look to state statutes or case law—which vary from one jurisdiction to the next – to determine their responsibilities. By clarifying the duties of federal credit union board members, the finalized rule will serve as a resource that eliminates any uncertainty.

Interest Rate Risk

In a rule to be proposed by NCUA, board members will be asked to adopt policies on another pivotal issue, which involves balancing loans and shares: interest rate risk. After a year when the Federal Reserve held short-term interest rates close to zero, rates have nowhere to go but up. Before the next rising rate cycle, each federally insured credit union with more than $10 million in assets will be required to adopt its own written policy on interest rate risk.

The rule will include guidelines to ensure the safety and soundness of each credit union's business model, no matter how quickly rates rise.

Corporate Resolution

After NCUA takes two crucial steps to resolve issues within the corporate credit union system, the board of each consumer credit union will be called upon to make a series of long-range decisions. First: This summer, NCUA will propose a plan to remove the toxic assets that have depleted capital from investors in corporate credit unions. Second: This fall, NCUA plans to finalize a new corporate credit union rule that would prevent the concentration of high-risk assets and build a stronger buffer to protect capital. Once this new regulatory regime is in place, consumer credit unions must decide whether to recapitalize a corporate credit union, or whether to look elsewhere for the liquidity and settlement services they need.

To help board members weigh their options, NCUA has posted a series of presentations at **www.ncua.gov** and has produced a DVD that is being mailed to every credit union. I encourage all board members to watch these presentations together and to discuss them as a group with their credit union's management team.

Board members have always faced tremendous responsibilities on behalf of their credit unions—but soon, board members will also be in a position to influence the strategic direction of the credit union industry as a whole.

Serving as a credit union volunteer has never been so complex, or so significant. At NCUA, we are doing everything in our power to provide credit union board members with all the resources they will need.

Debbie Matz

Debbie Matz

Monroe Township, N.J.—NCUA Chairman Debbie Matz accepted an invitation from New Jersey Credit Union League President Paul Gentile (center) to keynote a special meeting to discuss the national credit union system and NCUA actions. More than 125 credit union officials from throughout the state participated in the open dialogue.

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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lion, assuming a pessimistic scenario. Estimates are primarily derived from the analysis of expected credit defaults and available capital at corporate credit unions holding the securities. The specific amount and timing of confirmed defaults on distressed securities are key variables in determining a given year's level of assessment.

- **TCCUSF's operational cash management needs**.

The TCCUSF borrowed $1 billion to acquire from NCUSIF the capital note at U.S. Central. Last year's TCCUSF assessment repaid $310 million, so $690 million remains outstanding and must be repaid.

An updated TCCUSF analysis will be provided to the NCUA Board during the summer, along with a recommendation on the amount and timing of the TCCUSF assessment. The Board will also consider whether to separate the TCCUSF assessment from the NCUSIF assessment to clarify each payment and specify what it is for.

DETERMINING AN NCUSIF ASSESSMENT

Establishing an NCUSIF premium assessment entails four distinct processes:

- Estimate the fund's equity level at a given point in time;
- Estimate how the equity level will trend over the next 6 to 12 months;
- Analyze the impact of different assessment levels on credit unions;
- Develop a recommendation on the targeted equity level.

Each process has variables associated with making these estimates. Three major variables determine NCUSIF's equity ratio at any specific point in time: 1) earnings in the fund; 2) insured share growth; and 3) level of loss reserves.

When an estimated equity level is determined, E&I looks at a variety of scenarios to determine the impact of an assessment on credit unions—the impact on aggregate and individual credit union earnings levels, the migration of credit unions into lower PCA categories due to the assessments, and the impact on aggregate net worth levels.

Using a forward view of the equity ratio and impact of assessments on credit unions, E&I develops recommendations for the Board on whether to bring the ratio up to the Normal Operating Level of 1.3 percent, to a level between 1.2 and 1.3 percent, or to use new authorities and drop below 1.2 percent and restore the fund over an eight-year period.

A key objective is to keep the fund above 1 percent so credit unions need not impair their NCUSIF contributed capital deposit.

NCUA's consistent message over the past year has been the agency does not want to prematurely use its eight-year restoration period. Key factors will be analyzed: industry trends; continued growth in insured shares; migration of credit unions to lower CAMEL ratings; and the potential for significant losses in specific troubled credit unions.

E&I must see what the June 30th numbers reveal before determining a recommended premium assessment.

The total of the two assessments is projected to be within an estimated 15 to 40 basis points. Complete text of the NCUSIF and TCCUSF assessment analyses are available online at **http://www.ncua.gov/news/press_releases/2010/MA10-0520MatzMarksAnniversaryofStabilizationFund(2).pdf**.

TEMPORARY CORPORATE LIQUIDITY GUARANTEE PROGRAM MODIFIED

The NCUA Board extended and modified the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). With the change, corporates can issue new TCCULGP-guaranteed debt through September 30, 2011; however, new issuances after June 30, 2010, must mature no later than September 30, 2012, to receive the TCCULGP guarantee. Debt issued after June 30, 2010, that matures later than September 30, 2012, is not covered by the TCCULGP guarantee.

Previously, new TCCULGP issuances were set to expire June 30, 2010, and issuances under the guarantee were permitted to have maturities through June 30, 2017, providing corporate credit unions access to longer-term stable funds at lower cost. The extension of TCCULGP allows corporate credit unions continued access to more liquidity sources as NCUA moves toward addressing corporate credit union legacy assets.

Originally, NCUSIF guaranteed principal and interest payments on certain unsecured debt of participating corporate credit unions. The obligation was transferred from NCUSIF to the TCCUSF June 18, 2009.

FINAL MORTGAGE LOAN ORIGINATOR REGISTRATION RULE BRIEFING

NCUA staff provided a briefing on the interagency final rule on mortgage loan originator registration requirements for depository institutions and their employees based on provisions of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act).

The NCUA Board recently approved its final rule in Parts 741 and 761 by notation vote. It is expected that all federal financial institution regulators and the Farm Credit Administration will approve the interagency rule and it will be published in the *Federal Register* in coming weeks.

The S.A.F.E. Act mandates a nationwide licensing and registration system for mortgage loan originators, the Nationwide Mortgage Licensing System (NMLS) and Registry. The S.A.F.E. Act specifically prohibits an individual from engaging in residential mortgage loan origination without first obtaining and maintaining: (1) registration as a mortgage loan originator and a unique identifier if employed by a federally regulated institution, or (2) license and registration as a state-licensed mortgage loan originator and a unique identifier.

The final NCUA rule will require all credit unions that originate more than five residential mortgage loans per year to register with the NMLS and Registry. Credit union employees who originate more than five residential mortgage loans per year will also have to register with the NMLS to obtain a unique identifier and maintain the registration. All credit unions originating residential mortgage loans will have to adopt, and employees will have to follow, written policies and procedures designed to assure compliance with the rule.

NCUA's regulation contains additional requirements for non-federally insured credit unions participating in the federal registry. Section 761.101(c)(3) addresses how appropriate state supervisory authorities will enter into memoranda of understanding with NCUA. The registry listing

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Appearance calendar

Date: June 28, 2010
Who: Chairman Debbie Matz
Event: MACUMA Monthly Meeting
Location: Arlington, VA

Date: June 30, 2010
Who: Board Member Fryzel
Event: Northern Indiana FCU Visit
Location: Merrillville, IN

Date: July 13, 2010
Who: Board Member Gigi Hyland
Event: The 1 Credit Union Conference
Location: Las Vegas, NV

Date: July 15, 2010
Who: Board Member Gigi Hyland
Event: WOCCU Regulators' Roundtable
Location: Las Vegas, NV

Date: July 20, 2010
Who: Board Member Fryzel
Event: Navy FCU
Location: Great Lakes, IL

Date: July 21-23, 2010
Who: Chairman Debbie Matz
Event: NAFCU 43rd Annual Conference
Location: Chicago, IL

Date: July 23, 2010
Who: Board Member Gigi Hyland
Event: NAFCU 43rd Annual Conference
Location: Chicago, IL

Date: July 23, 2010
Who: Board Member Fryzel
Event: NAFCU 43rd Annual Conference and Exhibition
Location: Chicago, IL

Date: July 29-30, 2010
Who: Chairman Debbie Matz
Event: AACUL Summer Meeting
Location: Chicago, IL

Date: July 30, 2010
Who: Board Member Gigi Hyland
Event: AACUL Summer Meeting
Location: Chicago, IL

Date: July 30, 2010
Who: Board Member Fryzel
Event: AACUL Summer Meeting
Location: Chicago, IL

PLEASE CONTACT THE FOLLOWING PEOPLE WITH QUESTIONS RELATED TO APPEARANCES:

Chairman Matz
Angela Sanders at **asanders@ncua.gov** or 703-518-6309

Board Member Hyland
Jessica Vogel at **jvogel@ncua.gov** or 703-518-6318

Board Member Fryzel
Katie Supples at **ksupples@ncua.gov** or 703-518-6307

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vigilant than ever in our efforts to keep the credit union system strong. We will continue to look for opportunities to reduce risk, strengthen capital, and enhance the overall supervision of the credit union industry. Consumers deserve nothing less," Chairman Matz concluded.

The financial reports are available online at **www.ncua.gov** under *Resources/Publications/ Reports, Plans and Statistics.*

PREPARE FOR LOSSES from page 6

been making [e.g., the credit union has already met a lower TDR payment level for 6 months prior to formal restructuring]. If this is the case, and the borrower will likely continue and fully repay the new contractual amount due, the loan may be returned to accrual status before the six month period ends.

We urge credit unions to revisit the interagency supervisory guidance on allowance for loan losses and related topics issued jointly by the federal financial institution regulators, which is available on NCUA's website **www.ncua.gov** under *Resources and Publications/ Guides and Manuals/Accounting Bulletins/06-01.*

Happy 76th!

FROM GIGI HYLAND

One year ago this month, NCUA celebrated the 75th Anniversary of the Federal Credit Union Act. As part of the celebration, I hosted a two-day Symposium in Washington, D.C., to discuss sustainability, collaboration and change within the credit union system. The successful event generated robust dialogue on a wide range of issues, including the current relevance of the cooperative financial model, the future of the corporate credit union system and perspectives on supplemental capital for credit unions.

And so here we are, one year later. The seminal issues discussed last year remain, I believe, at the forefront of any dialogue about credit unions' future. For example, issues surrounding the corporate credit union system remain. These include resolution of distressed assets, primarily private label mortgage securities, held by a handful of corporate credit unions as well as finalization of the corporate credit union rule, Part 704. On sustainability, credit unions continue to be squeezed on income and must find new and creative ways to keep the business safe and sound while meeting member service needs. On collaboration—well, I think credit unions and the credit union system still have a long way to go. The issue is how the credit union system can work together to make sure that the mutual, cooperative financial model is still a choice for consumers 5, 10 and more years down the road.

The 76th anniversary of the Federal Credit Union Act gives a chance to reflect on why passage of this law is of notable importance and why having a system of credit unions in this country continues to be of notable importance.

The word "anniversary" is defined in Webster's 3rd New International Dictionary as "the annual recurrence of the date marking an event or occurrence of notable importance." The 76th anniversary of the Federal Credit Union Act gives a chance to reflect on why passage of this law is of notable importance and why having a system of credit unions in this country continues to be of notable importance.

We learn from each other

FROM MICHAEL E. FRYZEL

Every two years, NCUA holds a Regional Conference that brings together the entire NCUA family, over a two-week period, and provides a forum for communication among examiners, executive staff and the Board. Appropriately, the theme of this year's conference, which I attended, was "Connecting Through Communication."

Communication has been a key goal at NCUA as we work with credit unions, trade associations and state regulators to get through the turmoil affecting the financial services industry. At the conference, issues facing credit unions were discussed, information was provided and we learned from one another in collective small group sessions.

At NCUA we are committed to providing the most progressive tools and training for our examiners. Credit unions are more complex and sophisticated today then they have ever been. Therefore, the individuals who monitor their activity must be equal to the task. Learning and consistently getting better at what we do is an ongoing NCUA objective.

Examiners from across the country were especially enthusiastic, energized and involved as they were given the opportunity to listen to speakers, discuss better communication, ethics, health and wellness, partnerships and diversity. In addition, they took part in interactive workshops on member business lending, real estate, liquidity and fraud.

Being able to meet and talk to the men and women who visit our nation's credit unions daily and ensure the safety and soundness of the savings of over 90 million Americans was personally gratifying. These front-line individuals see problems firsthand and face the challenge of providing the right information as important decisions are made.

Learning and consistently getting better at what we do is an ongoing NCUA objective.

I believe they are the best trained, most conscientious, most dedicated individuals in the financial regulatory structure. They constantly strive to learn more, do a better job and excel in their profession. But I would be remiss and unrealistic if I fail to recognize that, in an organization of our size, there will be some who are not up to our expectations. Rest assured, shortcomings are addressed on a case-by-case basis, as the agency continuously works to have the most effective, best-trained staff possible.

Working with NCUA staff is an honor. Their dedication and commitment to securing the safety and soundness of America's federally insured credit unions is impressive. I am confident that, as we move through these difficult economic times, NCUA examiners will carry on with dedication to their mission, the credit union industry, and the credit union members across this country.

I have challenged NCUA's staff to excel, and I fully expect them to continue to meet and surpass my expectations.

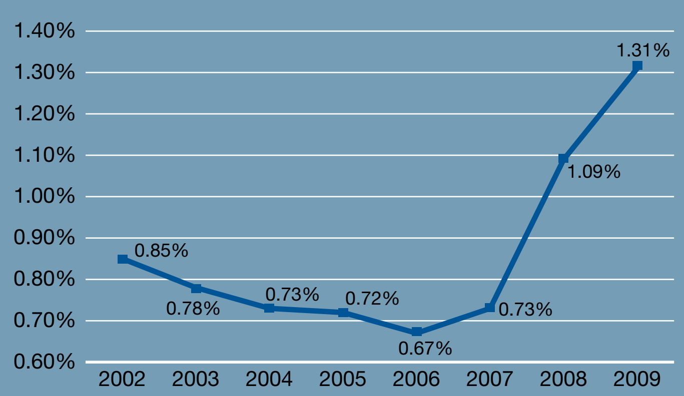
Better Ways to Prepare for Losses

Allowance Trends, Provisioning, Charge-Off Policies, and Loan Modifications

LOAN LOSS PROVISIONING—Funding allowance for loan losses is of interest to credit unions and examiners alike. Provisioning, or providing for losses is especially relevant in the current environment, with credit unions challenged to maintain a positive spread. As provided in a 2006 interagency policy statement, sound financial reporting requires "*prudent, conservative, but not excessive, loan loss allowances that fall within an acceptable range of estimated losses.*"

Credit unions loan loss allowance has been trending upward since 2007. This trend is consistent with deteriorating credit quality during the period. The chart below illustrates the increasing percentage of allowance to total loans.

Board adopts IRPS No. 02-3 GAAP-compliant ALLL



A few issues that continue to challenge credit unions in provisioning for loan losses include:

- Further granularity and detail is needed in pool segmentation; that is, pool segmentation is too broad. More segmentation should be done to improve provisioning accuracy, (e.g., new auto vs. used auto, direct vs. indirect, credit scores, type of collateral, credit risk grade, etc.).
- Credit unions tend to apply an historical charge-off percentage to the outstanding pool balance and then stop the methodology without considering relevant, current qualitative and environmental factors. Credit unions need to consider how the current environment compares to the period when the historical loss percentage was calculated and accordingly adjust provisioning outcome.
- Credit union systems do not flag loan modifications to distinguish troubled debt restructured modifications ("TDR") from modifications that are not TDR. Provisioning for TDR modifications falls within the scope of Financial Accounting Standard (FAS) 114, with methodology, funding, and document implications, rather than FAS 5.
- If a loan is evaluated for impairment under FAS 114 and found not to be impaired, credit unions tend to end their analysis, and the result is underfunding their allowance. Such loans should be reevaluated in a FAS 5 pool and provisioned accordingly.
- When applying the three impairment measures under FAS 114, if a credit union is depending on an income stream for repayment, they should use the present value of expected future cash flows. If the credit union depends on the sale of collateral, they should use the fair value of collateral less the cost to sell.

CHARGE-OFF POLICIES—It is not prudent to wait until the last dollar becomes uncollectible before charging-off an outstanding loan. When an asset, or portion thereof, is considered uncollectible, and of such little value that keeping it on the books is not warranted, it should be charged-off. This does not mean the asset has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off an essentially worthless asset (or portion thereof), even though partial recovery may occur in the future.

MODIFICATIONS—Before the most recent economic crisis, loan modifications were executed to improve collectability of the loan. More recently, some government sponsored loan modification programs have been aimed toward helping member-borrowers stay in their homes rather than face foreclosure. Re-default rates on modified loans are typically significantly higher than default rates on original, unmodified loans.

Loan modifications can be simple debt restructuring or troubled debt restructuring ("TDR"), as the latter term is defined within generally accepted accounting principles. The key financial reporting difference between the two types of modifications is that TDR falls within the scope of FASB ASC Topic 310 Receivables -10 Overall -35 Subsequent Measurement (previously FAS 114) and can result in higher measures of loan loss than loan modifications that do not qualify as TDR, even when the member is experiencing financial difficulty in both instances. An additional difference between the two types of modifications lies in the non-accrual and delinquency reporting requirements of the regulatory Call Report.

Before returning a TDR loan to full accrual status or curing delinquency, we look for evidence of payment performance under the modified terms for six consecutive payments. Performance under restructured terms is one of the most important considerations in assessing the likelihood of full collectability of restructured principal and interest. However, performance immediately prior to the restructuring should be considered in assessing whether the borrower can meet the restructured terms. Often, restructured terms reflect the level of debt service that the borrower has already

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CDFI Fund Invests in Credit Unions

The benefits of certification as a Community Development Financial Institution (CDFI) grow daily. Since 1996, the U.S. Department of the Treasury's CDFI Fund has invested more than $80 million in CDFI-certified credit unions. The federal appropriation for the CDFI Fund is the largest history, and the Obama administration has proposed a 30 percent increase in funding for the CDFI Program in its 2011 budget. Under another Treasury program, the Community Development Capital Initiative, CDFI certified credit unions were able to apply for secondary capital investment of up to 3.5 percent of their total assets. This could result in as much as $282 million of additional Treasury investments in credit unions. Now is an ideal time for credit unions to become CDFIs.

CDFI 15 YEARS FUND U.S. Treasury Department

Currently, 170 credit unions are CDFI-certified, and more than 120 have received awards under federal funding programs. These numbers demonstrate that credit unions can successfully access the Fund's resources. The key is an alignment with the CDFI Fund's mission: "providing credit, capital, and financial services to underserved populations and economically distressed communities." NCUA encourages credit unions to apply if they have a demonstrated commitment to serving low-income members.

Below are profiles of three successful award recipients:

ASI Federal Credit Union is based just outside New Orleans. After unsuccessful attempts, $300 million ASI received its first award in 2006. The $585,000 helped to mitigate portfolio losses resulting from Hurricane Katrina, and it also helped pay for equipment used in post-hurricane satellite branches. ASI has received an award in each round since 2006, which now total $4.6 million.

Communicating Arts Credit Union, based in Detroit, Michigan, has $26 million in assets. They applied three times before receiving their first award in 2009 for $2 million. The funds provided much-needed lending capital to support their recently opened branch in the low-income Highland Park community. In 2009, the credit union won the "Outstanding Credit Union of the Year" award from the Michigan Credit Union League, which recognizes "a credit union whose service goes far beyond the normal day-to-day financial service needs of its members to include outreach to modest means, unbanked consumers, financial education, and community outreach services."

Wolf Point Federal Credit Union, based in Wolf Point, Montana, has $8 million in assets. Wolf Point is one of 56 "Native CDFIs" eligible for funding under a separate CDFI Fund program for institutions that primarily serve Native American, Native Hawaiian, or Native Alaskan communities. Wolf Point members include Sioux tribe residents of the Fort Peck Indian Reservation. Wolf Point has received two CDFI Fund awards totaling more than $700,000.

The Office of Small Credit Union Initiatives provides assistance to small and low-income designated credit unions pursuing CDFI certification or funding.

Call 703.518.6610 for more information.

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for employees of a non-federally insured credit union will contain a clear statement that the credit union is not federally insured.

The final rule is effective 60 days after publication in the *Federal Register*. Compliance is required 180 days after public notice that the NMLS and Registry is accepting federal registrations.

NATIONAL CREDIT UNION SHARE INSURANCE FUND REPORT

NCUA's Chief Financial Officer reported the Fund's reserve balance totaled $896.3 million April 30, 2010, with $177.3 million charged to insurance loss expense thus far in 2010.

The NCUSIF equity ratio declined from 1.26 to 1.24 percent during April, primarily due to $170 million charged to insurance losses during the month. The equity ratio is based on the NCUSIF balance and the amount of insured shares held by the nation's federally insured credit unions at year-end 2009.

Twelve federally insured credit unions have failed thus far in 2010 at a cost to the NCUSIF of $12.1 million.

There were 357 CAMEL code 4&5 credit unions April 30, 2010, representing 5.94 percent of 2009 year-end total insured shares. This is eight more CAMEL code 4&5 credit unions than reported last month.

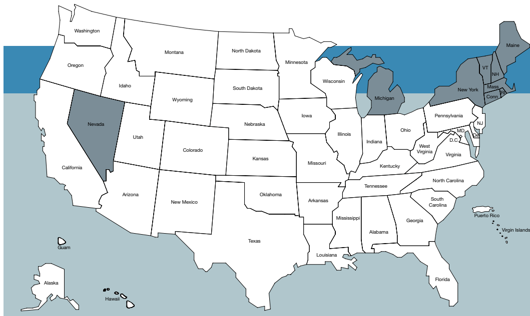
The current distribution of federally insured credit union assets by CAMEL code follows:

- 80.7 percent of assets are held in CAMEL code 1&2 credit unions;
- 13.7 percent of assets are in CAMEL code 3 credit unions; and
- 5.6 percent of assets are held in CAMEL code 4&5 credit unions.

Through April, NCUSIF's annual revenue and expenses included total income of $88.3 million and total expenses of $226.4 million, resulting in negative net income of $138.1 million.

The Temporary Corporate Credit Union Stabilization Fund had net income of $25,284, corporate credit union expense of $1.03 billion, and interest expense of $1.7 million at April 30, 2010.

Board votes are unanimous unless otherwise indicated. NCUA rule changes are posted online at www.ncua.gov under *Resources/Regulations, Legal Opinions and Laws.*



Region I

Keys to Effective Fair Lending

Credit unions are required to comply with the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA), which are federal fair lending laws designed to promote available credit by making it unlawful to discriminate in any aspect of a credit transaction based on certain prohibited factors (e.g., race, religion, national origin, etc). Unlawful discrimination includes both intentional and unintentional discrimination. Violations of ECOA or FHA by a credit union can result in civil penalties. Therefore, a credit union must have an effective fair lending program.

The following are some keys to maintaining an effective fair lending program:

Fair Lending Statement

The credit union should adopt a fair lending statement that demonstrates the credit union's commitment to fair lending. This fair lending statement should be periodically communicated throughout the organization.

Risk Assessment

To design an effective fair lending program, management must first perform a comprehensive risk assessment. The goal of a risk assessment is to identify and measure the inherent risk in the credit union's lending processes and to determine what control and monitoring mechanisms are in place to protect against discrimination.

Policies and Procedures

When management understands the credit union's fair lending risk profile via the risk assessment, the appropriate policies and procedures should be developed or enhanced to mitigate identified fair lending risks. The credit union's fair lending policies and procedures should be reviewed periodically and updated as necessary.

Staff Training

All applicable credit union personnel should receive continuing documented training on fair lending regulations and the credit union's internal fair lending policies and procedures.

Internal Controls

Management should implement a system of sound internal controls designed to provide reasonable assurance the credit union is achieving its fair lending objectives. The system of internal controls should, at a minimum, include designation of an individual(s) responsible for overseeing the program, provide for internal and/or external reviews, establish reporting requirements to the board of directors, and ensure timely corrective action regarding any program deficiencies.

NCUA places a priority on ensuring that credit unions comply with all nondiscrimination laws and work to protect their members against discrimination or unfair home mortgage lending practices. By maintaining an effective fair lending program, which includes the above items, both the credit union and NCUA will accomplish these goals.

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