The NCUA Report
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Number 8
National Credit Union Administration

NCUA reforms corporate system, protects consumers

Plan addresses impaired assets, conserves 3 corporates, preserves CU stability

NCUA assumed control of three undercapitalized corporate credit unions on September 24, 2010, announced a plan to isolate the impaired assets in the corporate credit union system, and finalized a set of stronger regulations – key elements in its efforts to resolve the financial challenges facing corporate credit unions without disrupting consumer service.

"The steps NCUA has taken today represent a comprehensive solution to the problems afflicting the corporate credit union system," said NCUA Chairman Debbie Matz. "Just as important, this plan puts consumers first and ensures that there will be no loss to taxpayers. This plan also provides an orderly transition to a new regulatory regime for corporates. In addition, we are affording local credit unions greater choice in selection of their liquidity and back office provider."

The Temporary Corporate Credit Union Share Guarantee Program remains fully in effect for the entire corporate system through December 31, 2012. In addition, NCUA continues to insure credit union and consumer deposits up to $250,000 per account.

Setting the plan into motion required conservatorship of three additional corporate credit unions that are not viable: Members United Corporate Federal Credit Union of Warrenville, Illinois; Southwest Corporate Federal Credit Union of Plano, Texas; and Constitution Corporate Federal Credit Union of Wallingford, Connecticut. In 2009, U.S. Central Corporate Federal Credit Union of Lenexa, Kansas, and Western Corporate Federal Credit Union of San Dimas, California, were also placed into conservatorship. In a conservatorship, NCUA replaces an institution's management and board, operating it in a way that protects *taxpayers' and* members' interests during its orderly transition and resolution.

The plan to address the impaired assets and resolve these troubled institutions involves several interrelated steps:

- Isolating the impaired securities (legacy assets) held by these five corporate credit unions;
- Repackaging the legacy assets into new securities with an NCUA guarantee backed by the unconditional full faith and credit of the United States government;
- Issuing the new securities to investors on the open market;
- Transferring the corporates' still-valuable assets to newly created "bridge banks" that will allow for continued operations; and
- Transitioning operations now under NCUA conservatorship over a target of 24 months to other service providers.

NCUA has consulted with the Treasury, Federal Reserve and other federal financial regulators in developing these plans, and will continue to work closely with these agencies to ensure the orderly resolution of conserved corporates, the effective implementation of the steps outlined, and the continued smooth operation of the credit union system.

In particular, the life of the Temporary Corporate Credit Union Stabilization Fund has been extended to June 30, 2021, with the concurrence of Treasury Secretary Timothy F. Geithner. This will provide

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Corporate System Resolution

"NCUA has a responsibility, first and foremost, to protect the interests of consumers. Our solution is predicated on this principle."
NCUA Chairman Debbie Matz

NCUA has created a comprehensive webpage that contains information about the agency's strategy to **stabilize, resolve** and **reform** the corporate credit union system. Accessible via NCUA's homepage www.ncua.gov under highlighted item 2—Corporate System Resolution—www.ncua.gov/Resources/CorporateCU/CSRMain.aspx contains all rules, Letters to Credit Unions, video presentations, Frequently Asked Questions, Fact Sheets and media releases pertaining to corporate system resolution.

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Chairman's Corner

Securing a Brighter Future

NCUA's comprehensive solution to the corporate credit union crisis will secure a brighter future for the entire credit union system.

Our plan to securitize corporates' legacy assets will allow member credit unions to determine the future of corporates, free of the pall cast over the system by billions of dollars in impaired assets.

And our new corporate rule will ensure that such a crisis can never occur again.

Taken together, NCUA's actions meet all four strategic objectives set forth from the very beginning of the crisis:

1. Prevent any disruption in services to consumers or credit unions;
2. Preserve confidence in the credit union system;
3. Isolate the legacy assets at the lowest long-term cost consistent with sound public policy; and
4. Facilitate an orderly transition to a new regulatory regime which allows consumer credit unions to exercise real choice.

Consumer credit unions will have opportunities to choose among several viable business options:

- Recapitalize your current corporate;
- Switch to another corporate;
- Charter a new corporate;
- Support a CUSO purchase of a bridge corporate; or
- Find a liquidity and payment services provider outside the credit union system.

You also have my commitment to continued transparency as we transition from corporate stabilization to resolution and reform.

As we move forward, I want to emphasize:

- Credit unions do not have to make a decision immediately. Bridge corporates will operate for 24 months so credit unions have up to two years to decide how to proceed.
- Credit unions that had to write off a depleted capital investment in a failed corporate will receive a "Claim Receipt" from NCUA's Asset Management Assistance Center. If future earnings on the legacy assets exceed projected losses, credit unions may file a claim for recovery.
- All other corporates, based on current conditions, are financially viable. If they are recapitalized under NCUA's stronger regulatory framework, corporates will be better positioned to protect that capital.

I want to express my appreciation to credit unions and other stakeholders for the patience they have shown as we worked through this thorough resolution and reform process.

Our actions will strengthen the foundation of the credit union system, so that credit unions will be around to serve members for a long time to come.

With NCUA's new regulatory regime for corporates—and with our plan to unburden the legacy assets—credit unions can now turn the page from unprecedented challenges to a promising future.

I am eager to work with America's credit union leaders to begin this new chapter in credit union history.

Debbie Matz

September 24, 2010, Alexandria, Va.—*The NCUA Board members following their votes on the new corporate rule and resolution initiatives.*

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.

Office of Public & Congressional Affairs
Cherie Umbel, Editor

National Credit Union Administration
1775 Duke Street, Alexandria, VA 22314-3428

BOARD *ACTIONS* September 24, 2010

CORPORATE SYSTEM REFORM RULE FINALIZED

The NCUA Board issued a final rule that establishes a new, comprehensive framework for corporate credit union safety and soundness. The rule will strengthen the corporate credit union system and reduce the systemic risk associated with the corporate system. (See page 1.)

CORPORATE CREDIT UNION LEGACY ASSET RESOLUTION OUTLINED

NCUA's deputy executive director reported that over the past two years some corporate credit unions (essentially "banker's banks") have suffered severe losses from a decline in the value of mortgage backed securities they held. These losses threatened to destabilize the entire credit union system and interrupt payment transactions for 90 million consumers. NCUA has been successful in stabilizing the situation, and is now prepared to resolve the individual problem institutions and reform the regulatory framework for corporate credit unions. (See page 1.)

BOARD DELEGATES CORPORATE CREDIT UNION CUSO AUTHORITY

The NCUA Board delegated authority to the director, Office of Corporate Credit Unions (OCCU) to review, and approve or disapprove, applications from corporate CUSOs under the new paragraph 704.11(e)(1)(iii) of the NCUA R&Rs to engage in certain categories of activities.

The activities subject to this delegation are those authorized for federal credit union CUSOs under §712.5. Any application that goes beyond the scope of activities listed in §712.5 will be decided by the NCUA Board. The delegation also authorizes the OCCU director to post approved corporate CUSO activities on NCUA's website.

CORPORATE CREDIT UNION CHARTERING GUIDELINES ISSUED

The NCUA Board issued proposed guidelines setting forth NCUA requirements and the process for granting new corporate FCU charters.

NCUA is issuing these guidelines as Interpretive Ruling and Policy Statement (IRPS) "Corporate Federal Credit Union Chartering Guidelines" with a 30-day comment period. Prior to finalization, NCUA will also use the proposed guidelines to process any corporate FCU charter applications received during the comment period.

The NCUA Board issued a final rule establishing a comprehensive framework for corporate credit union safety and soundness.

September 16, 2010

FCUS CAN COMBAT PREDATORY LENDING WITH SHORT-TERM SMALL LOANS

The NCUA Board issued a final change to the general lending rule, §701.21, that allows federal credit unions (FCUs) to charge a higher interest rate for short-term small loans, provided FCUs offer the loans in accordance with requirements of the rule. The final rule provides FCUs with the ability to offer a viable alternative to predatory payday loans.

The rule sets an interest rate ceiling for short-term small loans of 28 percent. To charge this higher APR, FCUs must make loans in accordance with requirements of the rule, which include limitations on the permissible term, amount, and fees associated with a short-term small loan, and it requires that the loans be fully amortized. The final rule also requires an FCU to set a cap on the aggregate dollar amount of short-term small loans outstanding and to set a minimum length of membership requirement.

The payday loan alternative will help FCUs fulfill their mission of promoting thrift and meeting members' credit needs, particularly the needs of members of modest means. Permitting a higher interest rate for short-term small loans will allow FCUs to make cost-effective loans while limitations will appropriately constrain the product to the role of an alternative to predatory credit products.

Loan Rule Specifics

The new rule enables a federal credit union to charge an interest rate of up to 1000 basis points above the current maximum 18 percent interest rate established by the NCUA Board, provided that the federal credit union is making a closed-end loan in accordance with the following requirements:

- The principal of the loan is not less than $200 or more than $1,000;
- The loan term is between 1 month and 6 months;
- A borrower is limited to no more than three loans in any rolling 6-month period, and a borrower is limited to no more than one, short-term small loan at a time;
- The federal credit union must not roll over any short-term small loan; however,

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REGISTER FOR TOWN HALLS; DISCUSS NEW CORPORATE RULES, ASSET PLANS

NCUA is holding 10 Regional Town Hall meetings in October in an effort to explain to as many stakeholders as possible the comprehensive new rules affecting corporate credit union operations and corporate legacy asset resolution.

The free meetings are in or near Atlanta, Boston, Dallas, Chicago, Columbus, Detroit, Los Angeles, Orlando, Portland, Oregon, and Alexandria, Virginia. Please access **www.ncua.gov/GenInfo/Members/Matz/meetings2010.aspx** to view exact locations and register.

Appearance calendar

Date: October 15, 2010
Who: Board Member Michael Fryzel
Event: NCUA Town Hall Meeting
Location: Columbus, OH

Date: October 18, 2010
Who: Board Member Michael Fryzel
Event: NCUA Town Hall Meeting
Location: Chicago, IL

Date: October 19, 2010
Who: Chairman Debbie Matz, Board Members Hyland and Fryzel
Event: NCUA Town Hall Meeting
Location: Alexandria, VA

Date: October 22, 2010
Who: Board Member Gigi Hyland
Event: Orlando Town Hall Meeting
Location: Orlando, FL

Date: October 23, 2010
Who: Chairman Debbie Matz
Event: MDDCCUA Volunteer Leadership Conference
Location: Ocean City, MD

Date: October 25, 2010
Who: Board Member Gigi Hyland
Event: AICPA National Conference on Credit Unions
Location: Las Vegas, NV

Date: October 29, 2010
Who: Chairman Debbie Matz
Event: NCUA Town Hall Meeting
Location: Los Angeles, CA

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

NCUA REFORMS from page 1

the NCUA Board with important flexibility in mitigating the impact of the annual assessments to credit unions for the costs over this period. It should be noted that the costs will be borne exclusively by the credit union industry, and will not result in any loss to taxpayers.

NCUA adopted a new set of regulatory reforms aimed at strengthening the corporate credit union system. The new corporate regulation (NCUA Rules and Regulations, Part 704):

- Implements stronger capital requirements and establishes prompt corrective action measures for corporate credit unions;
- Establishes clear concentration limits on investments that will require corporate credit unions to better diversify their portfolios;
- Improves asset-liability management requirements to avoid liquidity and interest rate risks; and
- Raises governance standards to improve levels of experience and expertise on corporate boards.

"NCUA's action to deal with the troubled institutions and the impaired securities on the corporates' books—together with reforms to the NCUA regulation that governs the corporate system—will create stronger safeguards for the nation's entire credit union system," said Chairman Matz. "The credit union community has long hoped to see a coordinated, market-based, least-cost solution to the corporate crisis, and we have delivered that today."

NCUA Board Member Gigi Hyland noted, "The regulatory reforms and plan to resolve the troubled institutions and their impaired assets are key steps to allow the credit union system to move forward. The corporate rule is stronger thanks to the 815 commenters who provided NCUA feedback. And, these actions reflect the key principle that has guided NCUA's efforts—finding a solution that minimizes, as much as possible, the cost to the credit union system while spreading that cost out over time."

NCUA Board Member Michael Fryzel commented that "NCUA, along with the entire credit union industry, has struggled with the corporate problem for over two years. These Board actions culminate months of analysis, review and planning and establish a regulatory framework and viable options that will prevent a recurrence of this crisis and give credit unions a choice for the future."

Chairman Matz also emphasized that the future of the remainder of the corporate credit union system will be determined by the private sector's judgment, not by any government dictate.

"The leaders of the nation's consumer credit unions must make the strategic business decisions about whether to recapitalize some of the remaining, viable corporates, switch to a different corporate, or seek services at some other type of institution," said Matz. "NCUA is confident that the new framework will enable the choices ahead to be made in the context of strong and safe credit union operations. The credit union industry and the 90 million consumers it serves deserve nothing less."

Board actions for September 24, on page 3, contain more details about the actions taken and reports provided at the special Board meeting.

A strong supervisory committee is essential

FROM GIGI HYLAND

I recently had the opportunity to speak to 150 volunteers at the National Association of Credit Union Supervisory and Audit Committees. During my remarks, I stressed that the role of the Supervisory/Audit Committee cannot be overemphasized.

In these times of economic turbulence, it is critical that the Committee play an active oversight role. Below are five important areas for a Committee to consider in carrying out its 2010 agenda. These areas are derived from KPMG's Auditing Committee Institute's (ACI) "Ten To-Do's for Audit Committees in 2010," available at **www.accountingweb.com/topic/kpmg-ten-dos-audit-committees-2010**.

- Understand the risks posed by cost reductions made in response to the economic crisis. Cost-cutting has been a key response of most credit unions to the economic crisis. As companies cut costs and reduce their workforce, the control environment becomes even more critical. Now is not the time to cut back on internal audit budgets.
- Rethink the Committee's role in risk oversight, with an eye to narrowing the scope. Does the Committee have the expertise and time to deal with strategic, operational and other risks? Is the expertise of other board members being leveraged? The Committee already has a lot on its plate with oversight of financial reporting risks.
- Make sure internal audit is properly focused and fully utilized. Help refine internal audit's role—and focus internal audit's activities on key areas of risk, as well as risk management generally.
- The economic crisis continues to put pressure on compliance and anti-fraud programs. Be vigilant. The economic downturn has placed tremendous pressure on management to achieve operating results. At the same time, cost cuts and workforce reductions may have exacerbated these pressures.
- Help link change and risk—and monitor critical alignments. Change creates risk. During times of dramatic change, the risk of misalignment—of the credit union's strategy, goals, risk, controls, compliance, incentives and people—goes up exponentially. Given the supervisory committee's role in overseeing risk, internal controls, compliance, and ultimately the impact of significant changes on the company's financials, the committee is in a unique position to help reduce the risk of misalignment.

A strong Supervisory/Audit Committee is essential for the continued health of the credit union system. I urge all credit unions to ensure they provide their Committee with the appropriate resources and support.

Recapitalize? Yes or No?

FROM MICHAEL E. FRYZEL

After months of intense work: numerous town hall gatherings, webinars, interest group meetings, review of submitted documents and reading of hundreds of comment letters, the finale rule on corporate credit union reform has been published.

We have now turned the page from a challenging chapter in credit union history to a new chapter that offers a more promising future.

The rule establishes new capital standards, investment and asset liability limits, increased NCUA control and oversight of corporate CUSOs, and it provides for improved corporate governance.

In crafting the new corporate rule, NCUA set out to fundamentally reform how corporates operate and to make sure that such a corporate crisis will never again be possible.

Will it work? Can the corporates successfully do business under the new rule? Will natural person credit unions look elsewhere for traditional corporate services? Or, will natural person credit unions recapitalize the corporates that remain and move forward with them during this period of reconstruction?

NCUA and the credit union industry have been struggling with the corporate dilemma for over two years. Emotions have ranged from disbelief to acceptance and a commitment to make things better. The cooperative efforts and energy of credit unions large and small, along with federal and state regulators, has been unparalleled in the history of the industry. The process of crafting the new rule has drawn on the best thinking of the credit union community. We invited the input of every stakeholder, and the outpouring of responses helped us reach a better understanding of how to reform the corporate network. And now that we have arrived at this juncture, the next decision lies solely with natural person credit unions.

The new corporate rule makes it clear that natural person credit unions are empowered to make decisions about the corporates future. Each CEO must go to their board of directors and explain the pros and cons of either staying with or leaving the corporate network. They must detail the cost of staying as well as the cost of finding similar needed services elsewhere. After careful review a final decision will be made by the Board of Directors across the country and ultimately it will based on a business decision for their particular credit unions.

As natural person credit unions gradually make their individual decisions, they will collectively shape the future of the corporates. This is not an easy task and there is no easy answer. But it is a decision that can only be made by the stakeholders of the industry, the natural person credit unions.

NATIONAL CREDIT UNION ADMINISTRATION

CAPITAL MARKETS

Private-label mortgage-backed securities: loss severity

The Capital Markets article in the July/August issue of The NCUA Report discussed conditional default rates as a measure of credit risk in private-label mortgage-backed securities. This article explains the equally important measure of **loss severity** relating to these structured investment products, which do not enjoy the credit protection of mortgage-backed securities issued by government agencies.

As the previous article explains, the conditional default rate expresses the sum of defaulted loans as a percentage of total loans that have been pooled to provide the cash flow and to act as collateral for a mortgage bond. A similar explanation of loss severity follows. The sale price of a foreclosed home will reflect home price declines. This price minus the foreclosure costs, and minus principal and interest advances made by the loan servicer while the foreclosed loan was still considered recoverable, are the net proceeds from the sale. The loan balance less the net proceeds represents the loss on the mortgage loan. This loss, as a percentage of the loan balance, is the loss severity as reported by loan servicers. Higher default rates and greater loss severities both translate into higher losses on the mortgage loan underlying the bond.

Several factors contribute to loss severity in the current environment. Inflated appraisals made in the past facilitated over-borrowing. Current loan to value ratios reflect both home price declines that occurred in the recent downturn and higher loan balances facilitated by previous appraisal practices. As a result, over 20 percent of all residential properties with mortgage balances have negative equity. Future levels of negative equity will be driven by weakening or improvement in the housing market. Option ARMs and Alt-A mortgages are now comparable to subprime mortgages in loss severity, and projections of high-loss severities in all these classes are common, especially in 2006 and 2007 vintages. The liquidation time added to the delinquency time determines the level of principal and interest advances contributing to the loss severity.

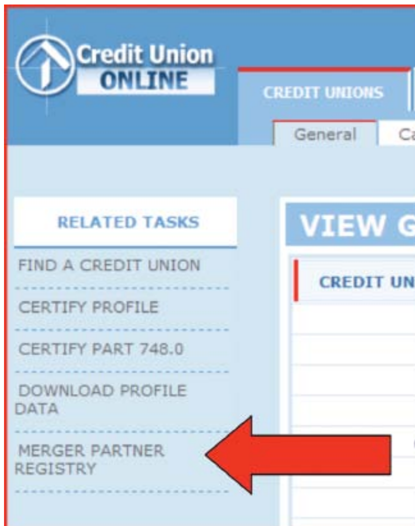
Efforts have been made to mitigate losses. Short sales of foreclosed properties have shown lower loss severities as servicers have actively used these rather than REO sales to mitigate loss. Lenders have entered into loan modifications with borrowers. The success of these efforts is not yet clear and will partly depend on the current and future performance of the economy, particularly the level of unemployment, which has been resistant to recovery. In the structured finance world, resecuritized instruments since 2009 have sought to break privately issued securities into more numerous and more finely defined cash flows to provide additional credit enhancement to a subset of the tranches.

It should be clear to those looking at instruments such as privately-issued mortgage backed securities, that any assessment of projected principal losses relative to the currently distressed prices on the securities is a challenging task. The due diligence and the complexity of analysis are considerable. Credit unions have enjoyed an influx of funds which they need to invest. They should be mindful of the future liquidity of their investments as well as their return in the current environment.

Alexandria, Va.*—Board Member Gigi Hyland and NCUA staff recently welcomed a group of Kenya visitors to NCUA. From the left are NCUA staff members Christopher McGrath, Robert Leonard, Gary Kohn, and Pamela Yu, Kenya Regulatory Agency Chairman Peter Gakunu, Board Member Hyland, Kenya Regulatory Agency Board Member Esther Keino, Kenya Regulatory Agency CEO Carilus Ademba, NCUA staff member Gerard Poliquin and World Council of Credit Unions Executive Vice President and CEO Brian Branch.*

Your savings federally insured to at least $250,000
and backed by the full faith and credit of the United States Government
NCUA
National Credit Union Administration, a U.S. Government Agency

Register your interest in FOM expansion



Merger Partner Registry is here

Credit unions can now convey interest in expanding their field of membership through consolidation with a troubled credit union by signing up on NCUA's Merger Partner Registry. Credit unions can select a geographical area as broad as the United States or as narrow as 25 miles from a given address. Selection by states and counties within specified states is also possible.

NCUA and state supervisory authorities can now use the information within the system to broaden their pool of bidders or potential merger partners for troubled credit unions. The system information is only viewable by NCUA and applicable state supervisors. In addition, state supervisors can only view information related to state-chartered institutions in their states.

Credit unions can access the Merger Partner Registry by logging in online at **www.ncua.gov** under *Credit Union Data/Credit Union Online/Login to Credit Union Online.* A paper form will be made available for credit unions that manually file call reports. Beginning with the December 2010 reporting cycle, the paper version of the form will be incorporated into the Profile Form for manual call report filers.

Federal Reserve initiates rule changes for open-end lending

Recent changes to Regulation Z are instigating questions about what credit unions must do to comply with revised Federal Reserve Board guidance addressing multi-featured, open-end lending (MFOEL) plans. Many credit unions offer MFOEL plans through CUNA Mutual's LOANLINER program.

MFOEL plans are single accounts with separate sub-accounts for different loan products. The revised official staff commentary to the regulation continues to permit MFOEL plans, but individual credit transactions may not be evaluated separately. Essentially, credit unions offering MFOEL may "occasionally or routinely" verify credit information, but verification is not required "as a condition" of granting a new advance loan under the plan. In other words: Underwriting individual advances is no longer required for a loan extension treated as open-end credit under an MFOEL plan.

NCUA Letter to FCUs 10-CU-02 summarizes the regulatory changes and clarifies best practices. Credit unions that wish to continue offering MFOEL plans should do the following:

- Draft and approve policies and procedures that differentiate open-end lending from closed-end lending.
- Address the different processes for opening MFOEL plans, performing "occasional or routine" verification, and issuing advances within open-end policies.
- Consider establishing specific credit limits or credit lines for each feature within a MFOEL plan. While this is not a Regulation Z requirement, such a practice would provide support for performing underwriting when over the limit requests are received.
- Consider engaging legal counsel to review credit union policies, procedures, and documents for compliance with Regulation Z.
- Work with data processing providers to ensure they can support the credit union's policies and procedures for MFOEL. Data processing systems must be able to identify members with MFOEL plans and send appropriate periodic statements.
- Ensure staff receives the necessary training required to perform MFOEL. This fundamental concept likely requires staff understanding beyond the lending department. For example, member service representatives and call center staff should be knowledgeable in MFOEL terms and processes.
- When MFOEL plans are secured by collateral such as a member's vehicle, it is still appropriate for credit unions to verify the collateral value with each advance.
- Portfolio credit scoring or "soft pulls" are appropriate if done on a routine or periodic basis for the entire MFOEL portfolio, but are not permissible as part of the process of considering whether to grant a particular advance that will be treated as open-end credit. After opening MFOEL plans, credit reports should be used to verify continued creditworthiness, not to re-underwrite a loan. For example, using credit report information to complete debt-to-income ratio computations would go beyond the parameters of permissible "verification" and into the area of impermissible "underwriting."
- Credit unions should use closed-end lending practices and disclosures when it is appropriate to perform underwriting when funds are advanced. Examples of traditional MFOEL products where closed-end lending is generally more appropriate include vehicle secured loans and large balance unsecured loans.

- The prohibition against rollovers does not apply to an extension of the loan term within the maximum 6-month loan term, and the federal credit union cannot charge additional fees or extend any new credit;
- The federal credit union must fully amortize the loan;
- The federal credit union sets a minimum 1-month membership requirement;
- The federal credit union charges an application fee reflecting actual costs associated with processing the application. The application fee cannot exceed $20; and
- The federal credit union includes, in written lending policies, a limit on the aggregate dollar amount of short-term small loans of a maximum 20 percent of net worth and implements appropriate underwriting guidelines to minimize risk; for example, requiring a borrower to verify employment by producing at least two recent pay stubs.

The final rule also includes "best practices" to help FCUs develop a successful short-term small loan program, minimizing risk, and developing appropriate underwriting standards. The rule becomes effective October 25, 2010.

The new lending rule sets a 28 percent interest rate ceiling for short-term small loans.

Also, federal credit unions can continue to participate in a closed- or open-end payday loan program that operates successfully and legally under NCUA regulations and the Federal Reserve Board's Regulation Z. For more information, see *Letter to Federal Credit Unions (09-FCU-05)*.

2010 NCUSIF PREMIUM IS 0.1242 PERCENT

The NCUA Board established a 0.1242 percent insurance premium for federally insured credit unions (FICUs) to meet statutory demands and restore the NCUSIF equity ratio to 1.30 percent. August 31, 2010, financial statements indicate an NCUSIF equity ratio of 1.176 percent.

Although the $933 million premium, due in late November, will temporarily increase the NCUSIF equity ratio to 1.30 percent, the equity ratio is projected to continue to decline. Analysis indicates this premium assessment will maintain the level above 1.20 percent through June 30, 2011.

Analysis indicates this premium assessment will maintain the level above 1.20 percent through June 30, 2011.

Actual losses in failed natural person credit unions; potential losses based on trends in troubled CAMEL codes; earnings on NCUSIF assets; and growth in insured shares have adversely impacted the equity ratio in 2010—a trend that is expected to continue in the near term. NCUSIF recorded $642 million in provision for insurance loss expenses through August 2010. The provision for insurance loss expense, combined with low earnings on NCUSIF assets, has resulted in a $570 million reduction in NCUSIF retained earnings.

Credit union CAMEL codes also have a material impact on NCUSIF's required reserve level. At June 30, 2010, 366 FICUs, with assets of $48.8 billion, were designated as problem institutions (defined as those credit unions having a composite CAMEL rating of 4 or 5). This compares to 291 problem credit unions, with assets of $28 billion, on June 30, 2009. Additionally, the number and asset size of CAMEL 3 rated credit unions increased to 1,739 at June 30, 2010, with assets of $149.8 billion, compared to 1,485 credit unions, with assets of $86 billion, on June 30, 2009.

When the equity ratio is expected to fall, or actually falls below 1.20 percent, the Helping Families Save Their Homes Act of 2009 requires NCUA to implement an NCUSIF restoration plan within 90 days.

June 2010 call reports disclose modest improvement in the operating condition of federally insured credit unions. However, credit quality remains a concern, with continued high levels of delinquent loans and charge-offs, along with increasing inventories of foreclosed assets. FICUs reported a return on assets (ROA) before assessments of 0.62 percent for the first half of 2010.

This 2010 NCUSIF premium, combined with the Stabilization Fund assessment approved in June 2010, totals 0.2582 percent of insured shares. The combined charges are within the 0.15 to 0.40 percent of insured shares range projected by NCUA in November 2009.

The NCUA Board will release an estimated range for 2011 at the open meeting on November 18th.

Chairman Matz's statement on the NCUSIF insurance premium is available online at **www.ncua.gov/GenInfo/Members/Matz/speeches/10-0916MatzStatementNCUSIFPremium.pdf**.

SECONDARY CAPITAL REDEMPTION RULE CONFIRMED

The NCUA Board today confirmed an interim final rule issued February 9, 2010, that allows low-income-designated credit unions (LICUs) to redeem secondary capital accepted from the United States government any time after it has been on deposit for two years. The interim final rule was issued to facilitate LICU participation in the Community Development Capital Initiative (CDCI), an initiative developed by the Treasury Department under the Troubled Asset Relief Program.

The final rule includes technical changes and clarifications. The rule continues to permit redemption of all or part of government-funded secondary capital, along with its matching secondary capital, subject to NCUA regional director approval. It also leaves in place loss-distribution procedures applicable to secondary capital accepted pursuant to CDCI. Finally, the rule clarifies

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the net-worth recognition of a secondary capital account so that, in the event of early redemption, the net-worth recognized will be the lesser of the balance remaining in the account or the amount specified in the regulation's net-worth schedule.

FEDERAL CREDIT UNION CHARTER CONVERSION DENIED

The NCUA Board, by a 2-to-1 vote, upheld the regional director's decision denying Vantage Credit Union's request to convert to a federal community charter because the proposed field of membership does not qualify as a local community under NCUA's chartering standards.

Vantage Credit Union, a Missouri-chartered, geographic-area credit union located in the St. Louis area, applied to convert to a federal community charter, requesting the City of St. Louis and seven additional counties, including four Missouri counties and three Illinois counties. The population exceeds 2.5 million people. NCUA's regional director denied the application and request based on lack of adequate interaction and common interests of the residents of the proposed community.

This was the final application decided by the NCUA Board under the agency's old FOM rule. Those subjective chartering standards have now been replaced by the objective standards unanimously approved by the NCUA Board in June.

BOARD ADOPTS FEDERAL ACCOUNTING STANDARD FOR NCUSIF

The NCUA Board adopted Federal Accounting Standards Advisory Board (FASAB) standards, also known as Federal Accounting Standards, for the National Credit Union Share Insurance Fund (NCUSIF), retroactive to January 1, 2010.

NCUA adopted Federal Accounting Standards Advisory Board (FASAB) standards, for the National Credit Union Share Insurance Fund (NCUSIF).

FASAB standards more appropriately meet the financial reporting requirements of the NCUSIF and its stakeholders.

This Board action follows a similar June 17, 2010, action that adopted the same accounting standards for the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). Since then, NCUA has gained more experience with FASAB standards and has seen firsthand that FASAB standards more appropriately meet the financial reporting requirements of the NCUSIF and its stakeholders.

FASAB is the preferred method of reporting for federal entities. The American Institute of Certified Public Accountants (AICPA) recognizes FASAB as the board that promulgates generally accepted accounting principles (GAAP) for federal entities. FASAB is responsible for designating GAAP for federal entities.

NATIONAL CREDIT UNION SHARE INSURANCE FUND REPORT

NCUA's Chief Financial Officer reported a National Credit Union Share Insurance Fund reserve balance of $1.2 billion at August 31, 2010, with $211.6 million charged to insurance loss expense in August, and a total of $641.6 million charged to total insurance loss expense year-to-date 2010.

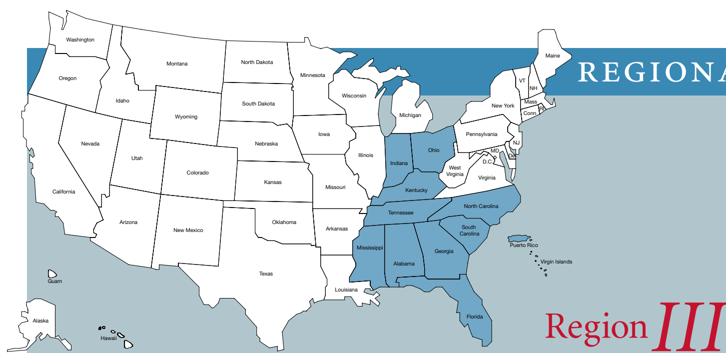
Twenty-three federally insured credit unions have failed thus far in 2010 at a cost to the Fund of $215 million. Through August, 14 involuntary liquidations and 9 assisted mergers have occurred this year.

There were 360 CAMEL code 4&5 credit unions as of August 31, representing 5.26 percent of mid-year 2010 total insured shares. Through August, NCUSIF's annual revenue and expenses included income of $180.5 million and expenses of $750.3 million, resulting in negative NCUSIF net income of $569.9 million.

Temporary Corporate Credit Union Stabilization Fund (TCCUSF) total revenue is $1.0 billion and total costs are $4.7 million, resulting in a net cost of operations of negative $995.6 million through August 31, 2010. Results reported include the special assessment of $999.7 million that was invoiced in July and collected in August 2010. TCCUSF has assets of $1.9 billion, liabilities of $7.9 billion and a total net position of negative $6.0 billion.

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

September 24, 2010, Alexandria, Va.—Board Member Michael Fryzel at the NCUA Board meeting.



Meeting SAFE Act mortgage loan originator requirements

Credit unions are required to establish written policies providing a basic framework for compliance with the *Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act)* in accordance with NCUA Regulation Part 761, including Appendix A.

The SAFE Act mandates a nationwide licensing and registration system for mortgage loan originators (MLO) known as the Nationwide Mortgage Licensing System and Registry. The registration must remain current as long as the MLO is performing loan origination duties. The projected date for the registry to become operational is 2011. NCUA will provide public notice when it is available.

The SAFE Act prohibits an individual who is employed by a credit union (both federal and non-federal) from engaging in residential loan origination without first registering as a MLO and obtaining a unique identifier. Non-federally insured credit unions (NFICUs) will be allowed to register under the federal system if NCUA has a MOU for the SAFE Act with the applicable state regulatory authority. Otherwise, the state-licensing system will apply. These transactions include:

- First mortgages;
- Second mortgages;
- Home Equity Lines of Credit (HELOCs);
- Refinanced loans;
- Reverse mortgages; and
- Land purchases for construction of a residence.

Under the SAFE Act, an MLO is an individual who both takes a residential mortgage loan application *and* offers or negotiates terms of a residential mortgage loan for compensation or gain. An MLO does not include an individual who performs only administrative or clerical tasks, certain individuals who perform real estate brokerage activities as outlined in the regulation, or individuals involved in the extension of credit related solely to time share plans. Appendix A of NCUA Part 761 provides some of the specific duties MLOs typically perform when originating mortgage loans.

NCUA Letter to Credit Unions (LTCU) No. 10-CU-13, dated August 2010, addresses the SAFE Act. The LTCU also includes FAQs regarding the SAFE Act. NCUA has a section dedicated to the SAFE ACT on it website **www.ncua.gov** under *Resources and Publications/Resources for Credit Unions/S.A.F.E. Act.*

The NCUA Report
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428