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REVISED BUDGET RETURNS $2 MILLION TO CREDIT UNIONS

NCUA Board Reduces 2011 Operating Budget

After a thorough, agency-wide budget review, the NCUA Board approved July 21 a belt-tightening plan to reduce NCUA's operating budget for the remainder of 2011 by $2 million.

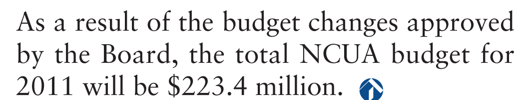
The 2011 budget savings will translate into excess cash. NCUA will use these funds to offset next year's budget requirements and lower 2012 assessments for all credit unions. The Board anticipates considering the 2012 budget in November.

During the consideration of the proposal to approve the budget changes, NCUA Board Chairman Debbie Matz said, "One of the things that we pride ourselves on as a board and as an agency is spending our funds wisely, knowing that these funds come from the credit unions."

As part of the mid-session budget review, the Board directed NCUA staff to economize by promoting stewardship, increasing efficiencies, and reducing line items wherever possible. The identified savings stem primarily from technical adjustments to support program needs and do not reflect any new or previously unbudgeted items.

The mid-session review identified necessary increases and decreases in different program areas, with the largest decrease of $3 million coming from projecting the cost of staffing for the remainder of 2011. Agency spending on rent, communications and utilities also fell.

As a result of the budget changes approved by the Board, the total NCUA budget for 2011 will be $223.4 million.



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Chairman's Corner

DODD-FRANK ACT ADVANCES STABILITY AND PROTECTS AMERICANS

Debbie Matz
Chairman

One year ago last month, President Obama signed the landmark Dodd-Frank Act (DFA) into law. In reflecting on this milestone, we should remember why we needed to act to restore the public's trust in our financial system and what has happened since the bill became law.

Years of excess, greed, financial shenanigans, and weak regulation of some sectors resulted in a severe financial crisis that took our economy into a deep recession. The U.S. economy runs on credit, but credit began to contract in ways not seen since the Great Depression.

Job losses soared, and people stopped buying cars. Retirement nest eggs quickly dwindled as the stock markets dramatically dropped. Ultimately, the nation lost millions of jobs and trillions in wealth.

Americans were justifiably scared. They lost confidence in the integrity of our financial system. We needed to change the rules for our financial markets by better protecting consumers, regulating the unregulated, and controlling Wall Street's titans.

> "NCUA must continue its efforts to safeguard the credit union system with tailored, comprehensive rules to mitigate risk."

So the Obama Administration and Congress began work on a bill to restore trust in our financial markets and safeguard the jobs, homes, savings and dreams of all Americans. This bill ultimately became DFA.

During the past year, DFA has begun to achieve its desired results of promoting a safer financial system. Big banks, for example, have begun to operate a bit more like credit unions. They now hold more capital and underwrite safer loans. This additional capital provides a buffer against risk that will protect our economy against future downturns.

A new watchdog dedicated to safeguarding consumer financial security has officially opened its doors. The Consumer Financial Protection Bureau (CFPB) consolidates the regulatory authority previously spread across many agencies and will oversee the activities of big banks, payday lenders and debt collectors.

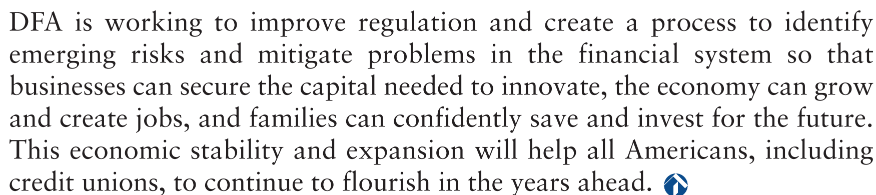
Importantly, CFPB will have clear accountability for policing financial products like credit cards and mortgages. Additionally, CFPB has already started working on know-before-you-owe standards to protect families from foreclosure in the future.

During the last year, NCUA has focused on completing the many credit union reforms required by DFA. NCUA has also taken its seat as a voting member of the new Financial Stability Oversight Council (FSOC). NCUA's role within the FSOC ensures that credit unions have a voice as we act together in an unprecedented manner with other regulators to identify and address threats to the global financial system.

Of course, challenges remain and NCUA has more work ahead, both to implement DFA and to create a more stable, secure credit union system. Just as the FSOC works to address systemic threats of the entire financial system, NCUA must continue its efforts to safeguard the credit union system with tailored, comprehensive rules to mitigate risk.

As we start the second year under DFA, we are building a stronger, safer financial system. We have come a long way since late 2008. The performance of credit unions has also turned a corner, and our financial system has changed in far-reaching ways since the crisis.

DFA is working to improve regulation and create a process to identify emerging risks and mitigate problems in the financial system so that businesses can secure the capital needed to innovate, the economy can grow and create jobs, and families can confidently save and invest for the future. This economic stability and expansion will help all Americans, including credit unions, to continue to flourish in the years ahead.



Debbie Matz

Board Actions July 21, 2011

CORPORATES GAIN PRUDENT OPTIONS FOR CALCULATING CAPITAL IN TRANSITION PERIOD

The NCUA Board convened its seventh regular open meeting in 2011 at the agency's headquarters July 21 and unanimously approved six items:

- Changes to NCUA's 2011 operating budget after a thorough mid-session review that will return $2 million to credit unions (see story on page 1);
- Clarifications to corporate credit union asset calculations to prudently address transitional issues in the first year of implementing new capital rules;
- A proposed rule extending the Credit Union Service Organization (CUSO) regulations to federally insured, state-chartered credit unions (FISCUs), and other CUSO reforms aimed at mitigating risks for the National Credit Union Share Insurance Fund (NCUSIF);
- An authorization to borrow up to $4 billion from the U.S. Treasury for transitioning the bridge corporate credit unions and continuing the corporate resolution plan;
- An interim final rule conforming NCUA's rules on remittance transfers to the requirements of the Dodd-Frank Act; and
- The appointment of NCUA's Chief Operating Officer in accordance with a new statutory requirement.

The Board also received updates on the performance of the NCUSIF and the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund). The NCUSIF equity ratio at the end of June stood at 1.28 percent, a drop of one basis point from the May-end calculation. The Stabilization Fund's net position increased $7.3 million over the last month.

Board Revises Corporate Capital Calculations for Transition Period

As the corporate resolution plan progresses, the Board clarified the way corporate credit unions may align required capital levels with their balance sheets to comply with the corporate capital rules (Part 704) that will become effective Oct. 20, 2011. Approved Sept. 24, 2010, these new capital rules ensure the reserves held by corporates are commensurate with their respective risks.

Many corporates have now started efforts to implement new business plans. Aside from raising capital and building retained earnings, many corporates have begun to shed assets and right-size their balance sheets. To address issues associated with the removal of assets from corporate balance sheets, the approved changes prudently clarify the calculation of Moving Daily Average Net Assets (MDANA) and Moving Monthly Average Net Risk-Weighted Assets (MMANRA) during the first year of implementation of the new corporate capital rules.

Under the approved optional capital calculations, a corporate may choose to reset the clock on computing its 12-month moving average for assets under both the MDANA and MMANRA formulas. Essentially, the average will begin anew with the first month's operations consisting of one month's average assets. The second month will consist of a 2-month moving average, and ultimately by the twelfth month a new 12-month moving average will be developed. The Board-approved clarifications also address consolidations, where the date of consolidation triggers an option to reset the moving average assets calculation.

Corporates choosing to calculate the MDANA and MMANRA under the transitional methodology will need to notify NCUA's Office of Corporate Credit Unions of their preferred alternative by Sept. 30, 2011. Once selecting the approach for calculating assets during the one-year transition, a corporate may not alter the formula as a means of bringing about capital compliance. If assets rise quickly after resetting the clock, the corporate may become subject to supervisory actions under prompt corrective action should the capital ratio fall below the adequately capitalized standards.

In no respect does this clarification of the computation of MDANA and MMANRA restrict NCUA's ability to establish a higher minimum capital level. The Office of Corporate Credit Unions will soon issue a letter to corporate credit unions informing them of the options for calculating capital averages during the upcoming year.

Proposed CUSO Rule Changes Aim to Better Protect Credit Unions from Losses

Given the growing number of CUSOs and their potential impact on credit unions and the NCUSIF, the Board is seeking to improve its rule concerning CUSOs (Part 712) through maximizing supervisory efficiencies. The Board

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DROP BY DROP

BY GIGI HYLAND, NCUA BOARD MEMBER

Drip… drip… drip. Chinese water torture, according to Wikipedia, is "the popular name for a method of torture in which water is slowly dripped onto a person's forehead, allegedly driving the restrained victim insane." When I speak to credit union audiences, the subject of regulatory burden often arises and is described to me as the relentless drip, drip, drip of additional regulatory requirements—a very real, regulatory Chinese water torture that threatens their ability to stay in compliance and in business.

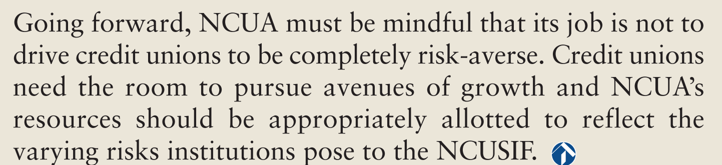
The old adage that "government regulates to the last crisis" is certainly evident as one examines all of the requirements and mandates on the first-year anniversary of the Dodd-Frank Act. While these changes were necessary, it is also appropriate to step back and assure that the correct balance is being struck between regulatory burden on institutions and risk.

On the one hand, regulators need to assure that a crisis of recent experience will not happen again. On the other hand, regulation cannot so constrict institutions that they cannot provide services at reasonable costs to consumers.

One interesting idea to address this conundrum comes from the distinguished Sen. Mark Warner from my home state, the great Commonwealth of Virginia. In a Dec. 13, 2010, opinion piece in *The Washington Post*, Senator Warner outlined a pay-as-you-go regulatory system. Regulatory pay-go, as he termed it, would discourage agencies from continually churning out new rules because they would be required to eliminate one outdated or duplicative regulation of the same approximate economic impact for each new regulation they want to enact.

Another idea is to split the credit union system by asset size to apportion NCUA's examination resources where the most risk to the NCUSIF exists. NCUA's examination hours for smaller institutions are dramatically inversely proportional to the risk these institutions pose to the NCUSIF. Perhaps it is time to create a tiered examination system based on asset size and an institution's risk to the NCUSIF.

Going forward, NCUA must be mindful that its job is not to drive credit unions to be completely risk-averse. Credit unions need the room to pursue avenues of growth and NCUA's resources should be appropriately allotted to reflect the varying risks institutions pose to the NCUSIF.



THE STORY BEHIND NCUA RULEMAKING

BY MICHAEL E. FRYZEL, NCUA BOARD MEMBER

Since 1980, NCUA has followed the practice of publishing semi-annually its regulatory agenda to identify all regulations under development or review, and the agency provides contact information for public participation in the process. And since 1987, NCUA has followed a practice, unique among financial regulators, of reviewing all of its regulations on a rolling, three-year cycle, with a stated goal to eliminate unnecessary regulations and to clarify, update and simplify our rules wherever possible.

This regulatory review process has achieved important results over the years. It is a process that can be even more effective with a better understanding of how it works and with a higher level of participation by credit unions.

It is also a process that, in my judgment, is far better than those currently in vogue and requiring the elimination of some quantity of regulations as an exchange for any new rulemaking. After all, effective regulation requires an appropriate balance to achieve financial safety and soundness without stifling innovation, and that requires sound and

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

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Director's Column: Office of Corporate Credit Unions

WITH CAPITALIZATION PLANS ON THEIR DESKS, CREDIT UNIONS ASK IF THE GRASS IS GREENER

Scott Hunt
Director, Office of Corporate Credit Unions

Many credit unions, during the corporate stabilization process, have come to an intersection of paths. They can continue to follow their current path and stay with their current corporate. This may or may not necessitate a greater capital contribution, or a contribution of a more permanent nature, but it preserves much of the *status quo*. Or they may choose a new path leading them to another corporate, or even a service provider outside the corporate system. In so doing, the path is likely to confront them with new opportunities, new challenges, and possibly new capital contributions.

A credit union must consider what lies ahead along its chosen path and make decisions on the path that best meets its needs. Time is also of the essence as decisions to capitalize or not capitalize can impact a corporate's ability to remain viable and continue to offer its products and services. Corporate credit unions must be in compliance with NCUA's new capitalization standards come Oct. 20, 2011, but many have capital subscription periods ending sooner.

In short, many credit unions are asking a lot of what-if questions about what to do next. While NCUA cannot answer these questions as each credit union's needs are its own, it can propose a few high-level questions credit unions may ask to decide whether or not the grass could be greener on the other side.

What happens if my credit union purchases capital issued by a corporate credit union?

Most corporate credit unions, and potential successor corporate credit unions to the four bridge institutions, will be soliciting capital from members. Within the business plans and the capital offering documents, these corporates are presenting a picture of their expected futures. In some cases, nothing may change, including the processes, fee structures, and services. In other cases, the future corporate's business plan may look very different.

As many corporates are soliciting perpetual capital, it is imperative each credit union study these documents to best understand their potential lasting relationship with a corporate upon making a commitment. In reviewing these documents, credit unions therefore need to ask important questions.

These high-level questions are offered for consideration purposes only. They certainly are not intended to be exhaustive, but serve to provoke thoughts around what each credit union needs to do for its due diligence:

- How is my credit union's capital contribution determined and how can it change over time?
- Can my credit union expect the same lines of credit that currently exist?
- Will my corporate be making wholesale changes to service fees, or will fees be calculated on a different basis?
- Are there any restrictions on placing funds with my corporate?
- If there are restrictions on the amount of funds that can be placed at my corporate, going forward, where will my credit union invest any excess funds?
- Will any changes in my corporate's future service array directly affect how my credit union serves members?

Further, once committing capital, a credit union should treat the capital in much the same way an individual may purchase shares of stock in a public company. Contributed capital should not be considered merely a higher earning deposit. There is risk. The capital is there to absorb losses when they occur, and dividends cannot be guaranteed under NCUA's rules and regulations.

NCUA encourages member credit unions to stay abreast of their corporate's financial health and the execution of its strategic plans. When questions arise, credit union executives need to identify the appropriate channels at their corporate to obtain answers.

What if my credit union chooses not to capitalize my corporate credit union?

Some credit unions that are currently a member of a corporate that is raising capital may decide not to subscribe. These credit unions must ask what will become of their futures. Not all credit unions use their corporate's full service array, and not all corporates offer all services. The following questions are raised as food for thought before determining not to make any minimum capital contribution:

- Will my credit union be charged higher fees or experience restricted services from my corporate, or possibly will the corporate terminate my membership (realizing proper notice must be given)?
- Will my credit union need to secure historical check images from my corporate?
- Will my credit union need to secure a new routing and transit number, and if so, how does that impact my service to members?
- Will my credit union's data processing system and

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Office of Examination & Insurance Report

REGULATORY FLEXIBILITY PROGRAM CHANGES EXPLAINED

Late last year, NCUA revised provisions of its Regulatory Flexibility (RegFlex) program rules (Part 742). RegFlex exempts credit unions with strong CAMEL and net worth levels from certain regulatory restrictions. NCUA reevaluated the 10 areas of regulatory relief established under RegFlex in 2002 and amended four of the areas for safety and soundness reasons.

Two of the changes have generated much interest—those related to the fixed-asset limit and the member business loan (MBL) personal guarantee. The rule changes also affected discretionary control of assets and the stress testing of assets.

Fixed-Asset Waivers

Previously, NCUA's RegFlex rule exempted RegFlex-eligible credit unions from limits on the amount a federal credit union with more than $1 million in assets may invest in fixed assets. Now, credit unions must seek a waiver for asset acquisitions exceeding 5 percent of shares and retained earnings.

What if a credit union acquired assets exceeding the cap before the change to RegFlex?
A credit union that had already exceeded the 5 percent limit by Nov. 29, 2010, is grandfathered at that limit. However, as the credit union's level of fixed assets subsequently declines, so will the level at which it is grandfathered. New acquisitions of fixed assets will require a waiver. The credit union does not need to seek a waiver for the existing assets, but must seek a waiver for any new acquisitions.

How can a credit union with a fixed-asset level above 5 percent avoid having to request multiple waivers to replace and repair plant and equipment?
A credit union can seek a waiver that includes a reasonable annual operating range for necessary plant and equipment. Subsequent fixed-asset acquisitions require a waiver request only if the new fixed-asset level exceeds any predetermined operating level approved by the Regional Director.

Personal Guarantees for MBLs

There is no longer an exemption for RegFlex credit unions from the requirement that MBLs be secured by the personal liability and guarantee of the principals. Credit unions, however, can seek a waiver of the guarantee requirement.

What if a RegFlex credit union already had MBLs without the personal liability and guarantee of the principals?
MBLs granted by RegFlex credit unions without the personal liability and guarantee of principals before the effective date of this rule change are grandfathered. However, MBLs granted subsequent to the effective date of this rule change must comply. Credit unions must also require a personal guarantee if a grandfathered loan is modified or refinanced, unless the Regional Director grants a waiver.

What is NCUA doing to improve the MBL waiver process?
Regional Directors have discretionary authority to approve blanket waivers that allow a credit union to underwrite MBLs without the personal guarantee of the principals.

Who should provide the personal guarantee for MBLs granted to cooperatives?
The structure of each cooperative and existing state law will dictate who is considered the principal. The blanket waiver process will allow well-run credit unions to continue serving cooperatives.

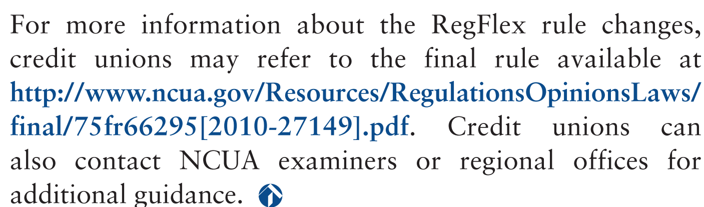
Discretionary Control of Investments

As a result of the rule change, RegFlex credit unions no longer have an exemption from the limit on the amount of investments for which discretionary control can be delegated: 100 percent of net worth. Investments purchased by RegFlex credit unions prior to the effective date of this rule change are grandfathered.

Stress Testing of Investments

The RegFlex rule change also removed an exemption for eligible credit unions from the requirement to stress test securities meeting certain characteristics to assess the impact of an extreme shift in interest rates. Call Report data show that credit unions are investing in longer-term instruments to improve yield. Though this practice improves yield today, an increase in market rates may result in a significant decrease in value and could have severe liquidity implications. Stress testing of investments is an important part of safe-and-sound asset liability management practices.

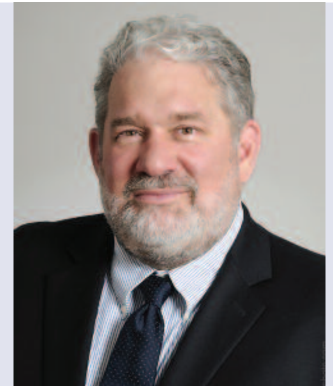
What if a credit union already had securities in excess of net worth that meet the characteristics of NCUA's investment rule (Section 703.12(b)) on the effective date of this rule change?
Credit unions with securities in excess of net worth that meet required characteristics must begin monitoring monthly and stress testing such securities quarterly regardless of the date of purchase.



For more information about the RegFlex rule changes, credit unions may refer to the final rule available at **http://www.ncua.gov/Resources/RegulationsOpinionsLaws/final/75fr66295[2010-27149].pdf**. Credit unions can also contact NCUA examiners or regional offices for additional guidance.

Director's Column: Office of Small Credit Union Initiatives

Q&A WITH BILL MYERS



Bill Myers
Director, Office of Small Credit Union Initiatives

NCUA REPORT: Welcome to NCUA, Bill. Because you are the newest director on staff, the *NCUA Report* wanted to talk with you and get a better feel for you and your role here. Tell us about your background.

BILL MYERS: I started out in small business managing a trade association, which led to chartering a community development credit union specialized in serving an underserved market. We were one of the first credit unions to deliver many unique, leading-edge services. After retiring from there, I took a fellowship at the Aspen Institute doing research on economic opportunity and scale, and consulting to numerous credit unions.

NR: What is your personal role at NCUA?

BM: I think the Board hired me for my outside perspective. I have experience with the chartering process to managing a good-sized credit union. I have an innovative sense of possibilities for credit unions and will bring fresh eyes to this mission.

NR: What do you think about NCUA's Office of Small Credit Union Initiatives (OSCUI)?

BM: If regulators were a hospital, OSCUI is the immunization clinic. Examiners can be preventative, but sometimes they have to open the chest for full-on surgery. OSCUI is all about credit union health: teaching, consulting credit unions into a healthy state. The 15 Economic Development Specialists in OSCUI are a fantastic consulting team. The services in this office are really rare inside a regulatory environment.

NR: What are some other things OSCUI does?

BM: OSCUI is a full-featured gem of an office. But it is a gem we need to polish more by establishing better relationships with small credit unions. OSCUI serves small credit unions, low-income designated credit unions of any size, and newly chartered credit unions. We have a well-structured training program. The most recent training initiative regards financial literacy for boards. We also build relationships with outside organizations and provide grants and loans to help low-income designated credit unions.

NR: What are your goals for the office?

BM: In general, I want OSCUI to stand out more distinctly within the agency and provide a solid base for smaller credit unions. They are our seed corn. That's where the future comes from. As a movement, there are fewer charters each year. Small credit unions are disappearing, and I would like us to help them either survive or transition through best practices.

Specifically, our loan fund is $12 million and our grant fund is $1.2 million this year. We can deliver more service through these programs if we develop more efficient processes such as online applications. Secondly, we deliver 60 trainings a year in person. We need to develop our skills with webinars to expand our reach.

NR: You mention online applications. Will technological advances be a challenge for small credit unions?

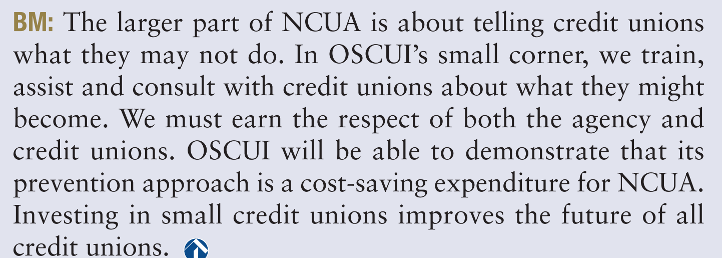
BM: Most of the research finds the digital divide is not an earthquake-sized gap between two continents. It is more like a crack in the concrete.

Most credit unions have electronic processing systems with access to the Internet. Out of 7,300 credit unions, there are only a few that do not file their call reports electronically. How can we assist those credit unions better? It really is a boon for both of us to do all of this electronically.

NR: What is the biggest challenge for small credit unions?

BM: There is a wide set of challenges: ineffective or undertrained board members and inability to attract trained staff exist. But there is also compliance burden, payment system changes, and the increasing reliance of members on complex electronic banking. It is tough being small. But OSCUI has tested and effective tools with NCUA standing behind its effort to promote the success of small credit unions.

NR: Last question, what is the biggest challenge for OSCUI?



BM: The larger part of NCUA is about telling credit unions what they may not do. In OSCUI's small corner, we train, assist and consult with credit unions about what they might become. We must earn the respect of both the agency and credit unions. OSCUI will be able to demonstrate that its prevention approach is a cost-saving expenditure for NCUA. Investing in small credit unions improves the future of all credit unions.

Office of General Counsel Report

FIRST DODD-FRANK ANNIVERSARY MARKS IMPLEMENTATION DATE FOR NEW CONSUMER RULES

The one-year anniversary of the Wall Street Reform and Consumer Protection Act, also known as the Dodd-Frank Act (DFA), served as the start date for three noteworthy consumer-focused, self-effectuating provisions that credit unions must implement.

Fair Credit and Equal Opportunity Changes

DFA amendments to the Fair Credit Reporting Act (FCRA) and the Equal Credit Opportunity Act (ECOA) became effective July 21. These changes update FCRA and ECOA forms with new credit score disclosure requirements. Similarly, they update notifications to combine adverse action notice and new credit score disclosure requirements. Put plainly, a credit union that uses the new notices will be in compliance with DFA's requirements.

These changes are important because FCRA and ECOA together promote accuracy, privacy and equality in reporting and applying for credit. Such disclosures help the consumer better understand their credit rights.

For more information about credit score rules, see story on page 9.

Truth in Lending Reforms

Amendments to the Truth in Lending Act (Regulation Z) and the Consumer Leasing Act (Regulation M) also became effective in late July. These amendments apply to certain consumer credit transactions and consumer leases up to $50,000, compared with $25,000 before DFA. This maximum will adjust annually to reflect increases in the Consumer Price Index. Private loans and loans subject to real property are not exempt, regardless of the amount.

Doubling the size of transactions expands the consumer protections under these two acts, standardizing how lenders calculate and disclose costs on transactions and leases up to $50,000.

Expedited Funds Thresholds Raised

The last self-effectuating amendment to be mindful of is an update to the Expedited Funds Availability Act (Regulation CC). This rule requires credit unions to make $200 available for withdrawal on the business day after receiving the deposit, an increase from $100.

This change allows consumers everywhere access to a greater portion of a deposit no matter what the previous hold policy was on deposited checks. Congress mandated this change so consumers could access more of their money more quickly, but NCUA will need to monitor the increased risk exposure involved.

Future of Rule Fixes

There are several other notable DFA updates to NCUA's regulations that have been implemented or have implementation dates on the near horizon. Already in effect is temporary unlimited share insurance on non-interest-bearing transaction accounts.

NCUA's proposed regulations under DFA include new requirements concerning incentive-based compensation arrangements, the replacement of the use of credit ratings with new standards of creditworthiness, and an interim final rule adding remittance transfers as an example of money transfer instruments that federal credit unions may provide to persons within their fields of membership.

As NCUA implements DFA-required changes, adopts new rules for safety and soundness purposes, and conducts its annual review of one-third of its regulations to streamline standards, the NCUA Board is mindful of the regulatory burden to credit unions, particularly smaller ones.

Office of Consumer Protection Report

NEW CREDIT SCORE NOTICE REQUIREMENTS

As of July 21, 2011, credit unions and other lenders had to begin complying with credit score disclosure regulations recently issued by the Federal Reserve Board and the Federal Trade Commission. Required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), these new rules allow consumers to receive more information about how their credit scores affect certain lending decisions. Congress mandated these changes to help consumers verify the accuracy of the information contained in their credit reports.

A credit score numerically summarizes a consumer's credit record and history. Based on several factors, a credit score includes information about whether a consumer pays bills on time, the consumer's current level of debt, the types of credit and loans the consumer has, and the length of the consumer's credit history. Credit scores are often referred to as FICO scores because most credit bureaus use software developed by Fair, Isaac and Company to calculate the assessment of creditworthiness.

Any creditor, including a credit union, using a credit score to set credit terms, or to take adverse action on a loan application or lending arrangement must now disclose credit scores and related information to consumers in certain instances. Specifically, a creditor must notify a credit applicant of his or her credit score when denying or revoking credit, changing the terms of an existing credit arrangement, or refusing to grant credit in the amount or on the terms requested.

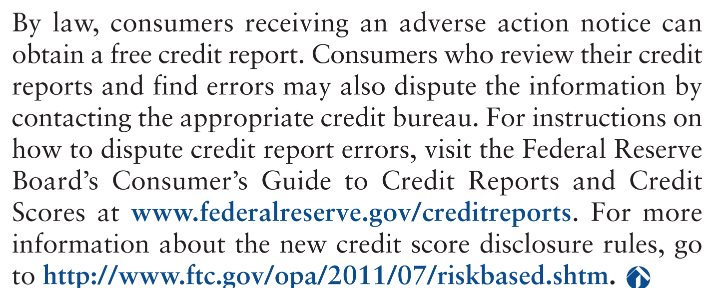
Credit Score Notice. Shortly after applying for credit, a consumer often previously received a notice detailing the consumer's credit score and information about how it compared to other consumers. Under the new rule, lenders will provide this notice regardless of the terms of credit offered to the consumer. If a consumer does not have a credit score, the lender will identify which credit bureau did not provide a credit score.

Risk-Based Pricing Notice. The new rule also requires certain consumers to receive a risk-based pricing notice. Risk-based pricing refers to the practice of setting or adjusting the price and other terms of credit provided to a consumer based on the consumer's creditworthiness. A consumer will only receive this type of notice if the consumer is offered credit on terms that are less favorable than the terms offered to other consumers because of information contained in the consumer's credit report.

For example, a consumer will receive a risk-based pricing notice if the consumer's credit report has negative information, and the consumer is offered a loan with an annual percentage rate (APR) higher than the APR offered to other consumers who apply for the same loan.

Account Review Notice. If a consumer's APR on an existing credit account is increased based on a review of the consumer's credit report, the consumer may now receive an account review notice. For example, some credit card issuers conduct periodic reviews of customers' credit reports. If a consumer's credit report has changed since the initial application for the credit card, the issuer might increase the APR to account for the increased risk. Under these circumstances, a consumer will receive a notice providing the credit report information that resulted in the APR increase.

By law, consumers receiving an adverse action notice can obtain a free credit report. Consumers who review their credit reports and find errors may also dispute the information by contacting the appropriate credit bureau. For instructions on how to dispute credit report errors, visit the Federal Reserve Board's Consumer's Guide to Credit Reports and Credit Scores at **www.federalreserve.gov/creditreports**. For more information about the new credit score disclosure rules, go to **http://www.ftc.gov/opa/2011/07/riskbased.shtm.**



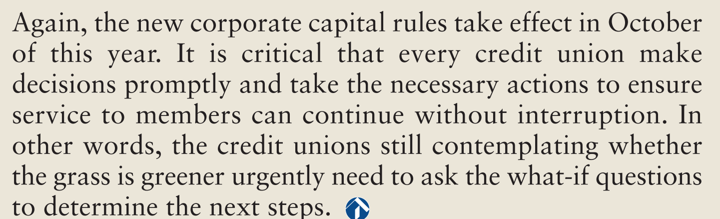
OFFICE OF CORPORATE CREDIT UNIONS (FROM PAGE 5)

personnel need to learn how to interface with new systems and processes?

- How long will it take my corporate, my new provider, and my credit union's staff to coordinate all of the necessary actions to ensure uninterrupted service to my members?
- What costs will my credit union incur to reimburse my corporate for any reasonable and customary expenses associated with transitioning to a new service provider?
- How will my investment options change?
- Will my credit union need to establish new relationships with brokers and securities safekeeping entities?
- Where will my credit union obtain a line of credit for contingency purposes?
- How will my funds management processes change when managing settlements for payments operations?

Capitalizing a corporate is a decision dependent upon the individual needs of a credit union. Regardless of the path they choose to take, NCUA encourages credit unions to conduct proper due diligence. While such due diligence takes time, credit unions need to act quickly.

Again, the new corporate capital rules take effect in October of this year. It is critical that every credit union make decisions promptly and take the necessary actions to ensure service to members can continue without interruption. In other words, the credit unions still contemplating whether the grass is greener urgently need to ask the what-if questions to determine the next steps.



proposed a rule that would require all CUSOs to file financial reports directly with NCUA and the appropriate state supervisory authority (SSA).

The proposal would also make additional parts of the CUSO rule applicable to FISCUs as well as federal credit unions (FCUs). The Board believes additional protections in the CUSO rule addressing accounting, financial statements and audits, should apply to all federally insured credit unions.

The proposed changes would additionally enhance protections to consumers, credit unions and the NCUSIF. Having complete and accurate financial information about CUSOs and the nature of their services ensures protection of the NCUSIF and helps identify emerging systemic risks that CUSOs can pose within the credit union industry.

While there are agreements currently allowing NCUA to inspect the books and records of CUSOs, the Board proposes requiring both FISCUs and FCUs to include in their agreements with CUSOs a requirement that a CUSO submit a financial report directly to NCUA (and their SSA where applicable).

Additionally, the Board is concerned that less than adequately capitalized FISCUs pose serious risk to their members and the NCUSIF when investing money into failing CUSOs. The Board therefore wishes to limit these FISCUs' aggregate cash outlays to a CUSO, consistent with state laws.

Under the proposal, all requirements in the CUSO rule would also apply to subsidiary CUSOs. Finally, the proposal makes conforming amendments to NCUA's regulation on the requirements for insurance (Part 741).

The Board seeks comments within 60 days of publication in the *Federal Register.*

NCUA Board Reduces 2011 Operating Budget by $2 Million

As reported on page 1, the Board reduced the operating budget by $2 million. For technical aspects of the changes made, visit the Board Action Memorandum posted at **www.ncua.gov**.

Board Authorizes Borrowing from U.S. Treasury for Corporate Stabilization Fund

As part of NCUA's ongoing corporate resolution efforts, the Board approved borrowing up to $4 billion from the U.S. Treasury for the Stabilization Fund. The funding will retire the Asset Management Estate (AME) promissory notes to the bridge corporate credit unions and help address any other cash needs that might arise from the ultimate resolution of the bridges.

As part of NCUA's corporate resolution plan, the agency placed five corporate credit unions into AMEs and established four successor bridge corporate credit unions. Individual AMEs established promissory notes, totaling $36 billion, with their successor bridge corporate credit union until assets in the AMEs could be monetized, including the securitization of legacy assets in the form of NCUA Guaranteed Notes (NGNs). Now that the NGN sales are complete, with proceeds totaling $28.3 billion used to pay down the promissory notes, between $3.1 and $3.5 billion is needed to fully retire the promissory notes once the monetization of other AME assets wraps up. This is separate from other liabilities coming due later this year such as $2 billion of medium term notes maturing in October.

The Board delegated to the Executive Director the authority to borrow amounts needed to meet the obligations of the Stabilization Fund through Dec. 31, 2011, not to exceed $4 billion.

Further, by approving this action, the Board certified the authorization of the funds borrowed from the U.S. Treasury are for such services connected to the conservatorship, liquidation, or threatened conservatorship or liquidation, of a corporate credit union and that absent the existence of the Stabilization Fund, the Board would have committed to the same obligations and made the identical payments out of the NCUSIF.

Remittance Transfer Change Conforms NCUA Rules to Dodd-Frank Act Requirements

Clarifying that remittance transfers are permissible financial services for FCUs, the Board issued a consumer-oriented interim final rule (Part 701) implementing the requirements of the Dodd-Frank Act (DFA).

DFA added a new section to the Electronic Funds Transfer Act creating protections for consumers who, through remittance transfer providers, send money to people in foreign countries. DFA also amended Section 107(12) the Federal Credit Union Act clarifying this authority for FCUs. The interim final rule strictly adheres to the DFA's statutory language and allows FCUs to offer all variations of remittance transfers to their members and those within their fields of membership, subject to consumer protections.

This interim final rule is effective on the date of publication in the *Federal Register.* Although the rule is being issued as an interim final rule, the Board encourages interested parties to submit comments. NCUA must receive submitted comments within 60 days of publication.

Board Appoints Deputy Executive Director as Chief Operating Officer

The Government Performance and Results Modernization Act of 2010 requires the appointment of each

CONTINUED ON NEXT PAGE

agency's deputy as its chief operating officer. Accordingly, the NCUA Board appointed the deputy executive director position to serve in this capacity. Under the law, a chief operating officer must work to improve performance in achieving an agency's mission and goals through strategic and performance planning, measurement and analysis.

NCUSIF and TCCUSF Summary as of June 30, 2011

The NCUSIF equity ratio was reported at 1.28 percent for June 30, 2011. This ratio is based on an estimated insured share base of $786.8 billion and reflects the additional 1 percent deposit that will be billed in September.

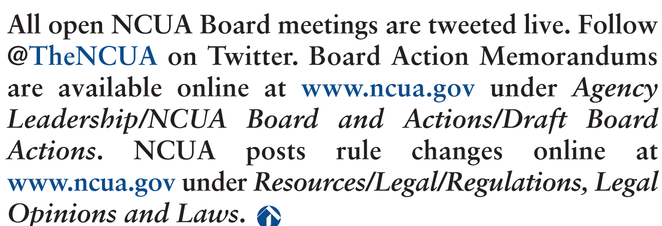
The NCUSIF ending reserve balance is $1.2 billion, which includes $2.8 million in insurance loss expenses for June.

Gross income for June was $18.8 million with expenses of $14.0 million, resulting in net income of $4.8 million. Cumulative net income for the year is $44.8 million. Eleven credit unions have failed thus far in 2011 at a cost to the NCUSIF of $40.1 million.

As of June, 381 federally insured credit unions with assets of $39.8 billion and shares of $35.5 billion had CAMEL code 4 or 5 designations. Additionally, 1,775 CAMEL code 3 credit unions had assets of $145.0 billion and shares of $128.7 billion. Overall, approximately 19 percent of all credit union assets were in CAMEL code 3, 4 or 5 institutions. The percentage of assets in CAMEL code 1 and 2 credit unions has increased slightly in each of the past six months.

The Stabilization Fund total liabilities and net position stood at $408.3 million at the end of June, about $7.3 million higher than the end of May.

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



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

informed decision-making, not the counting of pages or the application of a mathematical formula.

Allow me to take this opportunity to tell you more about NCUA's regulatory review process, in the hopes of encouraging greater participation by credit union members and credit union officials and employees. NCUA's regulatory review policy is set forth in IRPS 87-2. It can be found at NCUA's website, www.ncua.gov, by entering "IRPS87-2" in the search site box.

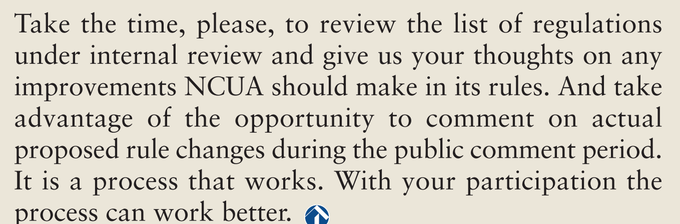
The policy requires that NCUA review one-third of its regulations every year. It also requires public notice of the rules under review. This notice is accomplished by publishing, at the beginning of the year, a listing of the specific regulations that are to be reviewed by NCUA staff during that year. The listing for 2011 can be found at NCUA's website by entering "2011 Regulatory Review" in the search site box.

Included among the regulations covered by the 2011 review are our rules on Bank Secrecy Act compliance, public access to information, and NCUA Board procedures. Those of you who have experience with these rules and can offer constructive suggestions for improvement are encouraged to do so. In fact, you are free to comment on any rule where you believe there is a need for improvement, not just those on the annual review list.

"Those of you who have experience with these rules and can offer constructive suggestions for improvement are encouraged to do so."

At the end of the year, based on both public comments and our staff's internal review, the staff makes recommendations to the Board on changes that will be pursued in the following review. As a result of this process we have already improved rules on advertising, and on golden parachute and indemnification payments by federally insured credit unions.

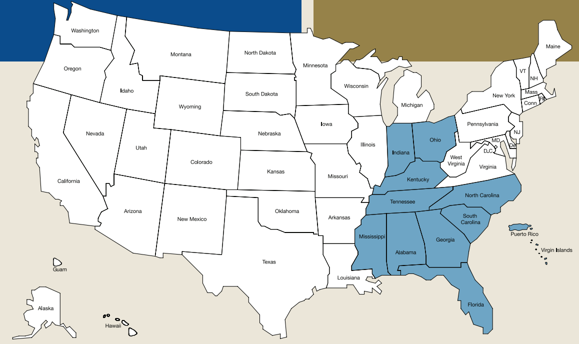
Other proposals can be found on NCUA's website by entering "Proposed Regulations" in the search site box. You may also watch Chairman Matz's video on effective comment letters on the website.



Take the time, please, to review the list of regulations under internal review and give us your thoughts on any improvements NCUA should make in its rules. And take advantage of the opportunity to comment on actual proposed rule changes during the public comment period. It is a process that works. With your participation the process can work better.

Region III Report

MORTGAGE RELIEF FOR HARDEST HIT BORROWERS



REGION III

The recent economic downturn hit credit unions in Florida particularly hard, because of the state's significant decline in home values and high unemployment rate.

To help alleviate some of the pressures in Florida and other states, the U.S. Department of Treasury established the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets. This foreclosure prevention initiative allocated funds to areas experiencing excessive depreciation in home prices. In all, 18 states received funding.

Under the initiative, the Florida Housing Finance Corporation obtained more than $1 billion to create and administer foreclosure prevention assistance programs, with a portion of the funds to be used specifically for targeted unemployment programs. To that end, the agency piloted the Florida's Hardest Hit Program in 2010 in Lee County, a populous coastal jurisdiction located halfway between Tampa and Miami. The initiative expanded in April 2011 to include homeowners in all Florida counties.

The Florida program allows qualifying unemployed, underemployed or delinquent borrowers to receive short-term mortgage payment assistance. The assistance comes in the form of a zero-percent interest rate, deferred-payment loan. Subordinate to the current mortgage, the assistance loan is forgiven at a rate of 20 percent per year for five years starting 18 months after acceptance into the program. Program participants must pay 25 percent of their monthly income toward the monthly mortgage payment, and the loan must be repaid if the home is sold prior to the end of the loan period.

To aid in reducing delinquency, foreclosures and loan modifications, credit unions should take advantage of this federal assistance to help their members experiencing financial hardships. Credit unions with eligible loans in Florida should educate themselves and their members on this program. The program is free of charge and is available to all Florida residents, regardless of the lender's location.

For more information, including specific eligibility criteria, refer to the official website at **www.FLHardestHitHelp.org**. Residents may apply for this program online, but homeowners should check with their mortgage holder since not all lenders are participating in the program. For more information about foreclosure assistance programs in other hard hit states, go to **http://www.treasury.gov/initiatives/financial-stability/programs/housing-programs/hhf/Pages/default.aspx.**

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The NCUA REPORT

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