Board Action Bulletin

PREPARED BY THE OFFICE OF PUBLIC AND CONGRESSIONAL AFFAIRS

NCUA BOARD MEETING RESULTS FOR FEBRUARY 21, 2013

Share Insurance Fund Finishes 2012 in a Strong Position

Board Expands Regulatory Flexibility with Final Rules on TIPS and Rural Districts

ALEXANDRIA, Va. (Feb. 21, 2013) – The National Credit Union Administration (NCUA) Board convened its second scheduled open meeting of 2013 at the agency's headquarters here today. Board members unanimously approved two items as part of the agency's Regulatory Modernization Initiative:

- A final rule increasing the investment options of federal credit unions by allowing purchases of Treasury Inflation Protected Securities.
- A final rule updating the "rural district" definition to enhance the ability of certain federal credit unions to provide access to affordable financial services.

The Board also received an update on the performance of the National Credit Union Share Insurance Fund (Share Insurance Fund) and the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund). The Share Insurance Fund ended 2012 in a strong position due to growth in industry assets and declines in insurance and guarantee program liabilities. The overall condition of the Stabilization Fund remains stable.

Share Insurance Fund Trends in Positive Direction in 2012

The Share Insurance Fund ended 2012 with a 1.30 percent equity ratio. NCUA calculated the ratio on an insured share base of $839.4 billion, compared to $795.3 billion at the end of 2011, a growth of 5.5 percent.

Additionally, the net position of the Share Insurance Fund improved by 4.6 percent for the year, to $11.3 billion at the end of 2012 from $10.8 billion at the end of 2011.

"Protecting the Share Insurance Fund is a top priority for NCUA, and the 2012 year-end results show that NCUA's prudent management and effective regulatory policies are working well," NCUA Board Chairman Debbie Matz said. "Notably, the performance statistics related to the Share Insurance Fund continue to trend in the right direction. For example, the number of federal credit unions with CAMEL codes 3, 4 and 5 dropped significantly during 2012, as did the exposure level of potential losses."

Year over year, the Chief Financial Officer reported that:

- The total number of CAMEL code 3, 4 and 5 credit unions dropped 9.8 percent, to 1,940 at year-end 2012 from 2,150 in 2011.
- Assets of CAMEL code 3 credit unions decreased to $119.3 billion at the end of the fourth quarter of 2012, a 16.3 percent drop from $142.5 billion on Dec. 31, 2011.
- Assets of CAMEL code 4 and 5 credit unions fell 35.4 percent, to $19 billion at the end of 2012, down from $29.4 billion for 2011.

Overall, the amount of assets in CAMEL Code 3, 4 and 5 credit unions have decreased 32.7 percent since reaching a high in September 2010. The continuation of these positive trends and other factors resulted in a net decrease of $194.1 million, or 32 percent, in the Share Insurance Fund's reserve for insurance losses during 2012.

During 2012, there were 22 credit union liquidations and assisted mergers. The total amount of losses associated with these failures was $206.9 million.

The Chief Financial Officer also reported on the Stabilization Fund's operations, based on preliminary and unaudited information. For 2012, the total net position of the Stabilization Fund improved by nearly $1.8 billion. The Stabilization Fund had $5.1 billion in outstanding borrowings with the U.S. Treasury on Dec. 31, 2012.

When the Stabilization Fund has outstanding borrowings from the U.S. Treasury, the Federal Credit Union Act requires NCUA to make a distribution from the Share Insurance Fund if the Share Insurance Fund has an equity ratio above the normal operating level of 1.30 percent at year's end. As a result, NCUA transferred $88.1 million to the Stabilization Fund. This transfer will reduce future cash needs of the Stabilization Fund. Before the transfer, the Share Insurance Fund equity ratio had risen to 1.31 percent.

NCUA did not assess a Share Insurance Fund premium in 2012. At the Board's open meeting in November 2012, Chairman Matz announced a projected Share Insurance Fund premium range between zero and five basis points for 2013.

TIPS Final Rule Gives Credit Unions New Investment Option

Federal credit unions will now have an additional risk-management tool with the Board's approval of a final rule (Section 703.14) adding Treasury Inflation Protected Securities (TIPS) as a permissible investment.

"The idea of permitting TIPS came up during one of my Listening Sessions last year," Chairman Matz said. "NCUA's research and analysis showed these securities could be a valuable tool for federal credit unions if properly managed, so we've acted to prudently provide greater regulatory flexibility."

TIPS are securities issued by the U.S. Treasury Department that differ from other types of securities by providing protection against inflation. The principal increases or decreases with inflation, as measured by the Consumer Price Index. When TIPS mature, holders are paid the adjusted principal or the original principal, whichever is greater. Previously, federal credit unions could not invest in TIPS because the Consumer Price Index is generally a prohibited index for variable-rate securities.

The Board noted investing in TIPS may not be appropriate for every federal credit union, and that sound due diligence and a demonstrated ability to manage this risk should precede a decision to purchase TIPS.

Visit http://www.treasurydirect.gov/indiv/research/indepth/tips/res_tips.htm to learn more about TIPS.

The final TIPS rule will be effective 30 days from the date of publication in the *Federal Register*. NCUA will also end the TIPS investment pilot program at that time.

Updated "Rural District" Definition Provides Flexibility and Expands Access

The Board bolstered the ability of certain federal credit unions to expand services in rural areas by approving a final rule (Section 701.1) to modify the definition of "rural district" in the agency's Chartering and Field of Membership Manual.

The new definition sets the maximum population of a rural district at 250,000 or three percent of the population of the state in which the majority of the district is located, whichever is greater. Previously, the population limit was 200,000, regardless of the population of the state with the majority of the rural district.

"This change, another part of our Regulatory Modernization Initiative, responds to the needs of credit unions and consumers," said Chairman Matz. "This new rule expands the viability of rural credit unions in all states and upholds the spirit of the Credit Union Membership Access Act, providing federal credit unions serving rural areas greater flexibility to improve access to consumers who otherwise might not have access to affordable financial services."

Forty-three federal credit unions currently have a rural district charter. The new definition allows rural districts of up to 250,000 people in all states, and larger rural districts for federal credit unions seeking rural district community charters in the 11 most populous states.

The rule does not change the other elements required to designate an area a rural district. As with all community charters, federal credit unions serving rural districts must develop business and marketing plans demonstrating how they will serve their entire community.

The final rule will be effective 30 days from the date of publication in the *Federal Register*.

NCUA tweets all open Board meetings live. Follow @TheNCUA on Twitter. You can access Board Action Memorandums and NCUA rule changes online at www.ncua.gov.