
Board Action Bulletin



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NCUA BOARD ACTIONS TAKEN JANUARY 22, 2004

Community charter conversion

The Board approved the request of \$296 million Austin Telco Federal Credit Union, Austin, Texas, to convert to a community-based field of membership serving the people who live, work, worship, or attend school, businesses and other legal entities located in the Austin-San Marco metropolitan statistical area that includes the five Texas counties of Travis, Williamson, Bastrop, Hays and Caldwell.

Investment rule changes proposed

The NCUA Board issued a proposal to amend NCUA's investment rule, Part 703 and corporate credit union rule Part 704, to enable federal credit unions and corporate credit unions to invest in certain exchangeable collateralized mortgage obligations (CMOs) that represent interests in one or more stripped, mortgage backed securities (SMBS). While direct investment in SMBS raises safety and soundness concerns, some exchangeable CMOs that represent interests in one or more SMBS may be safe investments for credit unions.

The proposal, issued with a 60-day comment period, also contains miscellaneous technical corrections and clarifying amendments to Parts 703 and 704.

Year-end 2003 share insurance fund report

The year ended with the National Credit Union Share Insurance Fund (NCUSIF) exceeding \$6 billion in equity, estimated to be 1.25% of insured shares.

By December 31, 2003, the goal of building the Provision for Credit Union Losses (Reserves) by adding between \$1.5 million and \$7.2 million a month over an 18-month period was completed. The reserve level ended the year at \$76.9 million after adding \$37.7 million to build Reserves during 2003 as a conservative measure to protect against potential losses. The Fund's unallocated reserves reached \$62 million, above the established reserve goal of \$60 million.

It's important to note that at 13 the actual number of credit union closures in 2003 was the lowest number in 10 years, and the actual amount paid out as a result of insurance losses was less than \$10 million.

The Share Insurance Fund revenue and expense statement for 2003 indicates gross income was \$151.9 million, net income was \$29.0 million, operating expense was \$85.2 million and insurance loss expense was \$37.7 million, based on GAAP accrual method of accounting.

Due to the combination of variables affecting the equity ratio—yield on Fund investments, insured share growth and amount of credit union losses—NCUA's chief financial officer noted during his presentation that if the equity ratio is projected to be below 1.25 percent at yearend 2004, various options will have to be considered, one may be an insurance premium. However, it is very early to make a determination.