NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

April 3, 1990

Office of General Counsel

Tom Haider, Esq.
Staff Attorney
Minnesota League of Credit Unions
2788 E. 82nd Street
Bloomington, MN 55425

Re: Home Mortgage Disclosure Act (Your February 15, 1990, Letter)

Dear Mr. Haider:

You asked if a credit union must make one home purchase loan before it is required to report pursuant to the Home Mortgage Disclosure Act (HMDA). It must make one such loan.

In Letter to Credit Unions No. 114, we indicated that credit unions meeting the location and asset size requirements were subject to the reporting requirements of HMDA (Regulation C) if they granted home purchase <u>or</u> home improvement loans. Appendix A to Regulation C states:

> I.A.2. You need not complete a register - even if the tests for asset size and location are met - if your institution is a bank, savings association, or credit union and it made no first-lien home purchase loans on one-to-four family dwellings in the preceding calendar year.

Credit unions must make at least one home purchase loan before they are subject to HMDA reporting requirements. If

FOIA

Vol. III, B, 17

one such loan is made, all home purchase and home improvement loans must be reported. Enclosed is a copy of a recent NCUA News containing an article making this clarification.

Sincerely,

Hattie M. Ulan

Hattie M. Ulan
Associate General Counsel

Enclosure
GC/HMU:bhs
SSIC: 3233
GC90-0230

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

March 1990, Number 3

Jepsen Predicts 1990s Will Mark Turning Point

The decade of the 1990s will be a turning point for the financial services industry, the time when financial institutions come to terms with the deregulated age, NCUA Chairman Roger Jepsen told credit union leaders in March.

Jepsen said the "overriding" issue is whether or not the deposit insurance funds will be allowed to function as true, risk-based funds. He addressed the annual Congressional Caucus of the National Association of Federal Credit Unions in Washington.

The National Credit Union Share Insurance Fund is functioning as a risk-based fund now, he said, and is the only fund that is stronger today than when it began. "It is the only fund not looking for help from the taxpayers, and it never will, because of the way it is structured."

If politics can be overcome, the bank fund could achieve risk-managed status, Jepsen pointed out, but it is now hamstrung by its premium-based, pay-it-and-forget-it structure. "The credit union fund may not be a perfect fit for banks and savings and loans, but it sure has plenty to offer."

Both the government and the financial community "have a lot of turf at stake," Jepsen declared. "That's not new, but we are fast

continued on page 2

HIGHLIGHTS

Data Cycle Ending	3
Comment Periods Open	4
Capital Ratio Rises	5
FCU Data Report	6,7
Study Available	8

Swan Named to NCUA Board

Robert H. Swan

Robert H. Swan, a Utah credit union executive, was nominated by President George Bush to the NCUA Board. When confirmed, he will succeed David L. Chatfield who was appointed in 1988 to complete the unexpired term of P. A. Mack Jr.

Swan, 54, has been president and chief executive officer of Tooele Federal Credit Union, a $71 million credit union in Tooele, Utah, since 1983. Previously, he was Utah's deputy director of finance, mayor of Tooele, and a small business owner.

Active in the Utah Credit Union League, he is a member of the legislative committee of the National Association of Federal Credit Unions, and has been active in community and state affairs. He holds a master's degree in business administration from the University of Utah and completed an executive management program there.

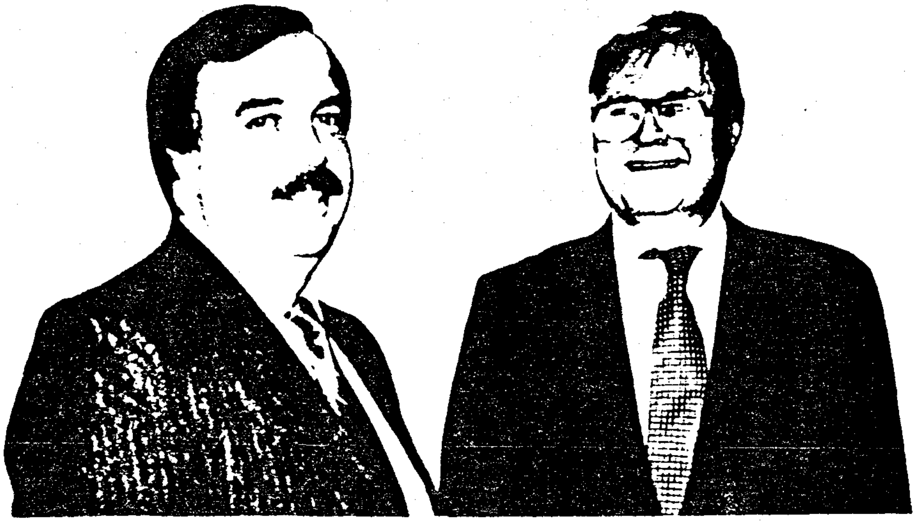
Baine Retires; Board Names New Directors

Harvey J. Baine III, NCUA veteran and director of Region II, announced his retirement earlier this month effective May 19. His successor and a new director of Region IV were announced by the NCUA Board.

Daniel Murphy, deputy director of Region VI before he was named deputy executive director in November, succeeds Baine in Region II. Nicholas Veghts, deputy director of the Office of Examination and Insurance, was named director of Region IV, completing the roster of new regional directors.

Veghts succeeds H. Allen Carver who was named in February to head the Region III office in Atlanta. The Board also appointed David Marquis, associate director in Region I, to be deputy director of the Office of Examination and Insurance, succeeding Veghts. Gerard McClernon, director of risk management in the Office of Examination and Insurance, succeeds Murphy as deputy executive director.

continued on page 2



Nicholas Veghts

Daniel Murphy

NCUA Regional Directors Named

continued from page 1

During his 34-year tenure, Baine relocated nine times, serving in Atlanta, Los Angeles, New York, Boston, and as regional director, first in Toledo and then Harrisburg, Pa. Subsequently, he was assistant administrator for internal audit and comptroller in the Washington office. He was again named director of Region II in 1980. The office was moved to Washington, D.C., in 1982.

Murphy joined NCUA in 1962 as an examiner in Michigan and served in supervisory positions in Region IV as well as in Region VI. Veghts started as an examiner in Pittsburgh, and held supervisory positions in Region II before moving to the Office of Examination and Insurance.

Legal Opinions

The NCUA Office of General Counsel responds to written requests for legal interpretations of the Federal Credit Union Act and NCUA's Rules and Regulations. The following legal opinions may be secured by writing to the Office of Public and Congressional Affairs. Please give number and title when making a request.

#90-0135 Changes Permitted on Joint Share Accounts. State law controls the changes permitted in joint share accounts. Under some state laws, one joint owner can terminate the interest of the other joint owner through written notice to the federal credit union. The NCUA Accounting Manual offers guidance on this issue, but is not part of NCUA Rules and Regulations.

#90-0213 FCU Board Quorum Requirement. Federal credit union board resolutions require a simple majority vote of all directors while bylaw and charter amendments require a two-thirds vote.

#89-0912 Dividend Requirements Reviewed. Credit union boards are not required to declare dividends and may offer various types of share accounts and dividend rate structures. Regular share accounts require a uniform dividend rate regardless of balance, while other types of share accounts may offer tiered dividends. Federal credit unions are not required to offer regular share accounts.

Jepsen Predicts 1990s Will Mark Turning Point

continued from page 1

approaching the moment when turf and ego are no longer affordable." If financial institutions do not change, he added, "they can only hope to limp and muddle along from crisis to crisis."

The key ingredients of NCUA policies are basic regulations, quality supervision, and risk management, the Chairman asserted, and supervision will be the guiding principle of the 1990s in all deregulated industries. "The promise of deregulation—lower prices, more competition, more opportunity—will prevail only if quality supervision is an active and permeating feature of regulatory agencies."

Credit unions have many friends in Washington and members of Congress will give you a sympathetic hearing, Jepsen reminded listeners who were planning visits with their Congressional delegations. "But also remember that we are playing hard-ball politics," he warned. "You are asking only to be heard; you are not looking for a handout or a bailout."

Publications

Revised editions of the Federal Credit Union Act and NCUA Rules and Regulations have been published and are now available for purchase from the Office of Administration. The Federal Credit Union Act ($3.00) includes the amendments which were approved by Congress in 1989. The Rules and Regulations ($10) include all changes since the last publication in October 1987.

A JOINT EFFORT

Biggest Data Collection Program Is In Progress

NCUA's biggest statistics gathering program, one that recurs every six months, is almost complete and the people who gather the data will have a brief respite before the next cycle begins.

Every federally insured credit union and all NCUA examiners are a part of the process. However, the coordination and final presentation of the figures is the job of one woman– Renee Valliere, data analysis officer in the Office of Examination and Insurance.

Renee Valliere

The data collection program "is a big joint effort by the Agency," Valliere says, and all decisions are reviewed by everyone involved in the process. But coordinator Valliere develops and oversees the entire project.

Call reports submitted by credit unions are the basic ingredient of the process. For the cycle just ending, these call reports were substantially revised and improved. Future changes can be minimal as a result, Valliere promises.

All call reports are channeled through NCUA regions where the information is automated by individual examiners and transmitted electronically to the agency's mainframe computer in the Washington office. By mid February, all data had been entered and the next phase began.

After the data is compiled and reviewed by Valliere, it is ready for use. Perhaps its most important use is in the preparation of semi-annual financial performance reports which are provided to reporting credit unions. The new, yearend FPRs went in the mail early in March.

The compiled data is also published twice each year. The newest report, "1989 Yearend Statistics for Federally Insured Credit Unions," will be available in April from the Office of Administration, on request.

In addition, publication of the NCUA Annual Report depends on the statistics compiled from call report data. The 1989 Annual Report is in production and is expected to be mailed to all credit unions early in May.

NCUA provides its call report data to other agencies as well. The Federal Reserve Board includes it with other financial data when it makes decisions about the economy. The U. S. Department of Commerce uses NCUA data when it determines the level of GNP (gross national product.) Individuals, private companies and other institutions can request and purchase data.

Internally, NCUA uses its collected data to identify national or regional trends. It provides regional offices and examiners with reports which will help them spot troubled credit unions or those with potential problems. Data which has been collected, although not published, may be pulled out of the reports for other studies such as those prepared by the Office of the Chief Economist.

But for Valliere, NCUA examiners and other co-workers, one data collection cycle is just about over, and the next one is about to begin.

Fraud Hotline In Operation

NCUA's new "fraud hotline" for the reporting of suspected illegal or questionable activites within credit unions is now in operation and is staffed by attorneys in the Office of General Counsel.

The numbers are 682-9699 for local calls and 800-827-9650 for incoming long distance calls.

Calls will be answered by a staff attorney during the working day, and callers can remain anonymous. During off-duty hours, an answering machine will record calls and an attorney will respond the following work day.

Information provided by callers will be reported immediately to the appropriate regional office for investigation.

The "fraud hotline" implements legislation enacted in 1989 which authorizes the payment of rewards for information leading to civil or criminal penalties or recoveries in excess of $50,000. Although there are few of cases of fraud and insider abuse in credit unions, individual losses are usually substantial.

ECONOMIST ADVISES:

Conform to Standards Secondary Market Sets

Credit unions engaged in mortgage lending should conform with secondary market practices, even if they do not plan to sell their mortgages, according to NCUA financial economist Lindsay Lucke.

"The secondary market has so much more experience than any one lender that it has developed loss ratios for every kind of risk," Lucke declared. The secondary market tracks the effect of cyclical changes and interest rate increases on default rates. Then it bases debt ratios and loan-to-value ratios on that experience, she said.

Lucke spoke to the Metropolitan Council of Credit Union Executives Society of Michigan at its annual economic summit in February. She recently reported on her research in mortgage lending in a paper presented to the NCUA Board.

Lucke pointed to the experience of the savings and loans which saw the value of their mortgages decline by about 24 percent when interest rates rose from 9 to 15 percent from 1977 to 1982. With 55 percent of S&L assets in mortgages, rising interest rates reduced the value of total assets by 13 percent, "far more than could be cushioned by capital." By comparison, credit unions have only an estimated 7 percent of assets in fixed-rate, long-term mortgages, and are in a far safer position, she said.

Lindsay Lucke

Lucke said she believes that the credit union system is going through a shake-out phase in mortgage lending. "Many credit unions will lose money without realizing it before this period ends." She advised credit unions to accurately track their origination, servicing and other administrative costs so that their pricing will recover these costs.

Lucke added that a statement in an October NCUA Letter to Credit Unions is being taken too literally. Examiners will give more attention to credit unions with mortgage lending of over 25 percent, but that does not mean there is a "cap" on lending, she said.

NCUA News

NCUA News is published each month except September by the National Credit Union Administration, the Federal agency which supervises and insures credit unions. Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, Washington, D.C. 20456, or by calling 202-682-9650. News of what is happening at NCUA is available on a daily basis by calling 800-424-5531 and locally by calling 682-9660.

Board Asks For Comment On 2 Rules

The NCUA Board requested comments on two proposed rules when it met in San Antonio in March. One gives NCUA the authority to disapprove officers of newly chartered or troubled credit unions. The other would place new limits on the assets of corporate federal credit unions.

All federally insured credit unions come under the first rule which was necessitated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. It will apply to any credit union which has been chartered less than two years, or which is in "troubled condition." A troubled credit union is described as one receiving a composite CAMEL code rating of 4 or 5, or which currently has Section 208 assistance.

Under the proposed rule, a newly chartered or troubled credit union will be required to notify the appropriate regional office 30 days in advance before adding any individual to its board, or a committee, or before hiring or promoting any individual for a senior executive position.

The prior notice requirement can be waived upon petition by the regional director, or when a director is elected at a meeting of members. However, notice would be required within 48 hours following an election. The proposed rule also addresses the questions of how to fill a vacancy if the NCUA disapproves an elected candidate, and how to appeal the agency's negative action.

A 60-day comment period was announced for both of the proposed rules. Comments or requests for copies of the proposed rules should be directed to Becky Baker, secretary of the NCUA Board.

ECONOMIC REPORT

Capital Ratio Reaches Even Better 7.4 Percent

Slower growth in 1989 strengthened the credit union capital base, contributed to a shift from long-term to short-term investments, and raised the loan-to-share ratio, according to NCUA Chief Economist Charles H. Bradford.

Bradford gave his annual appraisal of credit union performance to the NCUA Board when it met in March in San Antonio.

A 12.6 percent growth in capital last year, measured against a modest 4.8 percent growth in assets, caused the average credit union capital ratio to jump from a healthy 6.9 percent in 1988 to an even healthier 7.4 percent in 1989, Bradford reported.

Loan demand in the face of slow share growth has drawn down investments, particularly long-term investments which fell by 18.7 percent. And the loan-to-share ratio has climbed 10 percentage points to a "much healthier" 73 percent over four years.

Share growth of 4.7 percent and asset growth of 4.8 percent, was the slowest since 1981, Bradford said. Loans grew 7.8 percent, half of the 15 percent average of the previous three years. The good news, he said, is that loan quality continues to be excellent, with loan delinquencies remaining at 1.8 percent.

The dramatic shifts in credit union loan mix since 1986 are moderating with real estate lending growing less rapidly, Bradford said. Mortgage loans grew 16 percent last year, compared to 28 percent in 1988 and 46 percent in 1987. Real estate lending now comprises 32.5 percent of the total, almost equal to new and used car loans which totaled 33.9 percent at yearend.

Bradford said, however, that he is "mildly concerned" about the sluggish 2.2 percent growth in net income before reserve transfers. The problem, he said, is caused by the rise in cost of funds and the need to lower operating costs. As asset growth has slowed, the ratio of operating expenses to assets has contributed to slower net income growth in 1989.

The rise in the cost of funds, caused by a change in the share mix rather than by an increase in rates, means that credit unions "are caught between a rock and a hard place," said Bradford. They must be careful about lowering dividends when shares are growing slowly, he said, and to raise dividend rates hurts net income.

Bradford warned credit unions that their competitors are not just the banks and S&Ls across the street. Foreign interest rates also can affect U.S. rates, because financial institutions across the ocean are financing large chucks of our federal debt. He said he didn't expect U.S. long-term rates to fall much this year, if at all, but short-term rates may come down a little.

Turning to credit union performance in Texas, Bradford said Texas credit unions grew slightly faster in 1989 than the national average. Net income rose "a whopping 32.2 percent" and loan quality is excellent. Everything points to the conclusion that the Texas economy has turned the corner, he said.

Rep. Marcy Kaptur

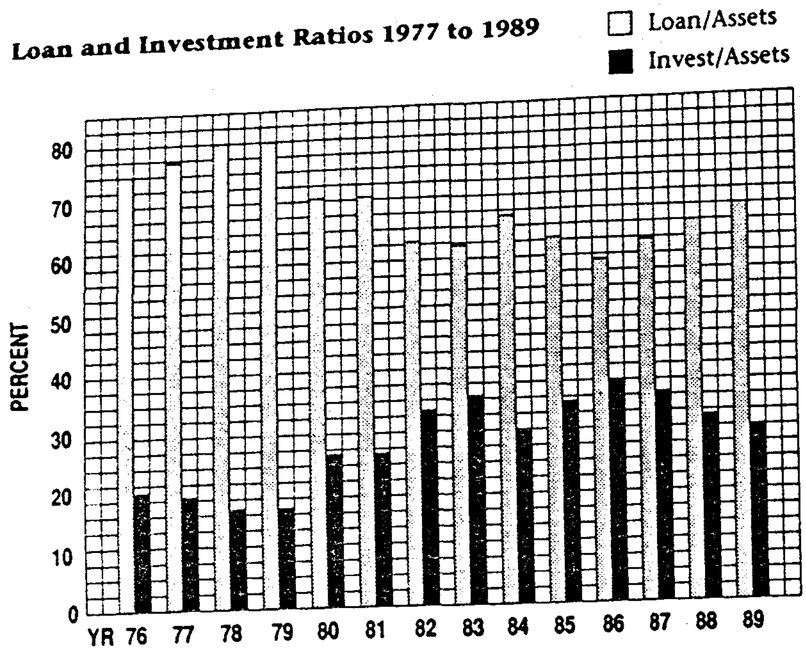
Kaptur Urges Use of Fund As a Model

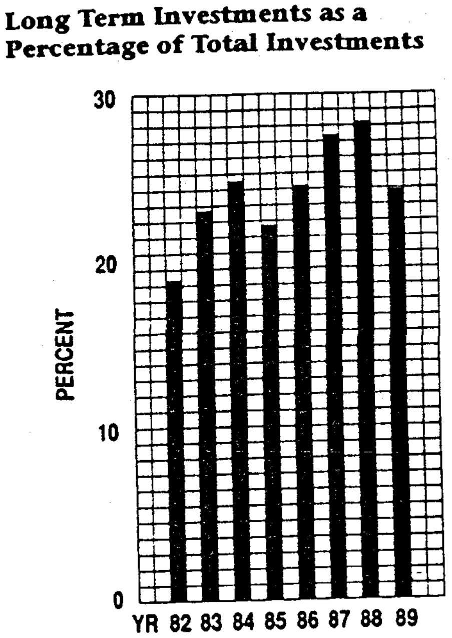
Congresswoman Marcy Kaptur (Ohio) has urged Congress to use the one deposit insurance fund which has worked–the credit union fund–as a model for the other federal funds. Kaptur is a member of the House Banking Committee.

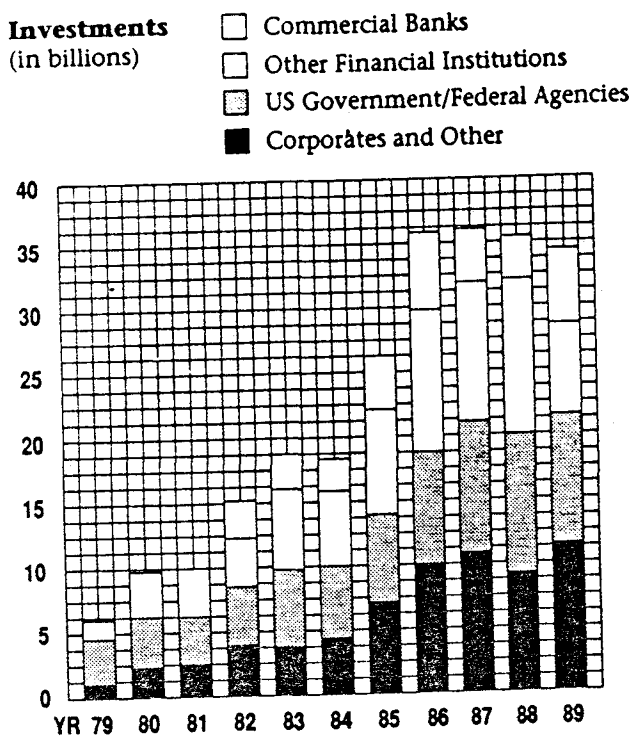
If the FDIC had the deposit mechanism of the Share Insurance Fund in effect last year, insured banks would have been required to provide roughly $3.5 billion in new funds, she pointed out. The FDIC's reserve ratio dropped from $1.10 to 80 cents in 1989.

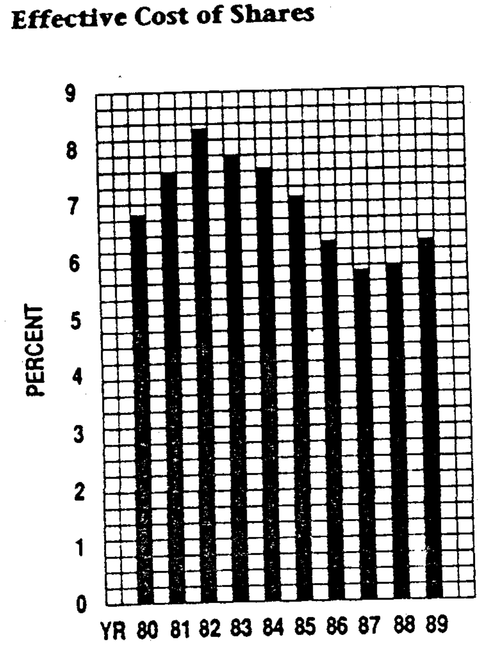
Few realize, Kaptur said, that $4.5 billion in losses were experienced last year by the FDIC (now the Bank Insurance Fund) or that its reserve-to-insured deposits has fallen so low. These severe losses indicate that there may be something systemically amiss, she said.

FEDERAL CREDIT UNION DATA:
Loan Ratio Rises, Investments Down



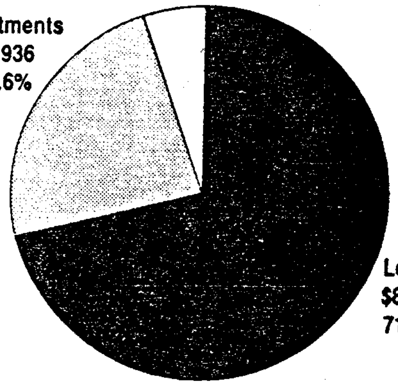




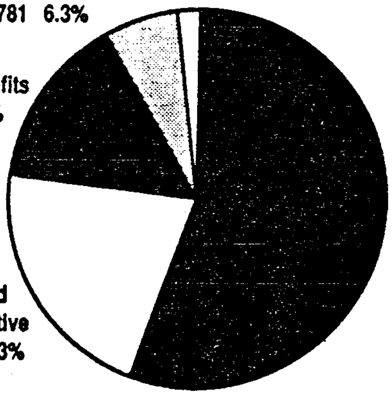


YEAREND FIGURES SHOW:
Real Estate Lending Reached 33%

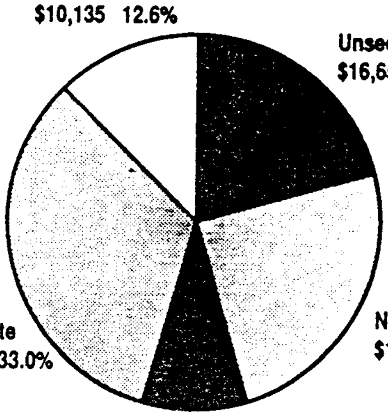
Sources of Income
(in millions)



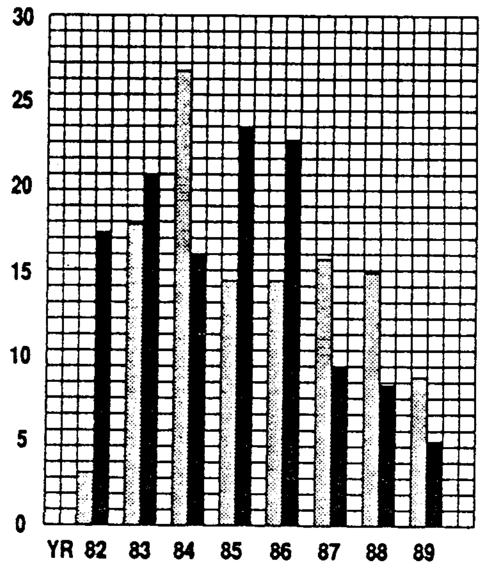
Uses of Funds
(in millions)



Loan Distribution
(in millions)



Annual Percentage Change
Loans and Shares



*Agricultural	$ 45	0.1%
Commercial	$ 914	1.1%
Miscellaneous	$9,176	11.4%

Market Discipline Keeps Credit Unions, SIF Safe

Credit unions are adequately capitalized and their Share Insurance Fund can handle any catastrophe, NCUA states in a document it has submitted to the U.S. Treasury for the study of federal deposit insurance mandated by Congress.

"Part of the conjecture about credit union capital involves the oft-stated myth that credit unions treat their one percent in the Share Insurance Fund as capital," the statement said. "They do not. They treat it as an asset.

"The most important reason for treating the one percent deposit as an asset is not accounting, however. The most important reason is that it provides the market discipline needed to produce results. Credit unions have a financial stake in how they perform, how other credit unions perform, and how the Share Insurance Fund performs."

The real concern appears to be the ability of the credit union system to handle a catastrophe, the statement continues. To wipe out the entire fund of $2 billion would require the failure of the largest credit union at a loss of 60 percent of assets. That is 150 times the largest loss that has ever occurred in credit unions, and would mean that an unparalleled financial disaster had devastated the U.S. economy.

In the unlikely event that the entire fund is wiped out, "credit unions would automatically be required to return the fund to one percent of insured deposits. If losses continued, the process would continue until all the income and reserves of credit unions were depleted. No taxpayer dollars would be used."

Authors of the study, "Managing Risk in the Deregulated Age," are D. Michael Riley, director of the Office of Examination and Insurance, and Susan Nelowet, executive assistant to Chairman Roger Jepsen. Copies are available from the Office of Public and Congressional Affairs.

Asks Borrowing Limits

NCUA Chairman Roger Jepsen requested approval of borrowing authority of $600 million for the Central Liquidity Facility when he appeared before a Senate Appropriations subcommittee in March.

Reporting Requirements Explained

Not all credit unions are required to report new data about real estate loan applicants under Regulation C and the Home Mortgage Disclosure Act. NCUA's Office of Examination and Insurance is finding some confusion as a result of Letter No. 114 to Credit Unions dated December 29.

There are two tests to apply. First, did the credit union make at least one home purchase loan, secured by a first lien on a 1 to 4-family dwelling, in 1989. If it did not it is exempt from Regulation C.

If it did, and if it had assets in excess of $10 million and had its home office or a branch office in a metropolitan statistical area, it must report all applications for home purchases or home improvement loans on the forms provided.

Some CUSOs (credit union service organizations) involved in mortgage lending may also be subject to Regulation C and should consult local counsel to determine their reporting requirement.

NCUA News

National Credit Union Administration
1776 G Street, N.W.
Washington, D.C. 20456

FIRST CLASS MAIL
POSTAGE AND FEES PAID
NCUA
PERMIT No. G-88