



NCUA
National Credit Union Administration

NCUA's COVID-19 Response Update

December 3, 2020

Chairman Rodney E. Hood

OPENING REMARKS





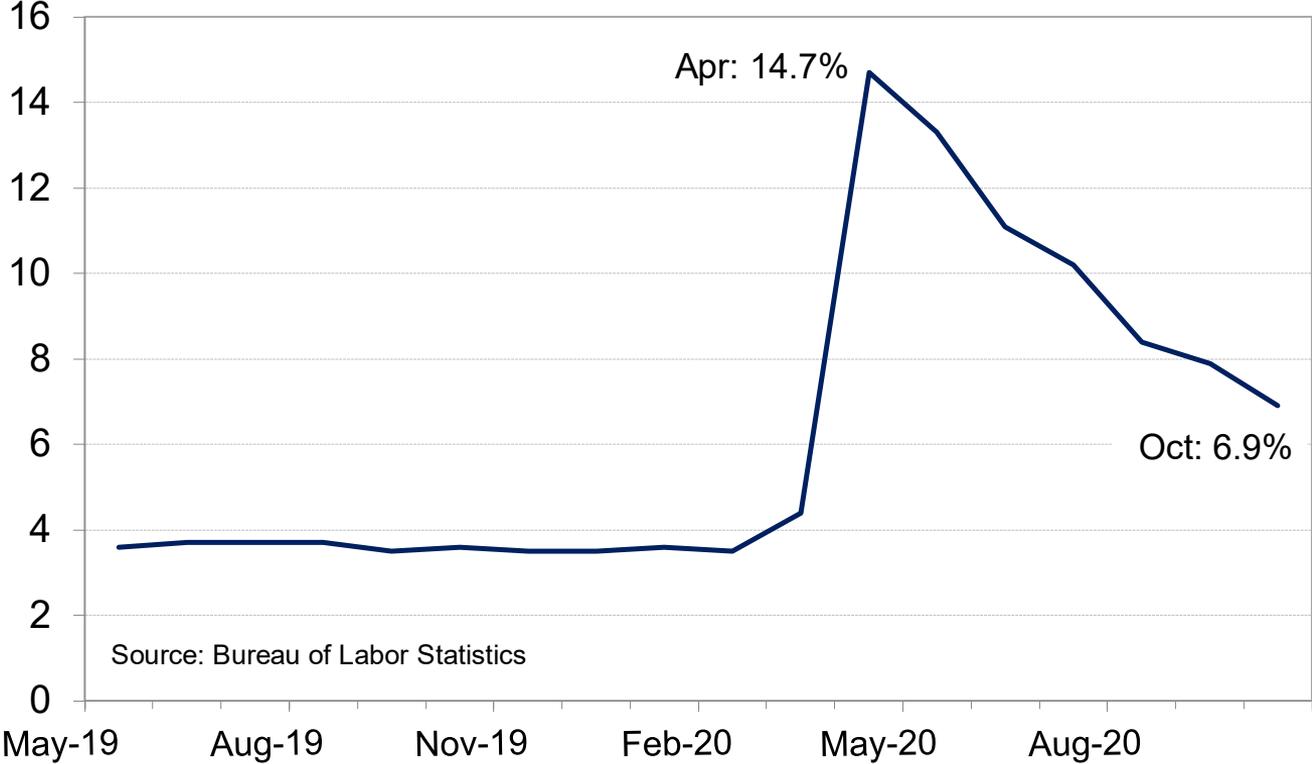
Andy Leventis, Chief Economist

ECONOMIC UPDATE



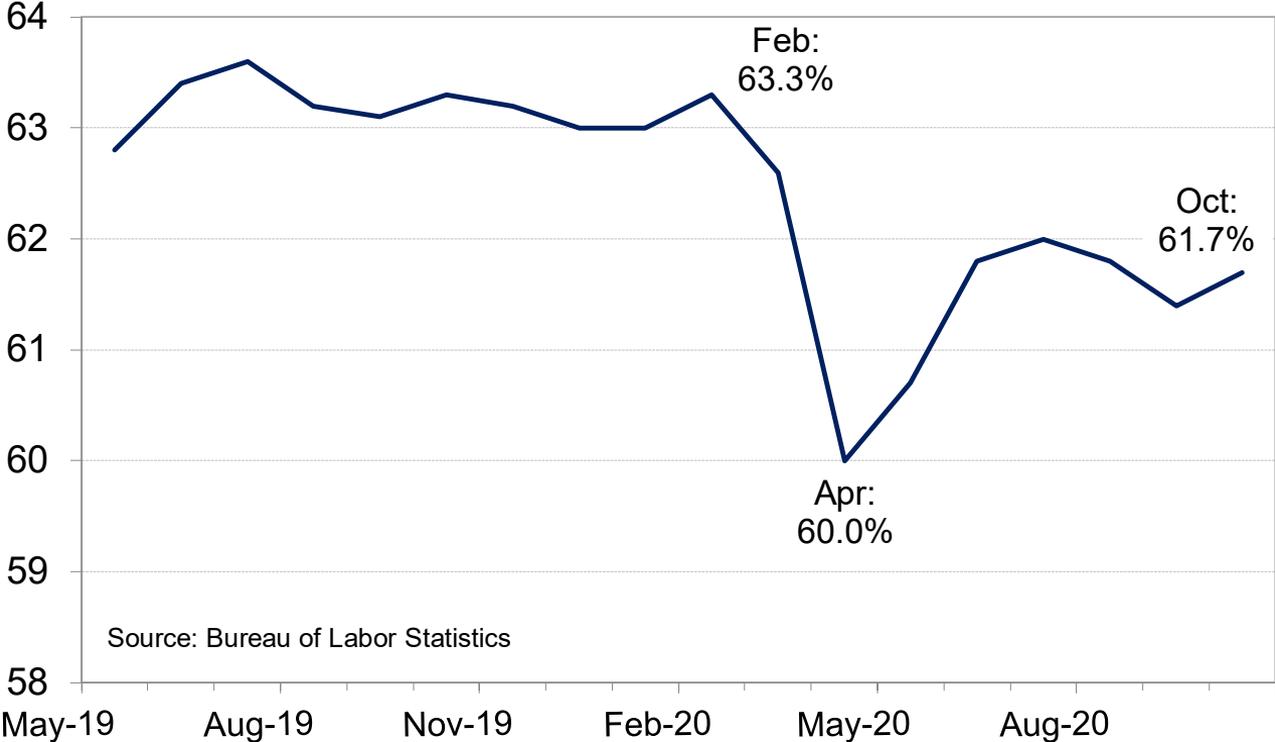
Unemployment Rate

monthly, percent



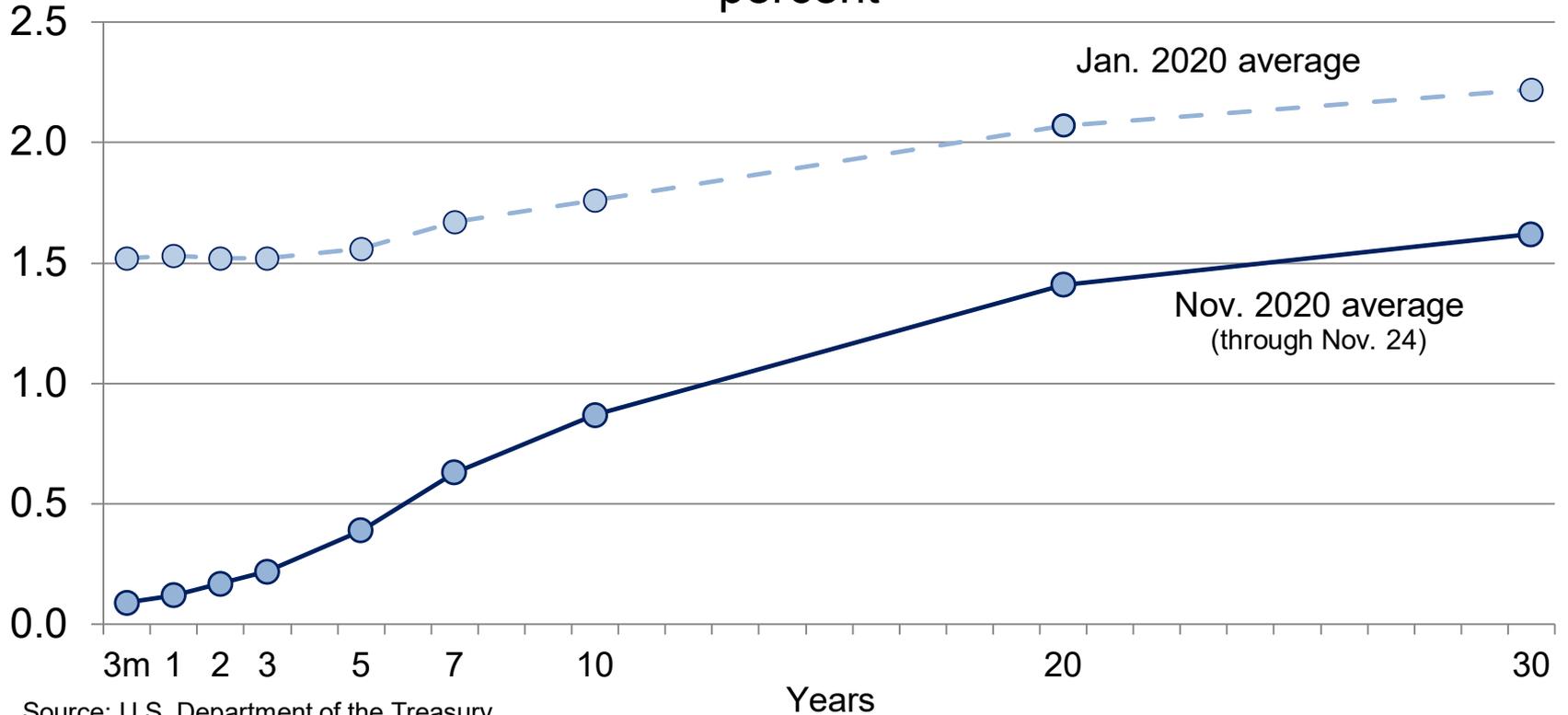
Labor Force Participation Rate

monthly, percent



Treasury Yield Curves

percent



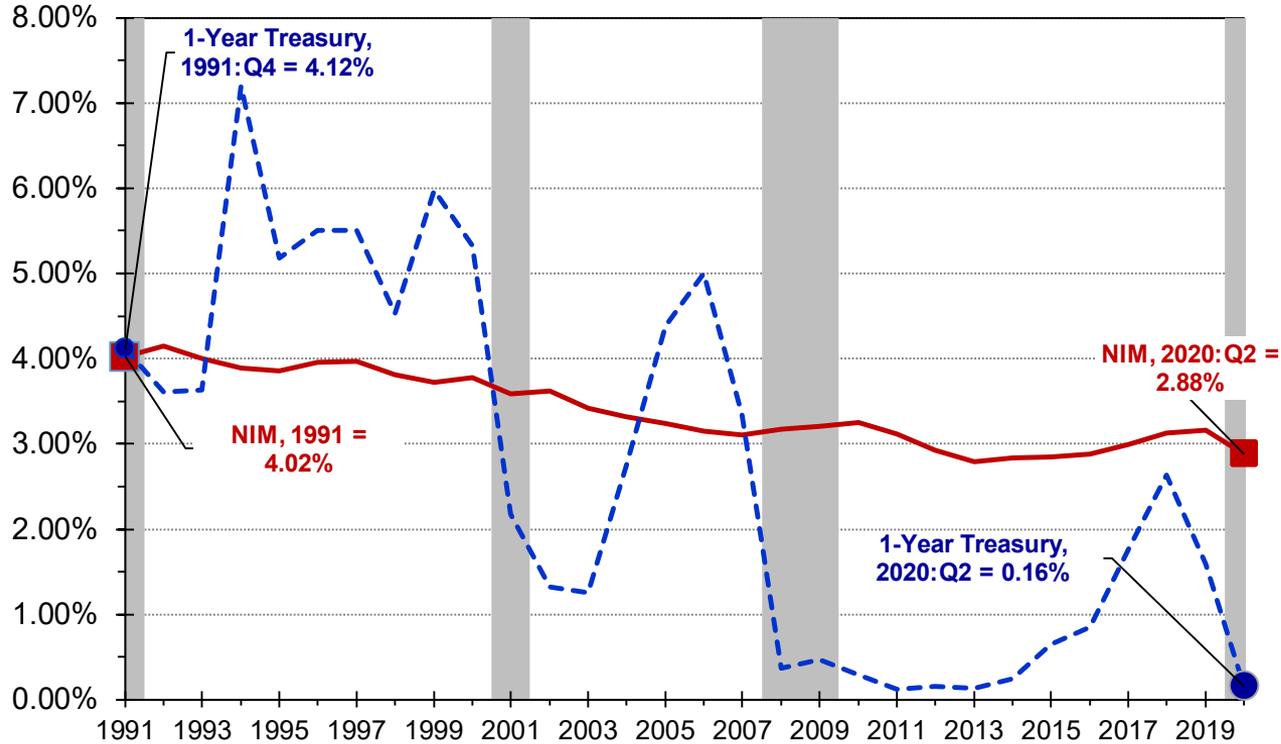
Source: U.S. Department of the Treasury

Years



Net Interest Margin (NIM) vs 1-Year Treasury Yield 1991-2020

*NIM expressed as % of average assets for all Federally Insured Credit Unions (FICUs);
Income/Expense are annual figures except 2020, which is Q2 annualized*

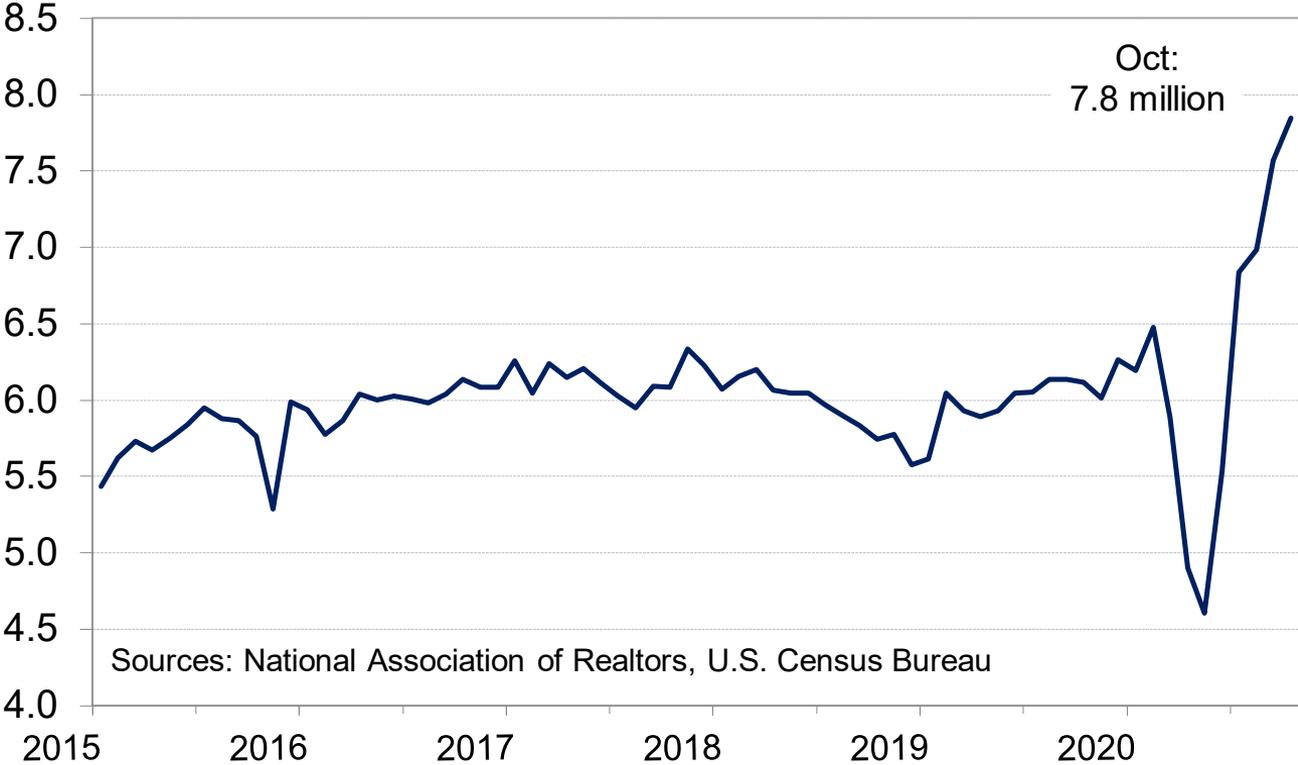


Source: NCUA Call Report, U.S. Department of the Treasury



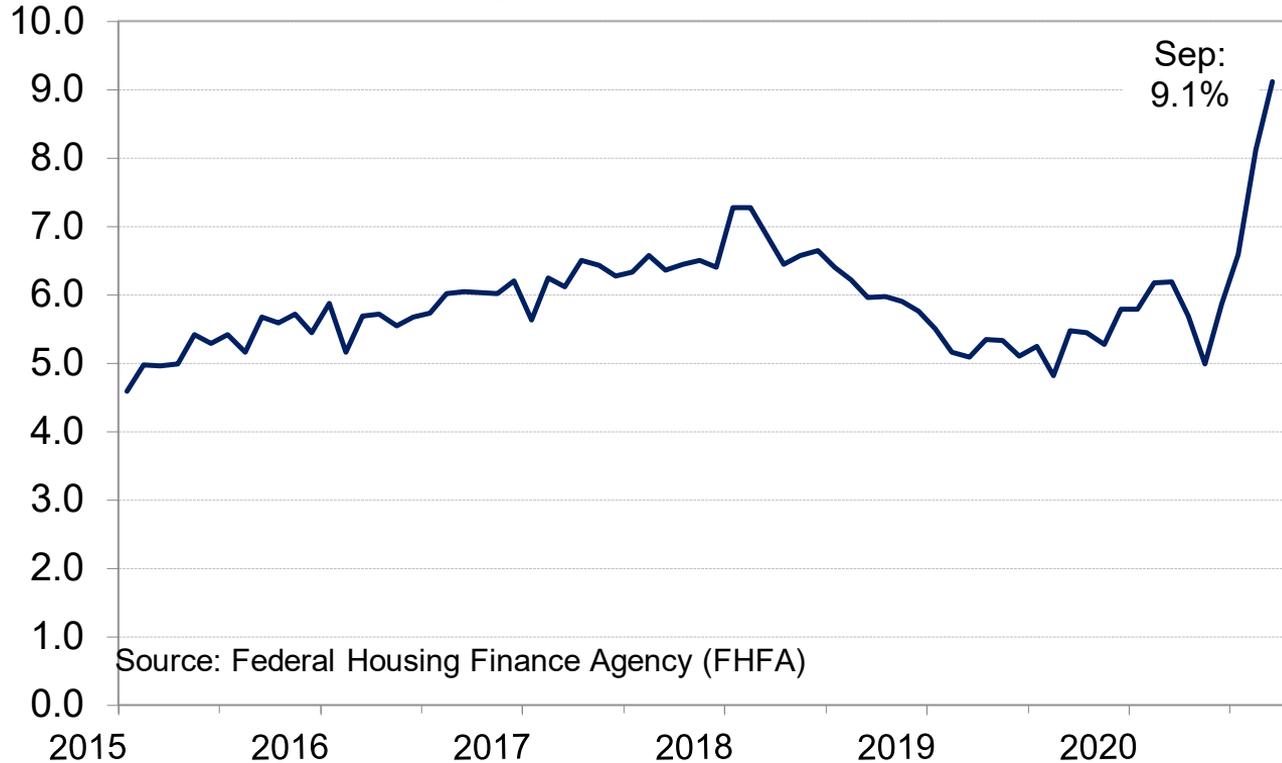
New and Existing Home Sales

millions, seasonally adjusted annual rate



House Prices

12-month percent change in FHFA Purchase-Only House Price Index

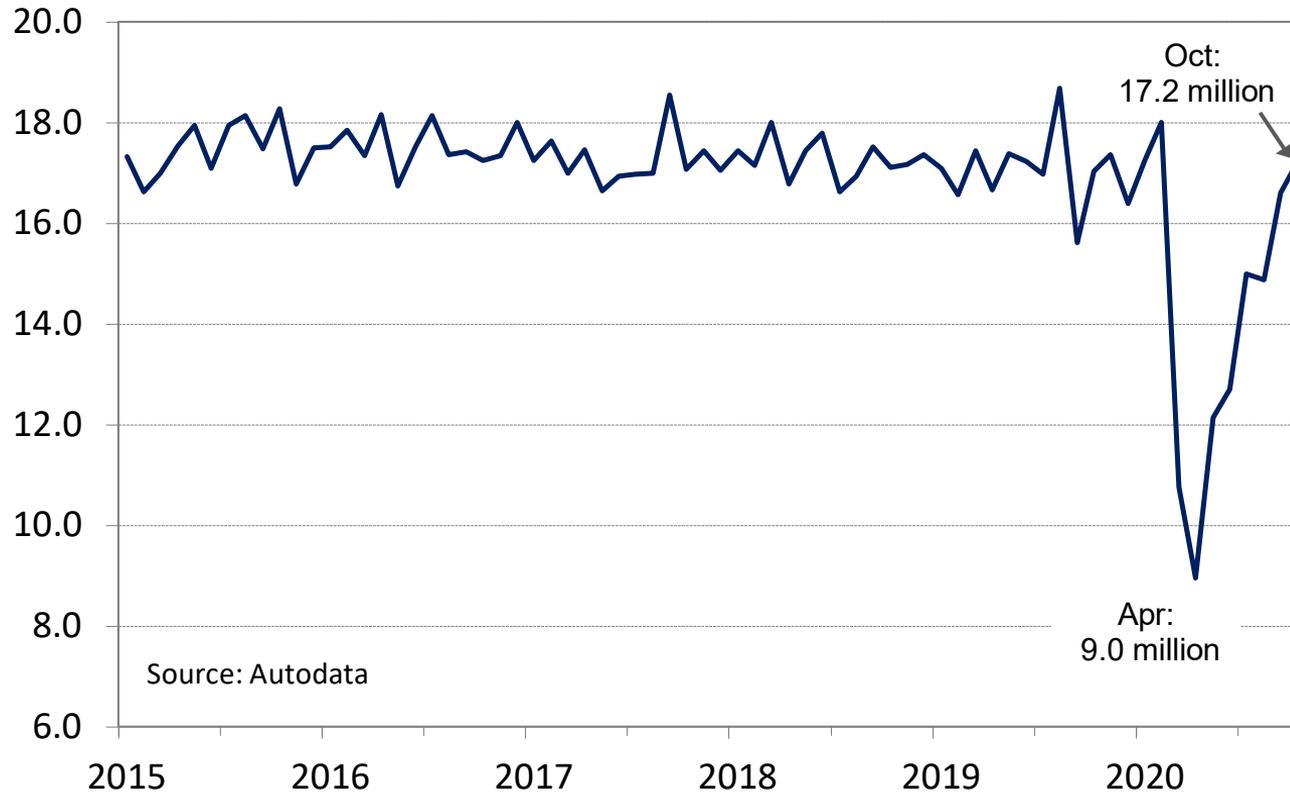


Sep:
9.1%



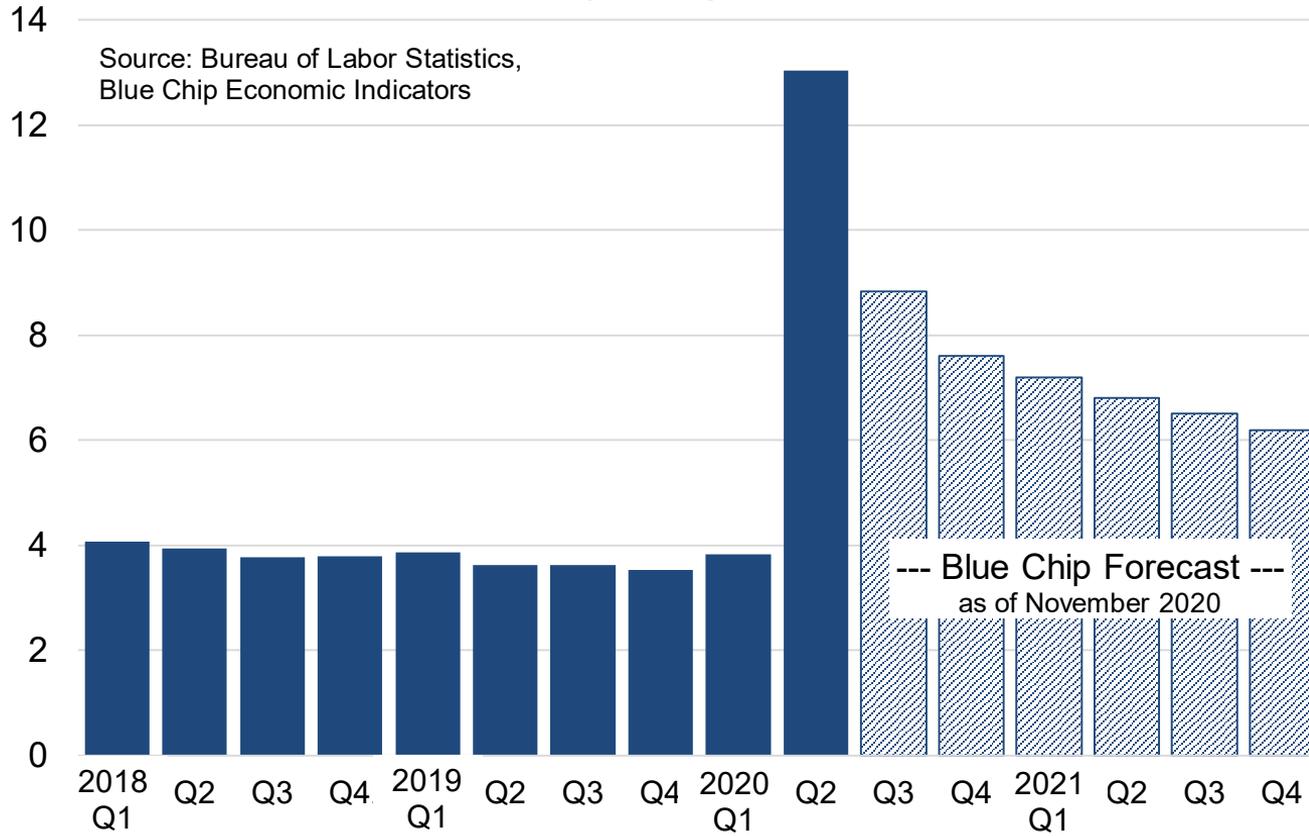
New Motor Vehicle Sales

millions, seasonally adjusted annual rate



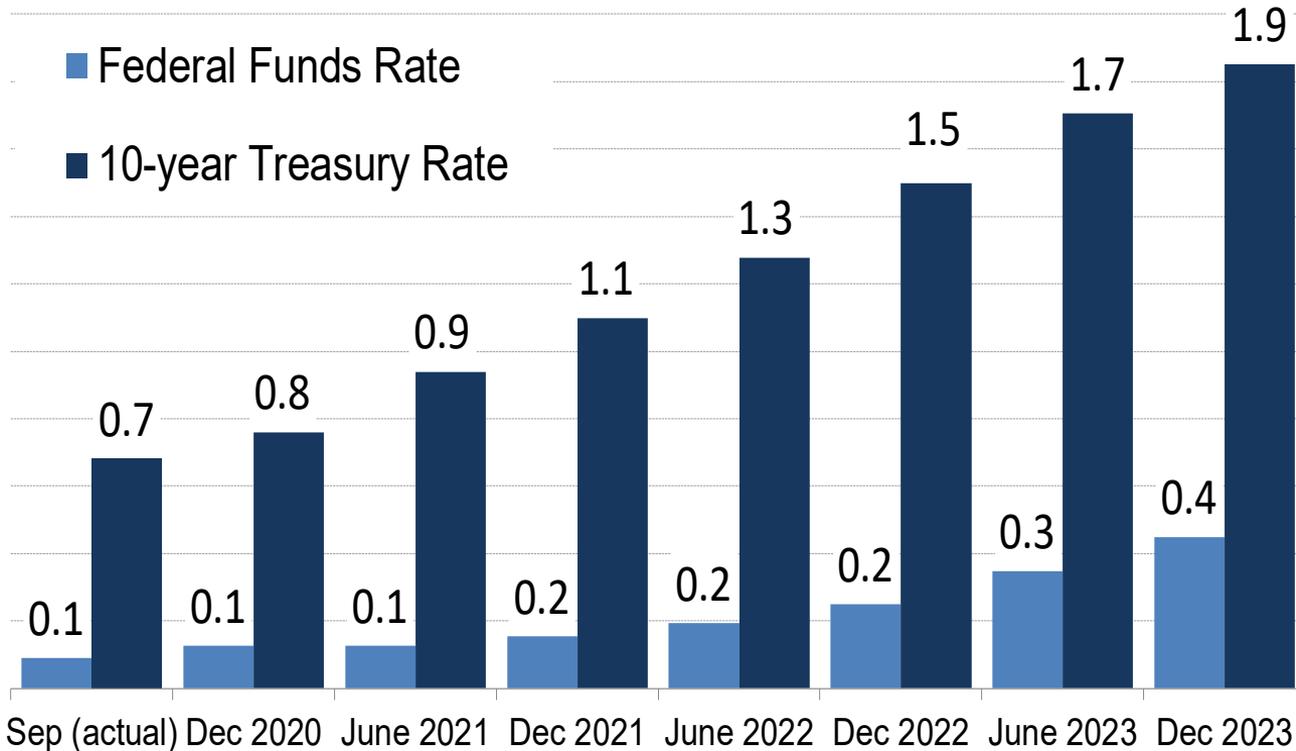
Unemployment Rate

quarterly average, percent



Interest Rate Forecasts from October WSJ Survey

average of forecasts, percent



Source: *Wall Street Journal* Economic Forecasting Survey



Concluding Thoughts: Positives and Negatives

Positives

- Vaccine Prospects
- Savings are “powder keg” for future consumption?
- Credit Union financials still look solid
- Significant Home Equity Among Mortgage Borrowers
- Many In-Forbearance Mortgage Borrowers Still Made Payments
- Credit Union Auto Lending:
 - At-Originaton FICO scores holding up
 - Dramatic price declines have not taken place.

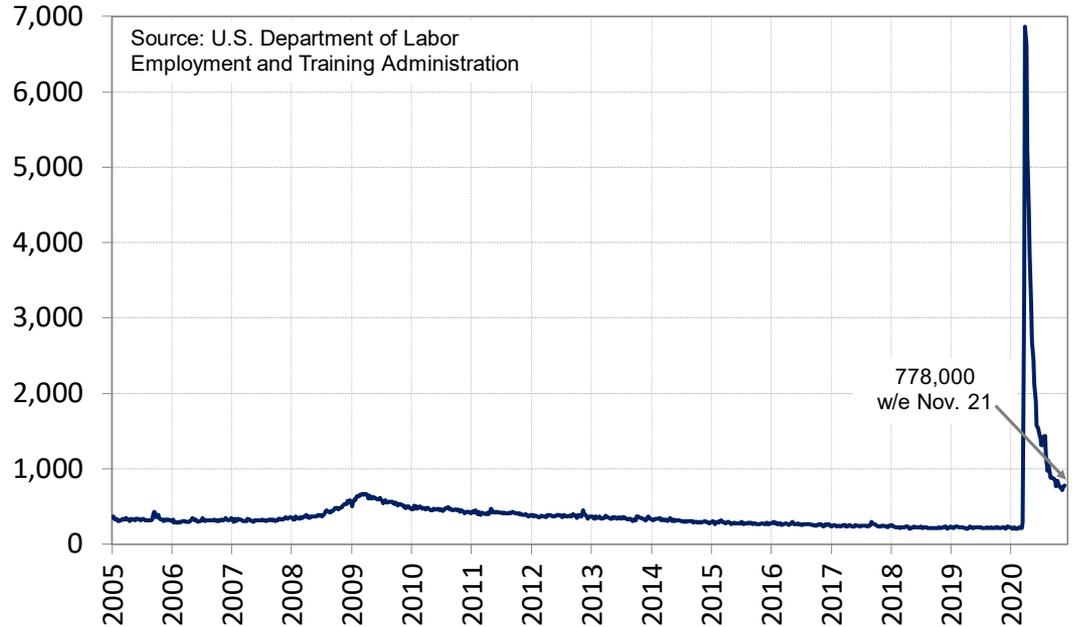
** Source: National Mortgage Database, Federal Housing Finance Agency*

Concluding Thoughts: Positives and Negatives

■ Negatives

- Unemployment Still Quite High
- Margin Compression

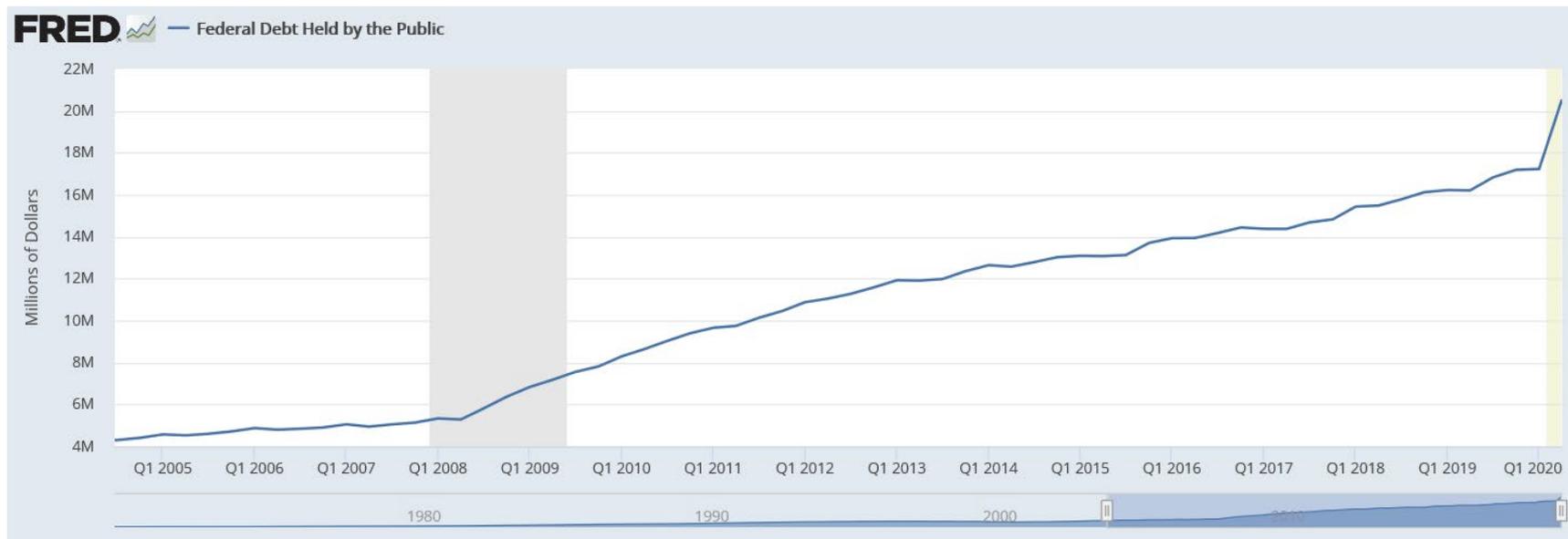
Initial Claims for Unemployment Insurance
weekly, thousands



Concluding Thoughts: Positives and Negatives

■ Negatives

- Explosion in Federal Debt



Myra Toeppe, E&I Director

COVID-19 REGULATORY RELIEF AND GUIDANCE UPDATE



Industry Guidance and Relief

- **NCUA has passed five regulations to provide relief during the COVID-19 pandemic:**

Regulation*	Effective Date	Expiration Date
Part 725 Central Liquidity Facility Interim Final Rule	04/13/20	12/31/20
Part 701 Temporary Regulatory Relief in Response to COVID-19 Final Action	04/16/20	12/31/20
Parts 702 and 723 Regulatory Capital Rule: Paycheck Protection Program Lending Facility and PPP Loans Interim Final Rule	04/22/20	N/A
Part 702 Temporary Regulatory Relief in Response to COVID-19 – PCA Interim Final Rule	05/21/20	12/31/20
Part 722 Real Estate Appraisals Interim Final Rule*	04/16/20	12/31/20

**Part 722, Real Estate Appraisals IFR, was subsequently adopted as a Final Rule on 09/17/20*

Part 725: CLF

- Enhanced access to liquidity for member credit unions during COVID-19 pandemic
- Temporary changes to conform FCU Act to CARES Act (expire 12/31/20)
 - Modified definition of “liquidity needs” to include Corporates
 - Granted Board authority to approve Agent membership groups that cover a subset of member NPCUs
 - Replaced restriction on approving a loan whose “intent of which is to expand” a portfolio with “demonstrate reasonable need”
 - Increased facility borrowing capacity
- Other amendments
 - Eliminated 6-month waiting period for new members to receive CLF loan (permanent)
 - Eased collateral requirements; replaced “110% of Net Book Value” with collateral table (permanent)
 - Amended 6 and 24 month notice period for membership redemptions (expires 12/31/20)
 - After 12/31/20, members may immediately terminate before 12/31/21 after written notice to Board
 - Permits Agents (CCUs) to borrow for their own needs if they become members (expires 12/31/20)

Part 701: Temp. Regulatory Relief

- Provisions expire 12/31/20
- Raised max aggregate amount of loan participations a FICU may purchase from a single originating lender to greater of \$5,000,000 or 200 percent of FICU net worth
- Suspended limitation on eligible obligations an FCU may purchase and hold
- Tolls required timeframes for occupancy or disposition of properties not being used for FCU business or that have been abandoned



Parts 702 & 723: PPP Loans

- Amended capital adequacy regulation to provide that **covered PPP loans receive a zero percent risk weight** provided that, if a covered loan is **pledged as collateral** for a nonrecourse loan provided as part of the Board of Governors of the Federal Reserve System's (FRB) **PPP Lending Facility**, the covered loan **can be excluded from a credit union's calculation of total assets for the purpose of calculating the net worth ratio**
- Made a conforming amendment to the definition of commercial loan in NCUA's member business loans and commercial lending rule
- Rule changes do not expire



Part 702: Temp. Reg. Relief (PCA)

- Temporarily enabled NCUA Board to issue an order applicable to all FICUs to waive the earnings retention requirement for any FICU that is classified as adequately capitalized
- Modified specific documentation required for net worth restoration plans (NWRPs) for FICUs that become undercapitalized predominantly due to temporary share growth

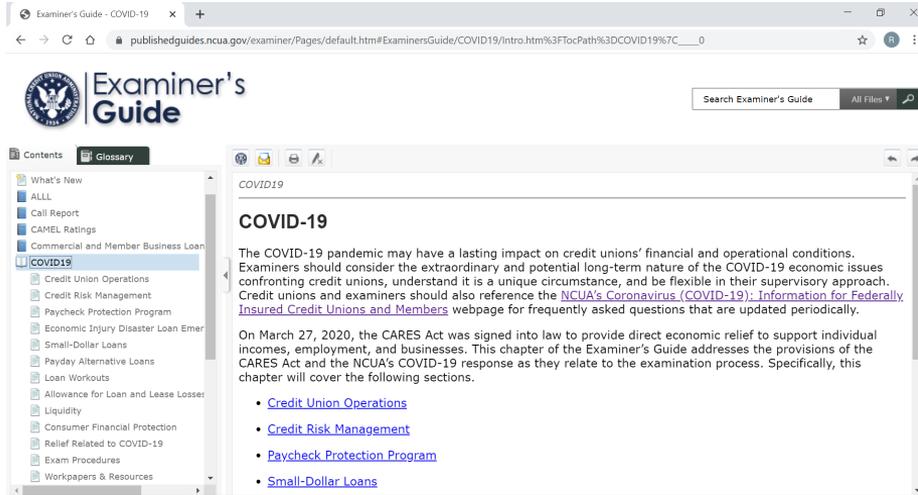
Part 722: Real Estate Appraisals

- **Deferred requirement to obtain an appraisal or written estimate of market value for up to 120 days following the closing of certain residential and commercial real estate transactions, excluding transactions for acquisition, development, and construction of real estate**
- **Developed in coordination with other financial regulators**



NCUA Examiner's Guide

- New COVID-19 Chapter



- Topics include:

- Credit union operations
- Credit risk management
- PPP
- Lending and loan workouts
- ALLL
- Liquidity
- Exam Procedures

- Access online at NCUA.gov

NCUA.gov COVID Content



[About](#) > [Regulation & Supervision](#) > [Analysis](#) > [Support Services](#) > [Consumers](#) > [COVID-19](#) > [ACCESS](#) >

[Home](#) [NCUA.gov](#)

COVID-19

[For Federally Insured Credit Unions](#)

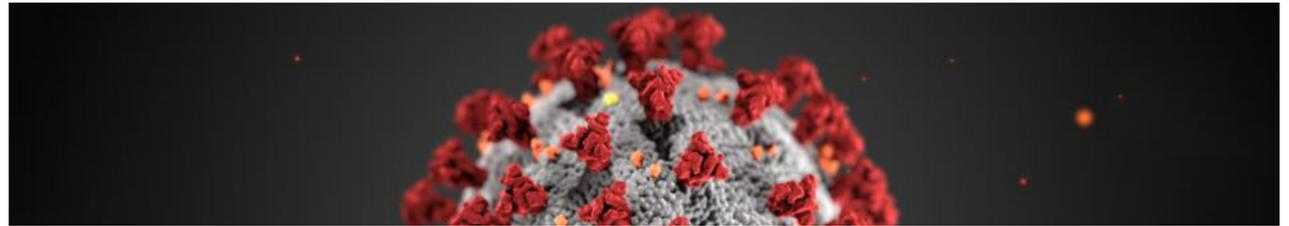
[FAQs for Federally Insured Credit Unions](#)

[For Credit Union Members](#)

[FAQs for Credit Union Members](#)

[Other COVID-19 Resources](#)

Coronavirus (COVID-19): Information for Federally Insured Credit Unions and Members



CARES Act Reporting

The June 2020 Call Report included changes based on Coronavirus Aid, Relief, and Economic Security (CARES) Act and related changes to NCUA regulations §§ 702.104 and 702.2

- **Added accounts to capture:**
 - Number and dollar amount of loan modifications granted consistent with § 4013 of CARES Act (two accounts)
 - Number and dollar amount of Small Business Administration (SBA) Paycheck Protection Program (PPP) loans (two accounts)
 - Amount of SBA PPP loans pledged as collateral to the Board of Governors of the Federal Reserve System's PPP Lending Facility (PPPLF)
 - Amount of PPPLF loans
- **Modified calculations:**
 - Risk Based Net Worth calculation modified to apply a zero risk rating to PPP loans
 - Net worth ratio calculation modified to exclude PPP loans pledged as collateral to the PPPLF from total assets

Supervisory Priorities

NCUA is committed to focusing examination activities on areas that pose highest risk to the credit union industry, and remains committed to responding to the ongoing COVID-19 pandemic with appropriate guidance, policies, and procedures

- 2020 supervisory priorities
 - Updated July 2020
 - Reflect regulatory changes and economic conditions that emerged as result of COVID-19 pandemic
- 2021 supervisory priorities
 - In development

Capitalization of Interest

- Proposed rule at Nov. 19 NCUA Board meeting to permit capitalization of interest
 - Should only be done if borrower can repay
- Seeking comments in Federal Register

?

Question

- Should we continue to prohibit capitalization of credit union fees such as late fees?

?

Question

- What experience has your credit union had capitalizing interest?

?

Question

- How likely are you to incorporate interest capitalization as a mortgage modification tool?

?

Question

- What risks do you see this change represents to the credit union or the borrower?

?

Question

- How would Fannie and Freddie's prohibition on capitalizing interest prior to the sale to a GSE impact your willingness or ability to offer interest capitalization on a loan?



Loan Modifications

- **Capitalizing interest is a loan modification**
- **For TDR determination, refer to:**
 - GAAP – ASC 310-40 criteria
 - Credit union's internal accounting policies
- **Maintain an adequate allowance balance**

Share Insurance Fund

- **Statutory framework (Federal Credit Union Act)**
 - Insured credit unions must pay and maintain a deposit of 1% of the credit union's insured shares
 - NCUA must charge a premium to credit unions if NCUSIF equity ratio falls below 1.2%
 - Act requires Board to develop a restoration plan within 90 days if the equity ratio falls or is projected to fall below 1.2% within 6 months
 - Premium should be such that the Board determines necessary to restore and maintain 1.2% equity ratio
 - A restoration plan must:
 - Provide that the equity ratio will meet or exceed 1.2% before the end of the 8-year period beginning upon the implementation of the plan (or longer as the Board may deem necessary)
 - Act requires Board to publish a detailed analysis of the factors considered and the basis for the actions taken with regard to the plan no more than 30 days after establishing and implementing a restoration plan
- **NCUA monitors the SIF and equity ratio**
 - Equity ratio calculated and projected twice per year and posted on NCUA.gov



Frank Kressman, General Counsel

ANNUAL & BOARD MEETING FLEXIBILITIES



Annual & Board Meeting Flexibilities

- 20-FCU-04 issued November 20, 2020
- Extends relief described in 20-FCU-02
- NEW optional bylaw amendment language related to board of directors' meetings



Questions?

COVID19Questions@ncua.gov

Chairman Rodney E. Hood

CLOSING REMARKS



Resources

- **NCUA's COVID Response**
 - <https://www.ncua.gov/coronavirus>
- **Examiner's Guide**
 - https://publishedguides.ncua.gov/examiner/Pages/default.htm#ExaminersGuide/COVID19/Intro.htm%3FTocPath%3DCOVID19%7C_0
- **CURE Resources**
 - <https://www.ncua.gov/support-services/credit-union-resources-expansion>
 - Grants and Loans, NCUA's COVID-19 Emergency Fund Guidelines
 - CDFI Resources, NCUA's Program Guide
 - Learning
 - The Benefits of CDFI Certification
 - CDFI Certification: Serving the Underserved
- **CLF Resources**
 - <https://www.ncua.gov/support-services/central-liquidity/facility>

Resources

- **Small Business Administration**
 - www.sba.gov/funding-programs/disaster-assistance
- **The Department of Labor**
 - <https://www.dol.gov/coronavirus>
- **IRS**
 - <https://www.irs.gov/coronavirus>
- **FRB Services**
 - <https://frbservices.org/resources/central-bank/faq/reserve-account-admin-app.html>