

§ 1790c. Reward for information leading to recoveries or civil penalties

The Board may pay rewards in connection with an offense affecting an insured credit union, under the same circumstances and subject to the same limitations that a Federal banking agency may pay rewards under section 1831j of this title in connection with an offense affecting a depository institution insured by the Federal Deposit Insurance Corporation.

(June 26, 1934, ch. 750, title II, §214, as added Pub. L. 101-73, title IX, §933(b), Aug. 9, 1989, 103 Stat. 496.)

§ 1790d. Prompt corrective action

(a) Resolving problems to protect Fund

(1) Purpose

The purpose of this section is to resolve the problems of insured credit unions at the least possible long-term loss to the Fund.

(2) Prompt corrective action required

The Board shall carry out the purpose of this section by taking prompt corrective action to resolve the problems of insured credit unions.

(b) Regulations required

(1) Insured credit unions

(A) In general

The Board shall, by regulation, prescribe a system of prompt corrective action for insured credit unions that is—

- (i) consistent with this section; and
- (ii) comparable to section 1831o of this title.

(B) Cooperative character of credit unions

The Board shall design the system required under subparagraph (A) to take into account that credit unions are not-for-profit cooperatives that—

- (i) do not issue capital stock;
- (ii) must rely on retained earnings to build net worth; and
- (iii) have boards of directors that consist primarily of volunteers.

(2) New credit unions

(A) In general

In addition to regulations under paragraph (1), the Board shall, by regulation, prescribe a system of prompt corrective action that shall apply to new credit unions in lieu of this section and the regulations prescribed under paragraph (1).

(B) Criteria for alternative system

The Board shall design the system prescribed under subparagraph (A)—

- (i) to carry out the purpose of this section;
- (ii) to recognize that credit unions (as cooperatives that do not issue capital stock) initially have no net worth, and give new credit unions reasonable time to accumulate net worth;
- (iii) to create adequate incentives for new credit unions to become adequately capitalized by the time that they either—
 - (I) have been in operation for more than 10 years; or

(II) have more than \$10,000,000 in total assets;

(iv) to impose appropriate restrictions and requirements on new credit unions that do not make sufficient progress toward becoming adequately capitalized; and

(v) to prevent evasion of the purpose of this section.

(c) Net worth categories

(1) In general

For purposes of this section the following definitions shall apply:

(A) Well capitalized

An insured credit union is “well capitalized” if—

- (i) it has a net worth ratio of not less than 7 percent; and
- (ii) it meets any applicable risk-based net worth requirement under subsection (d).

(B) Adequately capitalized

An insured credit union is “adequately capitalized” if—

- (i) it has a net worth ratio of not less than 6 percent; and
- (ii) it meets any applicable risk-based net worth requirement under subsection (d).

(C) Undercapitalized

An insured credit union is “undercapitalized” if—

- (i) it has a net worth ratio of less than 6 percent; or
- (ii) it fails to meet any applicable risk-based net worth requirement under subsection (d).

(D) Significantly undercapitalized

An insured credit union is “significantly undercapitalized”—

- (i) if it has a net worth ratio of less than 4 percent; or
- (ii) if—
 - (I) it has a net worth ratio of less than 5 percent; and
 - (II) it—

(aa) fails to submit an acceptable net worth restoration plan within the time allowed under subsection (f); or

(bb) materially fails to implement a net worth restoration plan accepted by the Board.

(E) Critically undercapitalized

An insured credit union is “critically undercapitalized” if it has a net worth ratio of less than 2 percent (or such higher net worth ratio, not to exceed 3 percent, as the Board may specify by regulation).

(2) Adjusting net worth levels

(A) In general

If, for purposes of section 1831o(c) of this title, the Federal banking agencies increase or decrease the required minimum level for the leverage limit (as those terms are used in section 1831o of this title), the Board may, by regulation, and subject to subparagraph

(B) of this paragraph, correspondingly increase or decrease 1 or more of the net worth ratios specified in subparagraphs (A) through (D) of paragraph (1) of this subsection in an amount that is equal to not more than the difference between the required minimum level most recently established by the Federal banking agencies and 4 percent of total assets (with respect to institutions regulated by those agencies).

(B) Determinations required

The Board may increase or decrease net worth ratios under subparagraph (A) only if the Board—

(i) determines, in consultation with the Federal banking agencies, that the reason for the increase or decrease in the required minimum level for the leverage limit also justifies the adjustment in net worth ratios; and

(ii) determines that the resulting net worth ratios are sufficient to carry out the purpose of this section.

(C) Transition period required

If the Board increases any net worth ratio under this paragraph, the Board shall give insured credit unions a reasonable period of time to meet the increased ratio.

(d) Risk-based net worth requirement for complex credit unions

(1) In general

The regulations required under subsection (b)(1) shall include a risk-based net worth requirement for insured credit unions that are complex, as defined by the Board based on the portfolios of assets and liabilities of credit unions.

(2) Standard

The Board shall design the risk-based net worth requirement to take account of any material risks against which the net worth ratio required for an insured credit union to be adequately capitalized may not provide adequate protection.

(e) Earnings-retention requirement applicable to credit unions that are not well capitalized

(1) In general

An insured credit union that is not well capitalized shall annually set aside as net worth an amount equal to not less than 0.4 percent of its total assets.

(2) Board's authority to decrease earnings-retention requirement

(A) In general

The Board may, by order, decrease the 0.4 percent requirement in paragraph (1) with respect to a credit union to the extent that the Board determines that the decrease—

(i) is necessary to avoid a significant redemption of shares; and

(ii) would further the purpose of this section.

(B) Periodic review required

The Board shall periodically review any order issued under subparagraph (A).

(f) Net worth restoration plan required

(1) In general

Each insured credit union that is undercapitalized shall submit an acceptable net worth restoration plan to the Board within the time allowed under this subsection.

(2) Assistance to small credit unions

The Board (or the staff of the Board) shall, upon timely request by an insured credit union with total assets of less than \$10,000,000, and subject to such regulations or guidelines as the Board may prescribe, assist that credit union in preparing a net worth restoration plan.

(3) Deadlines for submission and review of plans

The Board shall, by regulation, establish deadlines for submission of net worth restoration plans under this subsection that—

(A) provide insured credit unions with reasonable time to submit net worth restoration plans; and

(B) require the Board to act on net worth restoration plans expeditiously.

(4) Failure to submit acceptable plan within time allowed

(A) Failure to submit any plan

If an insured credit union fails to submit a net worth restoration plan within the time allowed under paragraph (3), the Board shall—

(i) promptly notify the credit union of that failure; and

(ii) give the credit union a reasonable opportunity to submit a net worth restoration plan.

(B) Submission of unacceptable plan

If an insured credit union submits a net worth restoration plan within the time allowed under paragraph (3), and the Board determines that the plan is not acceptable, the Board shall—

(i) promptly notify the credit union of why the plan is not acceptable; and

(ii) give the credit union a reasonable opportunity to submit a revised plan.

(5) Accepting plan

The Board may accept a net worth restoration plan only if the Board determines that the plan is based on realistic assumptions and is likely to succeed in restoring the net worth of the credit union.

(g) Restrictions on undercapitalized credit unions

(1) Restriction on asset growth

An insured credit union that is undercapitalized shall not generally permit its average total assets to increase, unless—

(A) the Board has accepted the net worth restoration plan of the credit union for that action;

(B) any increase in total assets is consistent with the net worth restoration plan; and

(C) the net worth ratio of the credit union increases at a rate that is consistent with the net worth restoration plan.

(2) Restriction on member business loans

Notwithstanding section 1757a(a) of this title, an insured credit union that is undercapitalized may not make any increase in the total amount of member business loans (as defined in section 1757a(c) of this title) outstanding at that credit union at any one time, until such time as the credit union becomes adequately capitalized.

(h) More stringent treatment based on other supervisory criteria

With respect to the exercise of authority by the Board under regulations comparable to section 1831o(g) of this title—

(1) the Board may not reclassify an insured credit union into a lower net worth category, or treat an insured credit union as if it were in a lower net worth category, for reasons not pertaining to the safety and soundness of that credit union; and

(2) the Board may not delegate its authority to reclassify an insured credit union into a lower net worth category or to treat an insured credit union as if it were in a lower net worth category.

(i) Action required regarding critically undercapitalized credit unions**(1) In general**

The Board shall, not later than 90 days after the date on which an insured credit union becomes critically undercapitalized—

(A) appoint a conservator or liquidating agent for the credit union; or

(B) take such other action as the Board determines would better achieve the purpose of this section, after documenting why the action would better achieve that purpose.

(2) Periodic redeterminations required

Any determination by the Board under paragraph (1)(B) to take any action with respect to an insured credit union in lieu of appointing a conservator or liquidating agent shall cease to be effective not later than the end of the 180-day period beginning on the date on which the determination is made, and a conservator or liquidating agent shall be appointed for that credit union under paragraph (1)(A), unless the Board makes a new determination under paragraph (1)(B) before the end of the effective period of the prior determination.

(3) Appointment of liquidating agent required if other action fails to restore net worth**(A) In general**

Notwithstanding paragraphs (1) and (2), the Board shall appoint a liquidating agent for an insured credit union if the credit union is critically undercapitalized on average during the calendar quarter beginning 18 months after the date on which the credit union became critically undercapitalized.

(B) Exception

Notwithstanding subparagraph (A), the Board may continue to take such other action as the Board determines to be appropriate in lieu of appointment of a liquidating agent if—

(i) the Board determines that—

(I) the insured credit union has been in substantial compliance with an approved net worth restoration plan that requires consistent improvement in the net worth of the credit union since the date of the approval of the plan; and

(II) the insured credit union has positive net income or has an upward trend in earnings that the Board projects as sustainable; and

(ii) the Board certifies that the credit union is viable and not expected to fail.

(4) Nondelegation**(A) In general**

Except as provided in subparagraph (B), the Board may not delegate the authority of the Board under this subsection.

(B) Exception

The Board may delegate the authority of the Board under this subsection with respect to an insured credit union that has less than \$5,000,000 in total assets, if the Board permits the credit union to appeal any adverse action to the Board.

(j) Reviews required when share insurance fund experiences losses**(1) In general**

If the Fund incurs a material loss with respect to an insured credit union, the Inspector General of the Board shall—

(A) submit to the Board a written report reviewing the supervision of the credit union by the Administration (including the implementation of this section by the Administration), which shall include—

(i) a description of the reasons why the problems of the credit union resulted in a material loss to the Fund; and

(ii) recommendations for preventing any such loss in the future; and

(B) submit a copy of the report under subparagraph (A) to—

(i) the Comptroller General of the United States;

(ii) the Corporation;

(iii) in the case of a report relating to a State credit union, the appropriate State supervisor; and

(iv) to any Member of Congress, upon request.

(2) Material loss defined

For purposes of determining whether the Fund has incurred a material loss with respect to an insured credit union, a loss is material if it exceeds the sum of—

(A) \$25,000,000; and

(B) an amount equal to 10 percent of the total assets of the credit union on the date on which the Board initiated assistance under section 1788 of this title or was appointed liquidating agent.

(3) Public disclosure required**(A) In general**

The Board shall disclose a report under this subsection, upon request under section 552 of title 5, without excising—

(i) any portion under section 552(b)(5) of title 5; or

(ii) any information about the insured credit union (other than trade secrets) under section 552(b)(8) of title 5.

(B) Rule of construction

Subparagraph (A) may not be construed as requiring the agency to disclose the name of any customer of the insured credit union (other than an institution-affiliated party), or information from which the identity of such customer could reasonably be ascertained.

(4) Losses that are not material

(A) Semiannual report

For the 6-month period ending on March 31, 2010, and each 6-month period thereafter, the Inspector General of the Board shall—

(i) identify any losses that the Inspector General estimates were incurred by the Fund during such 6-month period, with respect to insured credit unions;

(ii) for each loss to the Fund that is not a material loss, determine—

(I) the grounds identified by the Board or the State official having jurisdiction over a State credit union for appointing the Board as the liquidating agent for any Federal or State credit union; and

(II) whether any unusual circumstances exist that might warrant an in-depth review of the loss; and

(iii) prepare and submit a written report to the Board and to Congress on the results of the determinations of the Inspector General that includes—

(I) an identification of any loss that warrants an in-depth review, and the reasons such review is warranted, or if the Inspector General determines that no review is warranted, an explanation of such determination; and

(II) for each loss identified in subclause (I) that warrants an in-depth review, the date by which such review, and a report on the review prepared in a manner consistent with reports under paragraph (1)(A), will be completed.

(B) Deadline for semiannual report

The Inspector General of the Board shall—

(i) submit each report required under subparagraph (A) expeditiously, and not later than 90 days after the end of the 6-month period covered by the report; and

(ii) provide a copy of the report required under subparagraph (A) to any Member of Congress, upon request.

(5) GAO review

The Comptroller General of the United States shall, under such conditions as the Comptroller General determines to be appropriate—

(A) review each report made under paragraph (1), including the extent to which the Inspector General of the Board complied with the requirements under section 8L of the Inspector General Act of 1978 (5 U.S.C. App.) with respect to each such report; and

(B) recommend improvements to the supervision of insured credit unions (including improvements relating to the implementation of this section).

(k) Appeals process

Material supervisory determinations, including decisions to require prompt corrective action, made pursuant to this section by Administration officials other than the Board may be appealed to the Board pursuant to the independent appellate process required by section 4806 of this title (or, if the Board so specifies, pursuant to separate procedures prescribed by regulation).

(l) Consultation and cooperation with State credit union supervisors

(1) In general

In implementing this section, the Board shall consult and seek to work cooperatively with State officials having jurisdiction over State-chartered insured credit unions.

(2) Evaluating net worth restoration plan

In evaluating any net worth restoration plan submitted by a State-chartered insured credit union, the Board shall seek the views of the State official having jurisdiction over the credit union.

(3) Deciding whether to appoint conservator or liquidating agent

With respect to any decision by the Board on whether to appoint a conservator or liquidating agent for a State-chartered insured credit union—

(A) the Board shall—

(i) seek the views of the State official having jurisdiction over the credit union; and

(ii) give that official an opportunity to take the proposed action;

(B) the Board shall, upon timely request of an official referred to in subparagraph (A), promptly provide the official with—

(i) a written statement of the reasons for the proposed action; and

(ii) reasonable time to respond to that statement;

(C) if the official referred to in subparagraph (A) makes a timely written response that disagrees with the proposed action and gives reasons for that disagreement, the Board shall not appoint a conservator or liquidating agent for the credit union, unless the Board, after considering the views of the official, has determined that—

(i) the Fund faces a significant risk of loss with respect to the credit union if a conservator or liquidating agent is not appointed; and

(ii) the appointment is necessary to reduce—

(I) the risk that the Fund would incur a loss with respect to the credit union; or

(II) any loss that the Fund is expected to incur with respect to the credit union; and

(D) the Board may not delegate any determination under subparagraph (C).

(m) Corporate credit unions exempted

This section does not apply to any insured credit union that—

- (1) operates primarily for the purpose of serving credit unions; and
- (2) permits individuals to be members of the credit union only to the extent that applicable law requires that such persons own shares.

(n) Other authority not affected

This section does not limit any authority of the Board or a State to take action in addition to (but not in derogation of) any action that is required under this section.

(o) Definitions

For purposes of this section the following definitions shall apply:

(1) Federal banking agency

The term “Federal banking agency” has the same meaning as in section 1813 of this title.

(2) Net worth

The term “net worth”—

(A) with respect to any insured credit union, means the retained earnings balance of the credit union, as determined under generally accepted accounting principles, together with any amounts that were previously retained earnings of any other credit union with which the credit union has combined;

(B) with respect to any insured credit union, includes, at the Board’s discretion and subject to rules and regulations established by the Board, assistance provided under section 1788 of this title to facilitate a least-cost resolution consistent with the best interests of the credit union system; and

(C) with respect to a low-income credit union, includes secondary capital accounts that are—

- (i) uninsured; and
- (ii) subordinate to all other claims against the credit union, including the claims of creditors, shareholders, and the Fund.

(3) Net worth ratio

The term “net worth ratio” means, with respect to a credit union, the ratio of the net worth of the credit union to the total assets of the credit union.

(4) New credit union

The term “new credit union” means an insured credit union that—

- (A) has been in operation for less than 10 years; and
- (B) has not more than \$10,000,000 in total assets.

(June 26, 1934, ch. 750, title II, §216, as added Pub. L. 105-219, title III, §301(a), Aug. 7, 1998, 112 Stat. 923; amended Pub. L. 109-351, title V, §504, title VII, §726(25), Oct. 13, 2006, 120 Stat. 1975, 2003; Pub. L. 111-203, title IX, §988(a), July 21, 2010, 124 Stat. 1938; Pub. L. 111-382, §3, Jan. 4, 2011, 124 Stat. 4135.)

REFERENCES IN TEXT

Section 8L of the Inspector General Act of 1978, referred to in subsec. (j)(5)(A), is section 8L of Pub. L.

95-452, which is set out in the Appendix to Title 5, Government Organization and Employees.

AMENDMENTS

2011—Subsec. (o)(2). Pub. L. 111-382 amended par. (2) generally. Prior to amendment, text read as follows: “The term ‘net worth’—

“(A) with respect to any insured credit union, means the retained earnings balance of the credit union, as determined under generally accepted accounting principles, together with any amounts that were previously retained earnings of any other credit union with which the credit union has combined; and

“(B) with respect to a low-income credit union, includes secondary capital accounts that are—

“(i) uninsured; and

“(ii) subordinate to all other claims against the credit union, including the claims of creditors, shareholders, and the Fund.”

2010—Subsec. (j). Pub. L. 111-203 amended subsec. (j) generally. Prior to amendment, text read as follows: “For purposes of determining whether the Fund has incurred a material loss with respect to an insured credit union (such that the inspector general of the Board must make a report), a loss is material if it exceeds the sum of—

“(1) \$10,000,000; and

“(2) an amount equal to 10 percent of the total assets of the credit union at the time at which the Board initiated assistance under section 1788 of this title or was appointed liquidating agent.”

2006—Subsec. (n). Pub. L. 109-351, §726(25), inserted “any action” before “that is required”.

Subsec. (o)(2)(A). Pub. L. 109-351, §504, inserted “the” before “retained earnings balance” and “, together with any amounts that were previously retained earnings of any other credit union with which the credit union has combined” before semicolon.

EFFECTIVE DATE OF 2010 AMENDMENT

Amendment by Pub. L. 111-203 effective 1 day after July 21, 2010, except as otherwise provided, see section 4 of Pub. L. 111-203, set out as an Effective Date note under section 5301 of this title.

EFFECTIVE DATE

Pub. L. 105-219, title III, §301(e), Aug. 7, 1998, 112 Stat. 931, provided that:

“(1) IN GENERAL.—Except as provided in paragraph (2), section 216 of the Federal Credit Union Act [12 U.S.C. 1790d] (as added by this section) shall become effective 2 years after the date of enactment of this Act [Aug. 7, 1998].

“(2) RISK-BASED NET WORTH REQUIREMENT.—Section 216(d) of the Federal Credit Union Act (as added by this section) shall become effective on January 1, 2001.”

REGULATIONS

Pub. L. 105-219, title III, §301(d), Aug. 7, 1998, 112 Stat. 930, provided that:

“(1) IN GENERAL.—Except as provided in paragraph (2), the Board shall—

“(A) publish in the Federal Register proposed regulations to implement section 216 of the Federal Credit Union Act [12 U.S.C. 1790d] (as added by subsection (a) of this section) not later than 270 days after the date of enactment of this Act [Aug. 7, 1998]; and

“(B) promulgate final regulations to implement section 216 not later than 18 months after the date of enactment of this Act.

“(2) RISK-BASED NET WORTH REQUIREMENT.—

“(A) ADVANCE NOTICE OF PROPOSED RULEMAKING.—Not later than 180 days after the date of enactment of this Act, the Board shall publish in the Federal Register an advance notice of proposed rulemaking, as required by section 216(d) of the Federal Credit Union Act, as added by this Act.

“(B) FINAL REGULATIONS.—The Board shall promulgate final regulations, as required by section 216(d)

not later than 2 years after the date of enactment of this Act.”

CONSULTATION REQUIRED

Pub. L. 105-219, title III, §301(c), Aug. 7, 1998, 112 Stat. 930, provided that: “In developing regulations to implement section 216 of the Federal Credit Union Act [12 U.S.C. 1790d] (as added by subsection (a) of this section), the Board shall consult with the Secretary, the Federal banking agencies, and the State officials having jurisdiction over State-chartered insured credit unions.”

REPORT TO CONGRESS

Pub. L. 105-219, title III, §301(f), Aug. 7, 1998, 112 Stat. 931, provided that: “When the Board publishes proposed regulations pursuant to subsection (d)(1)(A) [set out above], or promulgates final regulations pursuant to subsection (d)(1)(B) [set out above], the Board shall submit to the Congress a report that specifically explains—

“(1) how the regulations carry out section 216(b)(1)(B) of the Federal Credit Union Act [12 U.S.C. 1790d(b)(1)(B)] (as added by this section), relating to the cooperative character of credit unions; and

“(2) how the regulations differ from section 38 of the Federal Deposit Insurance Act [12 U.S.C. 1831o], and the reasons for those differences.”

DEFINITIONS

Pub. L. 105-219, §3, Aug. 7, 1998, 112 Stat. 914, provided that: “As used in this Act [see Short Title of 1998 Amendment note set out under section 1751 of this title]—

“(1) the term ‘Administration’ means the National Credit Union Administration;

“(2) the term ‘Board’ means the National Credit Union Administration Board;

“(3) the term ‘Federal banking agencies’ has the same meaning as in section 3 of the Federal Deposit Insurance Act [12 U.S.C. 1813];

“(4) the terms ‘insured credit union’ and ‘State-chartered insured credit union’ have the same meanings as in section 101 of the Federal Credit Union Act [12 U.S.C. 1752]; and

“(5) the term ‘Secretary’ means the Secretary of the Treasury.”

§ 1790e. Temporary Corporate Credit Union Stabilization Fund

(a) Establishment of Stabilization Fund

There is hereby created in the Treasury of the United States a fund to be known as the “Temporary Corporate Credit Union Stabilization Fund.” The Board will administer the Stabilization Fund as prescribed by section 1789 of this title.

(b) Expenditures from Stabilization Fund

Money in the Stabilization Fund shall be available upon requisition by the Board, without fiscal year limitation, for making payments for the purposes described in section 1783(a) of this title, subject to the following additional limitations:

(1) All payments other than administrative payments shall be connected to the conservatorship, liquidation, or threatened conservatorship or liquidation, of a corporate credit union.

(2) Prior to authorizing each payment the Board shall—

(A) certify that, absent the existence of the Stabilization Fund, the Board would have made the identical payment out of the

National Credit Union Share Insurance Fund (Insurance Fund); and

(B) report each such certification to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

(c) Authority to borrow

(1) In general

The Stabilization Fund is authorized to borrow from the Secretary of the Treasury from time-to-time as deemed necessary by the Board. The maximum outstanding amount of all borrowings from the Treasury by the Stabilization Fund and the National Credit Union Share Insurance Fund, combined, is limited to the amount provided for in section 1783(d)(1) of this title, including any authorized increases in that amount.

(2) Repayment of advances

(A) In general

The advances made under this section shall be repaid by the Stabilization Fund, and interest on such advance shall be paid, to the General fund of the Treasury.

(B) Variable rate of interest

The Secretary of the Treasury shall make the first rate determination at the time of the first advance under this section and shall reset the rate again for all advances on each anniversary of the first advance. The interest rate shall be equal to the average market yield on outstanding marketable obligations of the United States with remaining periods to maturity equal to 12 months.

(3) Repayment schedule

The Stabilization Fund shall repay the advances on a first-in, first-out basis, with interest on the amount repaid, at times and dates determined by the Board at its discretion. All advances shall be repaid not later than the date of the seventh anniversary of the first advance to the Stabilization Fund, unless the Board extends this final repayment date. The Board shall obtain the concurrence of the Secretary of the Treasury on any proposed extension, including the terms and conditions of the extended repayment and any additional advances.

(d) Assessment authority

(1) Assessments relating to expenditures under subsection (b)

In order to make expenditures, as described in subsection (b), the Board may assess a special premium with respect to each insured credit union in an aggregate amount that is reasonably calculated to make any pending or future expenditure described in subsection (b), which premium shall be due and payable not later than 60 days after the date of the assessment. In setting the amount of any assessment under this subsection, the Board shall take into consideration any potential impact on credit union earnings that such an assessment may have.