BOARD ACTION MEMORANDUM

TO: NCUA Board   **DATE:** December 13, 2021

FROM: Office of Examination and Insurance   **SUBJ:** 2022 Normal Operating
                                                               Level

ACTIONS REQUESTED: Board approval to: (1) Adopt the Policy for Setting the Normal Operating Level outlined in the attached *Federal Register* Final Notice (2) publish the attached Final Notice in the *Federal Register*; and (3) set the Normal Operating Level at 1.33 percent.

DATE ACTION REQUESTED: December 16, 2021

OTHER OFFICES CONSULTED: Office of Chief Economist, Office of the Chief
                                        Financial Officer, Office of General Counsel

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: None

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: No

RESPONSIBLE STAFF MEMBERS: Myra M. Toeppe, Director, Office of Examination & Insurance; Andrew Leventis, Chief Economist, Office of the Chief Economist; David Blanchard, Director of Risk Management and Russell Moore, Risk Officer, Risk Management, Office of Examination & Insurance

SUMMARY: In May 2021, the Board invited public comment on the Policy for Setting the Normal Operating Level. The Board considered the current economic landscape and pending resolution of corporate asset management estate obligations and associated NCUA Guaranteed Notes Program sufficient justification for re-evaluating the current policy. The Board requested comment on the policy and eight specific factors that impact the calculation of the Normal Operating Level. The Board received 23 comment letters from credit union leagues, trade associations, credit unions, and credit union service organizations. The NCUA working group formed to evaluate the comments recommends retaining the three existing Normal Operating Level policy objectives with some modification to its implementation.

Specifically, the Working Group recommends retaining the current policy objectives while eliminating two factors used to calculate the Normal Operating Level. These two factors are no longer necessary:
- A factor based on the modeled potential decline in value of the Share Insurance Fund's claims on the corporate asset management estates; and
- A factor to account for a potential projected equity ratio decline through the end of the following year without an economic downturn.

Additionally, the working group recommends retaining the requirement to seek public comment when the Normal Operating Level changes by more than one basis point.

In accordance with the Policy for Setting the Normal Operating Level and proposed calculation changes, staff calculated the proposed Normal Operating Level. Using contemporary (2021) data, this resulted in a Normal Operating Level of 1.33 percent.

The calculations for the Normal Operating Level are shown in the table below. Using the previous calculation, the Normal Operating Level was set at 1.38 percent for 2020 and remained unchanged in 2021. Under this same calculation, the Normal Operating Level would be 1.37 percent. The new calculation results in a Normal Operating Level of 1.33 percent, as previously stated. The difference is due to the elimination of the two components of the calculation related to the NCUA Guaranteed Note program and the corporate asset management estates described above.

Year Component	2020 Current NOL Set in 2020*	2022 Previous Calculation	2022 New Calculation
Statutory Minimum	1.20%	1.20%	1.20%
Potential Decline in SIF Performance over 5 Years in a Moderate Recession	0.15%	0.13%	0.13%
Potential Decline of Value in Claims on Corporate Estates in Moderate Recession	0.02%	0.01%	NA
Projected 1 Year Equity Ratio Decline Without Stress	0.01%	0.03%	NA
Equals: NOL	*1.38%*	*1.37%*	*1.33%*

* The Normal Operating Level (NOL) was not changed in 2021.

RECOMMENDED ACTIONS: Recommend the Board:

1. Adopt the Policy for Setting the Normal Operating Level outlined in the attached *Federal Register* Final Notice.
2. Publish the attached Final Notice in the *Federal Register.*
3. Set the Normal Operating Level at 1.33 percent.

ATTACHMENT
Policy for Setting the Normal Operating Level Final Notice