

## The History of the NCUA

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If yours is a federally chartered credit union or federally insured state-chartered credit union, the **National Credit Union Administration** (NCUA) is the grand overseer of your credit union’s annual audit. While the NCUA doesn’t actually conduct the audits, the agency is responsible for reviewing the reports of thousands of U.S. credit unions. If a credit union’s audit report—often prepared by an independent third party—suggests underperformance or reveals any misrepresentation of financial statements, the NCUA has the power to issue directives, and to take disciplinary action. Following is a brief history of the NCUA and an overview of the purpose of your credit union’s annual audit.

### Credit Unions and the Great Depression

The first credit union in the United States opened its doors in 1908 to serve mill workers in Manchester, New Hampshire. State-by-state, the



idea of cooperative credit spread. But credit union growth ignited when in 1934, U.S. Congress passed the **Federal Credit Union Act**. That enabling legislation and the hard work of credit union organizers sparked the formation of thousands of nonprofit lending cooperatives. Membership was limited to “groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district.”

The act was part of the New Deal, President Roosevelt’s multi-faceted plan to mitigate the crisis of the Great Depression. Credit unions could provide small loans to workers who didn’t meet the strict qualifications of larger, struggling banks.

Initially, the Farm Credit Administration (FCA) assumed responsibility for the regulation of Roosevelt’s new **Bureau of Federal Credit Unions**. In subsequent years, the agency passed from the hands of the FCA to the **Federal Deposit Insurance Corporation** (FDIC), to the Federal Security Agency, and finally to the Department of Health, Education, and Welfare. By 1960, some 10,000 credit unions in the United States boasted more than six million members. It was clear that the Bureau of Federal Credit Unions needed a home of its own.

### The 1970s

Upon the founding of the **National Credit Union Share Insurance Fund**

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(NCUSIF)—created to guarantee members' investments—the Bureau of Federal Credit Unions was rechristened, and the **National Credit Union Administration** was born. Like the FDIC, the NCUA is an independent federal agency backed by the full faith and credit of the United States government. Unlike the FDIC, the NCUSIF was originally capitalized entirely by credit unions, and not by federal tax dollars.

### The 1980s

Whereas the United States saw a time of growth and prosperity in the 1970s, recession, high-interest rates, and widespread unemployment marked the 1980s. To ensure the viability of credit unions, NCUA increased flexibility in merger and field of membership criteria. Fields of membership were expanded to include “select employee groups” and larger geographic areas. For example, mem-

bership was opened up to employees of small businesses, rather than being confined to those who worked for a single sponsor. Credit unions also benefited from the deregulation of interest-rate ceilings.

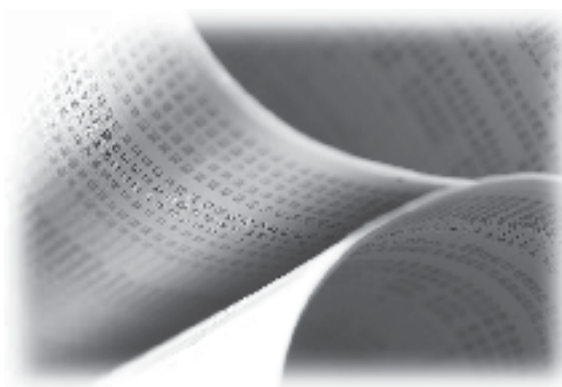
But the pressures of a faltering economy strained the **Share Insurance Fund**, and credit union leaders knew they needed to act. They lobbied Congress to reorganize the capital structure of the NCUSIF in order to stabilize it. In 1985, all federally insured credit unions agreed to deposit 1 percent of their shares into the fund. Federally insured credit unions must maintain one percent of their deposits in the NCUSIF and the NCUA Board can levy a premium if necessary. According to *ncua.gov*, the NCUSIF maintains at or near 1.30 percent of federally insured credit union deposits.

### The 2000s

Although most credit unions fared better than the banks and other institutions that required a taxpayer bailout, credit unions felt the deleterious effects of the near economic meltdown of 2008. Many corporate credit unions, (credit unions for credit unions), suffered heavy losses from investments in mortgage-backed securities. Natural person credit unions, particularly in areas where housing prices had plummeted, were hard hit by a record number of foreclosures. These losses threatened the stability of the credit union industry as well as the NCUSIF.

As in the 1980s, credit unions came together to deal with these significant problems. Credit union leaders suc-





cessfully worked with Congress to create NCUA's Temporary Corporate Credit Union Stabilization Fund, which allows credit unions to cover the costs of corporate losses over several years, rather than in one lump sum. Assessments on credit unions—not taxpayer dollars—were used for the Stabilization Fund.

### NCUA Today

The NCUSIF now provides up at least \$250,000 per member in deposit insurance for all federally chartered credit unions and federally insured state-chartered credit unions. As of 2011, the NCUA is supervises about 7,200 credit unions with 90 million members. The NCUA requires these credit unions to conduct an annual audit of their financial statements. In fact, the NCUA itself is subject to a yearly audit by an independent source. But what exactly is an audit and why is it necessary?

### The Annual Audit

If a lawyer wants to certify the credibility of a client, he might ask his client to take a lie detector test. The lie

detector test determines if the facts that the client is reporting are true. That information can be useful to building a case in the client's favor. An audit serves a similar function for a credit union. An **audit report** certifies that all of the financial information the credit union reports is reasonable. That certification can then be used to build a case for the credit union's solvency in order to remain in business and attract new members.

Just as a lie detector test can reveal weaknesses in a case that an attorney must mitigate before going to trial, an audit can reveal weaknesses in the internal control structure, certain reporting systems, some areas of operations that a credit union should address in order to strengthen the institution. The audit can also reveal if account balances are materially reliable. Like a lie detector test, an audit report is only an opinion on whether the financial statements provided are reliable and free of material misstatements. It is not the auditor's job to evaluate the solvency, potential, or dependability of a credit union—those determinations are left to its leaders who are responsible for interpreting and acting on the information in the audit report.

An audit is more than just an inspection or a safeguard; it is an invitation to make a thorough evaluation of the credit union's internal control procedures, to pinpoint its weaknesses, and capitalize on its strengths. The audit report should be looked upon, not as a test or a chore, but as an opportunity to improve internal con-

trols, policies, and sometimes procedures. These improvements will likely result in better service to members.

In the following chapters, you will learn the different types of audits outlined by the NCUA, and which type is required for your credit union. You will also learn the duties of the **Supervisory Committee** and how to understand and interpret the information included in an audit report.