National Credit Union Administration

National Credit Union Share Insurance Fund Restoration Plan

AGENCY: National Credit Union Administration

ACTION: National Credit Union Share Insurance Fund restoration plan

On September 16, 2010, the National Credit Union Administration (NCUA) implemented a Restoration Plan for the National Credit Union Share Insurance Fund (NCUSIF). The Restoration Plan consists of the assessment of a premium of 0.1242 percent of insured shares that will increase the equity ratio of the NCUSIF to over 1.20 percent.

As of August 31, 2010, increased loss provisions resulted in a decline in the NCUSIF's equity ratio to 1.176 percent. Because the equity ratio of the NCUSIF declined below 1.20 percent, NCUA must establish and implement a plan to restore the equity ratio to 1.20 percent. Absent extraordinary circumstances, the equity ratio must be restored to 1.20 percent before the end of an 8-year period beginning upon the implementation of the plan. The premium will achieve this requirement.

The economy continues to present a challenge for the financial services sector. Housing remains a risk as foreclosures mount. While the credit cycle appears to have troughed, the level of delinquent loans, charge-offs, and foreclosed real estate in federally insured credit unions remains elevated.

The credit union CAMEL ratings reflect the risk of loss associated with individual credit unions.[1] As of June 30, 2010, there were 366 federally insured credit unions with total assets of $48.8 billion designated as problem institutions for safety and soundness purposes (defined as those credit unions having a composite CAMEL rating of “4” or “5”), compared to 291 problem institutions with total assets of $28 billion on June 30, 2009. The trend reflects both an increase in the total number of problem credit unions and the size of problem credit unions. Additionally, the number and asset size of CAMEL “3” rated credit unions increased. As of June 30, 2010, there were 1,739 CAMEL “3” rated credit unions with total assets of $149.8 billion compared to 1,485 credit unions with total assets of $86 billion on June 30, 2009. The reserve for insurance fund losses has increased as a direct result of the shift to more adverse CAMEL codes.

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[1] The CAMEL composite rating represents the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the adequacy of **L**iquidity, and ranges from “1” (strongest) to “5” (weakest).

The premium of 0.1242 percent of insured shares will increase the equity of the NCUSIF to 0.30 percent of June 30, 2010 insured shares. Based on reasonable assumptions for losses, insured share growth, and expenses, the premium will maintain the NCUSIF's equity level well above the 1.20 percent minimum level through at least June 30, 2011.

NCUA will closely monitor the actual equity ratio and six month projections for the equity ratio. If needed to maintain the equity ratio of the NCUSIF above 1.20 percent, the NCUA Board will consider additional premiums after evaluation of the condition of the NCUSIF and federally insured credit unions.

Dated at Alexandria Virginia, this 16th day of September, 2010.

By order of the NCUA Board.

Mary F. Rupp, Secretary of the Board