



## **NATIONAL CREDIT UNION SHARE INSURANCE FUND RESERVE METHODOLOGY FREQUENTLY ASKED QUESTIONS**

### **1. How does the NCUA determine the level of reserves necessary to record as a liability on the Share Insurance Fund's financial statements?**

The NCUA records reserves for credit union failures as an Insurance and Guarantee Program Liability on the Share Insurance Fund's financial statements. This figure is the total reserves calculated for specific credit union failures and general industry losses, in accordance with applicable accounting standards.

### **2. How does the NCUA calculate general reserves?**

The general reserve balance covers the potential loss exposure from federally insured credit unions as of a point in time. The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other economic measures. Credit unions for which there are specific reserves established are not included in the general reserve estimate.

### **3. How does the NCUA calculate specific reserves?**

Under Statement of Federal Financial Accounting Standards 5: *Accounting for Liabilities of the Federal Government*, the NCUA must establish a specific reserve when a loss is probable and measurable. At that time, the agency will record a specific reserve amount based on the estimated future outflow of resources associated with an economic loss to the Share Insurance Fund. The NCUA also uses actual merger bids received and/or liquidation costs when determining specific reserve needs.

### **4. Why doesn't the NCUA disclose which credit unions have specific reserves and the amount of the reserve?**

In many cases, the credit unions that meet the standard for the NCUA to establish specific reserves are still in operation. The NCUA is working through resolution options at many of these credit unions, which may include obtaining merger or purchase and assumption proposals. Disclosing confidential supervisory information related to the amount or process for determining specific reserves may disrupt ongoing operations at the credit union, impede the resolution process, or influence bids received from potential acquirers thereby potentially increasing costs to the Share Insurance Fund.

Additionally, confidential supervisory information is exempt from public release under both the Freedom of Information Act and the Sunshine Act. Specifically exemption 8 of the FOIA exempts agencies from releasing information that concerns the supervision of financial institutions. Under 5 U.S.C. § 552b(c)(8) and (9), the agency is exempt from the requirement to discuss the following matters at open board meetings:

- Information contained in or related to examination, operating or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions; and



- Information the premature disclosure of which would –
  - In the case of an agency which regulates currencies, securities, commodities, or financial institutions, be likely to significantly endanger the stability of any financial institution; or
  - Be likely to significantly frustrate implementation of a proposed agency action.

**5. Why did the specific reserve increase substantially between September 30, 2017, and December 31, 2017?**

Each quarter, the NCUA assesses the specific reserve needs for credit union failures when the loss is estimable and probable. Specific reserves can change due to changes in the:

- Number of credit unions that meet the probable and measureable loss standard.
- Amount of the estimated loss for credit unions that were already included in the specific reserve, as a result of changes in the economic condition of these credit unions or other factors affecting the amount of each credit union’s estimated loss to the Share Insurance Fund.
- A combination of the above.
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**6. How many credit unions are accounted for in the specific reserves?**

The specific reserve covers all credit unions that meet the accounting standard of having a probable and estimable loss. To prevent speculation that may lead to the adverse outcomes outlined above, the NCUA does not provide the number of credit unions for which there are specific reserves established.