NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **July 2012** **LETTER NO: 12-CU-09**

TO: **Federally Insured Credit Unions**

SUBJ: **2012 Corporate Stabilization Fund Assessment**

Dear Board of Directors and Chief Executive Officer:

At an open meeting on July 24, 2012, the NCUA Board approved an assessment for the Temporary Corporate Credit Union Stabilization Fund of 0.095 percent (9.5 basis points) of your credit union's insured shares as of June 30, 2012.

This assessment is right in the middle of the estimated range of 8-11 basis points announced at the NCUA Board's open meeting in November 2011. It represents a significant improvement from last year's assessment of 25 basis points.

Each credit union will receive an invoice in September for the 2012 assessment, which will be due on October 9, 2012.

The rest of this letter provides answers to key questions about this assessment.

Why is the assessment set at 9.5 basis points?

The funds generated by the 9.5 basis point assessment, along with borrowed funds from the United States Treasury, will be used to pay Stabilization Fund obligations coming due and payable through the end of 2012. The primary remaining obligation due this year is $3.5 billion of medium term notes issued by corporate credit unions and guaranteed by the Stabilization Fund.

The 2012 assessment is projected to raise $790.5 million to meet the Stabilization Fund's obligations. The difference will be made up in Treasury borrowings, cash available in NCUA-managed Asset Management Estates (AMEs) resulting from five failed corporate credit unions, and converting other corporate assets to cash.

The projected amount of borrowing from the United States Treasury falls within NCUA's current borrowing authority of $6 billion.[1]

The table below details the projected 2012 obligations due and payable for the Stabilization Fund (based on the latest available data).

Table 1

Corporate Stabilization Fund Net Cash Needs – through December 2012	$ Billions
Uses of Funds – through December 2012	
Corporate medium term note guarantee – due 10/19/12	2.02
Corporate medium term note guarantee – due 11/2/12	1.51
Other obligations	0.12
Total projected uses of funds	**3.65**
Sources of Funds – through December 2012	
Cash available from Asset Management Estates (Conserved Corporates)	0.71
Monetization of other corporate assets	0.28
Total projected sources of funds	**0.99**
Net obligations to be funded	**2.66**
Less: U.S. Treasury borrowings for Stabilization Fund	1.87
Total Pre-2013 Projected Cash Needs (2012 Assessment Needs)	**0.79**
Projected Total 2012 Stabilization Assessment – 03/31/2012 insured shares[2]	**9.5 basis points**

How should my credit union account for the assessment?

You should record the assessment expense on the September 2012 Call Report using the *Temporary Corporate CU Stabilization Fund Assessment* line (account code 311) on the Statement of Income and Expense.

Consult with your accounting practitioner for further guidance in recording the assessment.

[1] Outstanding borrowings total $3.2 billion as of March 31, 2012.

[2] Data includes transfer from the NCUSIF of $278 million in March 2012 and a repayment of U.S. Treasury borrowings of $300 million in April 2012.

<u>What is the impact of the 2012 assessment on credit unions' earnings and net worth?</u>

Based on March 31, 2012 Call Report data, credit unions reported a relatively strong return on average assets (ROA) of 0.89 percent, excluding accruals reported for the projected 2012 NCUSIF premium and Stabilization Fund assessment.[3] The 2012 assessment is projected to reduce ROA for 2012 by eight basis points and the aggregate net worth ratio by five basis points.

<u>Will examiners take the effect of the assessment into account when evaluating credit union earnings and net worth?</u>

NCUA continues to remind examiners to factor out the adverse impact of the assessment when evaluating and rating credit union earnings and net worth performance. The evaluation of earnings focuses on many factors, including your credit union's risk profile, operational structure, and strategic plans. Exception to the amount of earnings resulting solely from the assessment should not be taken.

Consult Letter to Credit Unions 09-CU-23, *Reviewing Adequacy of Earnings*, which emphasizes the supervisory guidance given to examiners regarding evaluation of earnings.

NCUA will continue to be as flexible as the law allows in reviewing and approving net worth restoration plans for the few credit unions that fall into Prompt Corrective Action (PCA) due to the assessment.

<u>What are the remaining projected costs of the corporate resolution program?</u>

NCUA conducted an updated analysis of corporate resolution cost projections, based in part on modeling of the corporate credit unions' legacy assets as of December 31, 2011.[4]

The cumulative total projected assessments for the corporate resolution (after extinguishing $5.6 billion in capital at the five failed corporates) range from $6.0 billion to $9.3 billion.[5]

As reflected in Table 2 on the next page, deducting the assessments paid through 2012 leaves **a projected range of $1.9 billion to $5.2 billion in remaining assessments.**

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[3] Under GAAP, credit unions should not accrue for NCUSIF premiums or Stabilization Fund assessments. Current projections indicate a NCUSIF premium in 2012 is not likely necessary.
[4] NCUA engaged the firm BlackRock Solutions to perform quarterly modeling of cash flow projections and valuation of the legacy assets.
[5] These projections do not include any additional potential recoveries from settlements or litigation, which are inherently inestimable. Any such recoveries would reduce the cumulative total costs.

Table 2

Corporate Stabilization Fund	Previous Estimate	Current Estimate
Range of Cumulative Total Projected Assessments	$5.2B to $9.5B	$6.0B to $9.3B
Less 2009, 2010, and 2011 Assessments	-$3.3B	-$3.3B
=Range of Projected Assessments After 2011	$1.9B to $6.2B	$2.7B to $6.0B
Less 2012 Assessment		-$0.8B
=Range of Projected Assessments After 2012		$1.9B to $5.2B

The updated analysis reflects a narrowing of the range due to changing economic and market conditions.

The analysis also includes net recoveries from NCUA's legal settlements of potential claims relating to securities sold to the five failed corporate credit unions. NCUA was the first federal regulatory agency to recover losses on behalf of failed financial institutions resulting from devalued investments in residential mortgage-backed securities. NCUA's settlements lower the cumulative total costs to all federally insured credit unions.

Projected losses on the legacy corporate assets make up over 90 percent of total resolution costs. The current projections represent "point in time" estimates that may change as a result of actual performance and projections of future performance of the legacy assets.

Based on the enabling legislation, the Stabilization Fund expires in 2021.[6] During the Stabilization Fund's remaining life, the NCUA Board will determine annual assessments based on a variety of factors, including the following:

- Cash needs of the Stabilization Fund;
- Projections of losses and cash flows on the legacy assets;
- Actual performance of the legacy assets; and
- Projections of losses related to disposing of other assets of the AMEs.

<u>What if I have more questions?</u>

NCUA maintains two websites that describe in detail the corporate resolution costs and NCUA Guaranteed Notes.[7]

[6] The Helping Families Save Their Homes Act of 2009 added §217 to the Federal Credit Union Act to create the Stabilization Fund. In the fall of 2010, with the concurrence of the U.S. Treasury, the closing date for the Stabilization Fund was extended from September 26, 2016 to June 30, 2021.

[7] NCUA Guaranteed Notes (NGNs) are securities successfully sold by NCUA in 2010-2011 to raise cash for the corporate credit union system.

To learn more, please go to www.NCUA.gov, click the tab "Credit Union Resources and Information" and select "Corporate System Resolution Costs" or "NGN Program Information" from the menu. These websites are updated semi-annually with the latest information on loss estimates.

NCUA continues to make every effort to mitigate losses to the Stabilization Fund and the National Credit Union Share Insurance Fund. We will continue to keep you informed.

If you have any questions related to the calculations and projections, contact NCUA's Office of Examination and Insurance (703-518-6360 or eimail@ncua.gov). For questions related to the assessment invoice and payments, please e-mail ncusif@ncua.gov. Please include your credit union name, charter number and information request in your e-mail.

For other questions, contact your regional NCUA office, district examiner, or appropriate state supervisory authority.

Sincerely,

Debbie Matz
Chairman