

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board **DATE:** December 12, 2018  
**FROM:** Office of Examination and Insurance **SUBJ:** Decreasing the Normal Operating  
Office of the Chief Economist Level from 1.39 to 1.38 percent

**ACTION REQUESTED:** NCUA Board approval to decrease the Normal Operating Level from 1.39 to 1.38 percent.

**DATE ACTION REQUESTED:** December 13, 2018

**OTHER OFFICES CONSULTED:** Office of Chief Economist  
Office of the Chief Financial Officer

**BUDGET IMPACT, IF ANY:** None

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** No

**RESPONSIBLE STAFF MEMBERS:** Larry Fazio, Director, Office of Examination & Insurance; Ralph Monaco, Chief Economist, Office of the Chief Economist; Julie Cayse, Director of Risk Management

**SUMMARY:** In accordance with the Policy for Setting the Normal Operating Level, the NCUA periodically reviews the equity needs of the Share Insurance Fund. Using contemporary (2018) data, staff calculated of the normal operating level consistent with the approach used last year and according to the Board-approved methodology. The calculation resulted in the following for the different categories affecting the normal operating level.

### *Potential Impact of a Moderate Recession on the Share Insurance Fund*

The effects of a moderate recession on Share Insurance Fund performance comes from the economic scenario developed by the 2018 Federal Reserve Board CCAR/DFAST, extended using additional data by Macroeconomic Advisors.

As in 2017, NCUA developed quantitative links from variables projected in the Federal Reserve scenarios to project insurance losses, share growth, and the Share Insurance Fund (SIF) yield. The 2018 estimated impact of a moderate recession on the Share Insurance Fund is a 13 basis point reduction in the equity ratio.

### *Potential Decline of Value in Claims on Corporate Estates*

In accordance with the NCUA's ongoing effort to sell legacy assets that no longer securitize the NCUA Guaranteed Notes (NGNs), updated data through June 2018<sup>1</sup> shows a reduction in risk

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<sup>1</sup> The updated data for the NGN program is available here <https://www.ncua.gov/services/Pages/share-insurance/ngn-program.aspx>.

related to the Share Insurance Fund’s claim on the corporate estates in a moderate recession. As a result, staff now estimates the value of the Share Insurance Fund’s claim on the corporate estates would decline by an estimated two basis points in a moderate recession.

Projected Decline in the Equity Ratio

Key variables for equity ratio projections through year-end 2019 include insured share growth, the yield on investments, and insurance losses. The estimates for the projected decline in the equity ratio through December 31, 2019, have increased to three basis points primarily due to the following:

- Reduced investment income given a reduction (over \$1 billion) in the size of the Share Insurance Fund’s investment portfolio. The reduction is primarily due to the payout of funds in resolving large natural person credit union failures in 2018. The Share Insurance Fund now has a claim on these natural person credit union estates - *the Receivable from Natural Person Credit Union Asset Management Estates*.
- An increase in the 5-year average for insurance losses used as one of the key assumptions in the projection. The increase in the 5-year average is due to the elevated losses experienced in 2018.

Component	Sep-17	Sep-18
Statutory Minimum	1.20%	1.20%
Plus: Potential Decline in Insurance Fund Performance	0.13%	0.13%
Plus: Potential Decline of Value in Claims on Corporate Estates	0.04%	0.02%
Plus: Projected Equity Ratio decline in 2018 and 2019	0.02%	0.03%
Equals: Normal Operating Level	1.39%	1.38%

**RECOMMENDED ACTION:** The NCUA Board approve decreasing the Normal Operating Level from 1.39 to 1.38 percent. As this is a change in the normal operating level of no more than one basis point, Board policy allows for this change without notice and comment.

**ATTACHMENT:** None

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