From: _Regulatory Comments
To: _Board Mail
Subject: FW: Letter from NAFCU President/CEO
Date: Friday, June 17, 2011 2:55:25 PM

Letter from NAFCU President/CEO

May 26, 2011

Jackie Fryt
Interim President/CEO
North Carolina Community Federal Credit Union

Dear Jackie:

Good afternoon.

I am writing to you regarding NCUA's proposed Voluntary Prepayment of Assessments Program, which would allow credit unions to prepay their Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) assessments for 2013 and beyond. As you know, the NCUA announced that it is considering implementing the program and is soliciting comments from credit unions. NAFCU urges you to carefully consider the program to determine whether you want to participate.

Moments ago, the NCUA held a webcast on the program. The slides provided for the webcast can be found here.

Before providing a summary of what was discussed in the webcast, I would like to highlight an illustrative example, addressed in the Webcast, regarding the possible effect of prepayment on assessments from 2011 to 2021. The illustrative example shows the effect prepayments would have if the program is not implemented, if the amount prepaid by credit unions is $500 million and if the prepaid amount is $1.5 billion.

- If there are no prepayments, the expected assessment for the Stabilization Fund in 2011 is 25 bp. The assessment would decrease to 13 bp in 2012 and to 9 bp for 2013 and each year until 2021.
- At $500 million in prepayments, the 2011 Stabilization Fund assessments could be 20 bp. The 2012 and 2013 assessments could be 13 bp for each year. From 2014 to 2018, the assessments could be 10 bp for each year. The assessments would decrease to approximately 9 bp in years 2019, 2020 and 4 bp in 2021.
- At $1.5 billion in prepayments, the Stabilization Fund assessments from years 2011 to 2014 could be 13 bp. From year 2015 to 2018, the assessments could decrease to 10 bp for each year. Assessments for 2019 and 2020 could decrease to 9 bp, and for 2021, assessments could decrease to 7 bp.

You can find the graph that contains that illustrative example on page 16 of the slides (slide is entitled: "Assessments – Time Series Comparison"). While the graph does provide a helpful illustration, the NCUA Board must determine the annual assessments each year.

Summary and Salient Points Addressed on NCUA's Webcast

- The program is an optional method for credit unions to prefund assessments. It is a voluntary, not mandatory.
- Cash outlays spike in 2011 and 2012, and prefunding would increase the cash available to the

Stabilization Fund to meet its cash needs for those years.
- NCUA can borrow up to $6 billion from Treasury. An additional $2.94 billion is needed, however, to meet the cash needs.
- NCUA projects that it would assess a combined 38 basis points for 2011 and 2012 to raise the $2.94 billion.
- With widespread participation, 2011 and 2012 assessments would be reduced and NCUA would have increased flexibility in setting annual Stabilization Fund assessments. It would also reduce the overall cost of the resolution plan.
- The program is open to all federally insured credit unions.
- To participate, a credit union must make minimum contribution of $10,000. A participant in the program can contribute a maximum of 36 bp of its insured shares as of March 31, 2011.
- NCUA will only implement the program if the total amount that credit unions commit to prepay is at least $300 million. NCUA will inform participating credit unions if the minimum threshold is met and also about the implementation of the program. Funds will be withdrawn from the credit union's account on a date stated in the program agreement- likely in early August.
- The amount that a credit union prepays will offset its assessment in 2013 and beyond until the prepaid balance is zero. If, in the unlikely event that the prepaid balance is not assessed by 2021, the NCUA will return the balance to the credit union. However, the prepayments would not be redeemable; so credit unions will not be able to seek and get back amounts they prepaid should they need liquidity in the future.
- Credit unions should consider the opportunity cost since they will not receive any interest on their prepayments.
- NCUA will not pay interest on a credit union's prepaid balance.
- The program is an opportunity to prefund future assessments, not to expense future assessments now.
- NCUA does not want to assess the entire projected balance immediately because it is concerned that such action would increase levels of risk to individual credit unions and the NCUSIF.
- Prepaid assessment funds, at lower levels of total participation, will reduce the 2011 assessments directly. At higher levels of total participation, the funds would be used to reduce the borrowed funds, reducing the interest cost and overall reduction of resolution costs. They would not equate to a dollar-to-dollar reduction in 2011 and 2012 assessments.

In addition, NAFCU staff has prepared a Regulatory Alert that provides a summary and analysis of the proposed program. The Regulatory Alert contains questions for you to consider. It is important that we hear from you so that we can formulate a comprehensive comment letter that will be submitted to the NCUA. You can also submit your comments directly to the NCUA by e-mail at regcomments@ncua.gov. Comments must be submitted to the agency by June 20, 2011.

In the meantime, if you have any questions please contact Carrie Hunt, NAFCU's General Counsel and Vice President of Regulatory Affairs or Tessema Tefferi, NAFCU's Associate Director of Regulatory Affairs.

Sincerely,

Fred R. Becker, Jr.
President and CEO

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