NCUA LETTER TO CREDIT UNIONS

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

DATE: **June 2010** **LETTER NO: 10-CU-09**

TO: **Federally Insured Credit Unions**

SUBJ: **Temporary Corporate Credit Union Stabilization Fund Assessment**

Dear Board of Directors:

At an open meeting on June 17, **the NCUA Board took two necessary actions to continue spreading out the costs of the Corporate Credit Union Stabilization program while minimizing the annual expenses for natural-person credit unions.**

The NCUA Board unanimously:

1) Approved an assessment of 0.134% (13.4 basis points) of credit unions' insured shares.
2) Established September 30, 2010 as the deadline for NCUA to repay $1.5 billion borrowed from the U.S. Department of Treasury.

Collecting this assessment *within 60 days* will enable NCUA to repay the $1.5 billion to the Treasury before the deadline.

The NCUA Board's decision to levy this assessment was not taken lightly. NCUA considered numerous factors, including:

- Summer liquidity needs of the Temporary Corporate Credit Union Stabilization Fund, which was created by Congress to assess credit unions for corporate losses over seven years, rather than having to collect it all in one lump sum;
- Current downward pressure on natural-person credit union earnings, which will be reduced by the amount of each assessment;
- Serious long-term consequences if NCUA had decided to forego the Corporate Stabilization Fund assessment this year, which would have required even larger assessments to be levied over the next five years.

The following pages provide further explanations of why and how NCUA must collect assessments.

Corporate Stabilization Fund

The purpose of the Corporate Stabilization Fund is to repay the Treasury over multiple years for borrowings necessary to stabilize the corporate credit union system.

A stable corporate credit union system is essential to maintain liquidity and investment services for thousands of natural-person credit unions, and to provide payment systems which settle billions of electronic transactions for millions of credit union members.

NCUA must repay the Treasury borrowings through assessments to credit unions during the seven-year life of the Corporate Stabilization Fund, which currently has six years remaining.

Status

As of May 31, 2010, the Corporate Stabilization Fund recorded net borrowing from the Treasury of $690 million, plus an additional $6.4 billion liability based on the most recent estimates of costs associated with the guarantee and insurance of shares in corporate credit unions. The $690 million net consists of an initial $1 billion borrowed from the Treasury, minus $310 million repaid in February 2010 after the first Corporate Stabilization Fund assessment.

On June 14, the Corporate Stabilization Fund borrowed an additional $810 million from the Treasury, bringing the net borrowing balance to $1.5 billion.

NCUA's borrowings from the Treasury are being deposited into corporate credit unions this summer, in order to raise liquidity during a period when natural-person credit unions historically experience seasonal outflows of shares.

Assessment Amount

As NCUA continues to stabilize the corporate credit union system, the agency is striving to be as transparent as possible. Therefore, the amount of the 2010 Corporate Stabilization Fund assessment should not come as a surprise.

This assessment of 13.4 basis points falls within the projected range announced at an open NCUA Board meeting. On November 19, 2009, the NCUA Board projected a range of 5-to-15 basis points for the Corporate Stabilization Fund assessment in 2010.

This year's Corporate Stabilization Fund assessment will be calculated based on 0.134% of each credit union's insured shares and deposits as of March 31, 2010.

This assessment will provide approximately $1 billion toward repaying the current $1.5 billion in net borrowings from the Treasury. The additional $500 million will come from a reduction in the liquidity assistance provided to corporate credit unions in September.

Recording

Each credit union should record the assessment expense on the June 2010 Call Report. Use the line for NCUSIF Stabilization Expense (Account Code 311).

The dollar amount of the expense can be calculated by multiplying the March 31 level of insured shares and deposits (Account Code 069A) by 0.00134.

Timing

NCUA will invoice credit unions for this assessment in late July or early August.

Each credit union's payment will be due in mid-August.

Impact

The NCUA Board recognizes that 2010 is a challenging year for all financial institutions, and that assessments will impact the financial performance of all credit unions.

The NCUA Board has reminded examiners to factor out the adverse impact of assessments when evaluating and rating credit union earnings.

The 2010 Corporate Stabilization Fund assessment will reduce net worth ratios of credit unions by not more than 13 basis points and reduce the annualized return on assets by 11 basis points on average. If first-quarter earnings trends continue for the remainder of this year, this assessment would cause about 10% of credit unions that otherwise would have been profitable in 2010 to report negative earnings.

NCUA also projects about 63 credit unions will experience a decline in their net worth ratio below 7% of assets, making them subject to the statutory earnings retention requirement of PCA. Also as required by law, another 27 credit unions would need to prepare a Net Worth Restoration Plan due to net worth declining below 6% of assets.

NCUA will be as flexible as the law allows in reviewing and approving a Net Worth Restoration Plan for every credit union that falls into Prompt Corrective Action (PCA) due to assessments.

Separate Assessments

Last year's single assessment was actually a combination of payments for the Corporate Stabilization Fund and for the National Credit Union Share Insurance Fund.

This year, to assist credit unions in setting their assessment budgets, NCUA has separated the assessment for the Corporate Stabilization Fund from the assessment for the Share Insurance Fund.

This separation will not increase the total amount of assessments – but it will clarify exactly what each assessment is for:

- ***The Corporate Stabilization Fund assessment covers losses at corporate credit unions.***
- ***The Share Insurance Fund assessment will cover losses at natural-person credit unions.***

Separating these two assessments will continue to improve the transparency of NCUA's assessment process.

At every open NCUA Board meeting, the agency releases a report on the financial conditions of both funds. At the June 17 open meeting, NCUA reported that Corporate Stabilization Fund liabilities are going to cover the costs of corporate credit union losses. At the same time, losses in natural-person credit unions are reducing the Share Insurance Fund's equity ratio so that it is now near the bottom of its normal operating range.

Thus it is important to clarify that the first assessment this year is only for the Corporate Stabilization Fund.

Share Insurance Fund

Later this year, the NCUA Board will consider an assessment for the Share Insurance Fund.

In November 2009, ***the NCUA Board projected a range for the 2010 Share Insurance Fund assessment of 10-to-25 basis points.***

The actual amount will be based on four factors:

1) Losses in failed natural-person credit unions;
2) Exposure to further losses indicated by trends in troubled CAMEL codes;
3) Earnings on the Share Insurance Fund's assets;
4) Growth in insured shares.

Controlling Expenses

NCUA will continue to allocate significant resources to minimize expenses of all assessments to natural-person credit unions.

Yet the ultimate cost of the Corporate Stabilization program will be contingent on the performance of the underlying assets held by corporate credit unions. And the ultimate cost of the Share Insurance Fund assessments will be contingent on the risk management practices of natural-person credit unions.

This is why NCUA is taking extraordinary measures to work with all federally insured credit unions to manage interest rate risks, concentration risks, and third-party risks. NCUA is exercising rigorous supervision of credit unions holding high concentrations of fixed-rate mortgages, or failing to do their own due diligence on indirect loans, member business loans, or participation loans.

Ultimately it is credit unions – not NCUA – that control the amounts of their assessments.

Many credit union officials have asked whether NCUA can ease the burden of assessments for credit unions that are prudently managing their risks. However, the law makes no provisions for risk-weighted premiums or risk-based assessments. The Federal Credit Union Act maintains that any premiums or assessments must be shared cooperatively by all credit unions based on their insured shares.

Knowing all of this may not make it easier to pay this year's assessment invoices. But once you understand all of the factors that lead to assessments, you will be empowered to help keep future assessments as reasonable as possible.

Choices Ahead

Looking ahead, natural-person credit unions will have crucial choices to make about the future of corporate credit unions.

Those decisions will include whether to:

- **Recapitalize their corporate credit union;**
- **Switch to another corporate credit union;**
- **Seek similar services from a non-credit union.**

NCUA plans to do its part to resolve the issues within the corporate credit union system. In the coming months, NCUA will propose a plan to remove the toxic assets that have depleted capital from investors in corporate credit unions. NCUA will also finalize a new corporate credit union regulation that will prevent the concentration of high-risk assets and build a stronger buffer to protect capital.

The asset plan will ensure that new corporates begin with clean balance sheets. And the new regulation will ensure that corporates *maintain* clean balance sheets.

Once this new regulatory regime is in place, the board of each natural-person credit union will be well positioned to determine where to obtain their liquidity, investments, and settlement services.

Resources Available

NCUA understands the challenge that volunteer board members face in keeping up with the fast-paced evolution of credit union issues. This is why NCUA is taking steps to provide volunteers with added resources.

To help board members understand the corporate credit union system and weigh their options, NCUA has posted a series of auditory presentations at www.ncua.gov. These presentations are also being produced on DVDs that will be mailed free of charge to every credit union.

The presentations explain in detail the origin, the impact, and the coming resolution of the corporate credit union system.

All credit union board members are encouraged to watch these presentations and discuss them as a group with their credit union's management team – before you make your final decisions about where to find the needed services that have traditionally been provided by corporate credit unions.

Board members have always faced tremendous responsibilities on behalf of their credit unions – but soon, board members will also be in a position to influence the strategic direction of the credit union industry as a whole. Serving as a credit union volunteer has never been so complex, or so significant.

NCUA staff, as always, is available to answer your questions and work with you to protect the safety and soundness of your credit union.

Sincerely,

/s/

Debbie Matz
Chairman