NCUA LETTER TO CREDIT UNIONS

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

DATE: **September 2011** **LETTER NO: 11-CU-14**

TO: **Federally Insured Credit Unions**

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

Dear Board of Directors:

This month, each credit union is receiving an invoice due September 27 for the 2011 Temporary Corporate Credit Union Stabilization Fund assessment. The amount of your assessment is based on 0.25 percent (25 basis points) of your credit union's insured shares as of June 30, 2011.

This assessment is necessary to pay corporate credit union obligations due this fall and to meet the Stabilization Fund's other near-term net cash flow needs. This letter is intended to provide full transparency behind the methodology NCUA used to calculate this assessment.

At the same time, this letter explains why NCUA does *not* anticipate a need to charge any premium for the National Credit Union Share Insurance Fund in 2011.

After 2011, Stabilization Fund assessments are expected to be considerably lower: 8-11 basis points in 2012, and likely single digits in the final years.

Stabilization Fund Cash Management

Since the launch of the Corporate System Resolution last September, NCUA has communicated that Stabilization Fund cash needs are front-end loaded. In November 2010, NCUA provided an estimate of the 2011 Stabilization Fund assessment for credit union budgeting purposes: 20-25 basis points of insured shares. The majority of this estimate was based on projected net cash flow needs in total for 2011 and 2012.

Based on June 30, 2011, data, NCUA projects $8.2 billion in net cash obligations due and payable through October 2012, made up of the following:

Table 1

Net Cash Needs – to October 2012	$ Billions
Uses of Funds – to October 2012	
Corporate medium term note guarantee	5.52
Notes payable to bridge corporates – net of NGN proceeds	2.94
Other obligations	0.49
Total projected uses of funds	8.95
Sources of Funds – to October 2012	
Monetization of other corporate assets	0.75
Total projected sources of funds	0.75
Net pre-2012 obligations to be funded	8.20
Less: Treasury borrowing	5.50
Total Pre-2013 Projected Cash Needs	2.70
Projected Total 2011 & 2012 Stabilization Assessments - 06/30/2011 insured shares	34.5 basis points

The funds generated by the 2011 assessment, along with borrowed funds from the Treasury, will be used to pay Stabilization Fund obligations coming due and payable. In August, NCUA borrowed $3.5 billion from Treasury to satisfy the balance of notes payable to bridge corporate credit unions, as well as other miscellaneous obligations. The primary remaining obligation due this year is $2 billion of Medium Term Notes (MTNs) issued by corporate credit unions and guaranteed by the Stabilization Fund through maturity in October. The 2011 assessment will raise $1.96 billion to meet this obligation.

Impact of the Assessment

Based on June 30, 2011, Call Report data, credit unions reported a relatively strong return on average assets (ROA) of 0.86 percent, excluding accruals reported for the projected 2011 NCUSIF premium and Stabilization Fund assessment.[1] The 2011 assessment will reduce ROA for 2011 by 21 basis points and reduce the net worth ratio by 15 basis points.

NCUA continues to remind examiners to consider the impact of the assessment when evaluating and rating credit union earnings performance. NCUA will provide appropriate flexibility in reviewing and approving net worth restoration plans for credit unions that fall into Prompt Corrective Action (PCA) due to the assessment.

[1] Under GAAP, credit unions should not accrue for NCUSIF premiums or Stabilization Fund assessments. Current projections indicate a NCUSIF premium in 2011 is not likely necessary.

Accounting for the Assessment

Credit unions should record the assessment expense on the September 2011 Call Report using the *Temporary Corporate CU Stabilization Fund Assessment* line (account code 311) on the Statement of Income and Expense.

Updated Corporate Resolution Cost Projections

Based on a new analysis, the cumulative total projected cost for the corporate resolution has decreased.[2] As reflected in Table 2 below, deducting the assessments paid through 2011 leaves **a projected range of $1.9 billion to $6.2 billion in remaining assessments.**

Table 2

Stabilization Fund	Previous Estimate[3]	Current Estimate[4]
Range of Total Projected Assessments	$8.3B to $10.5B	$5.2B to $9.5B
Less 2009 and 2010 Assessments	-$1.3B	-$1.3B
=Range of Post 2010 Remaining Projected Assessments	$7.0B to $9.2B	$3.9B to $8.2B
Less 2011 Assessment	-$2.0B	-$2.0B
=Range of Post 2011 Remaining Projected Assessments	$5.0B to $7.2B	$1.9B to $6.2B

The current improved projections represent "point in time" estimates that may change as economic and market conditions change. NCUA will continue to diligently monitor the performance of the legacy corporate credit union assets. Starting this fall, we will post information at www.NCUA.gov as updated estimates become available.

Outlook for 2012

Since September 2010, NCUA consistently communicated that the corporate resolution process would result in higher Stabilization Fund assessments in 2011 and 2012 due to cash management needs. After the 2011 assessment, the projected additional cash needs of the Stabilization Fund through October 2012 will be approximately $700 million. This would equate to an assessment rate of 9 basis points in 2012 using June 30, 2011 insured shares[5].

Due to NCUA's success in minimizing losses at troubled natural person credit unions, NCUA currently projects no premium for the National Credit Union Share Insurance Fund (NCUSIF) in 2011 and a range of 0-7 basis points in 2012.

[2] These projections do not include any potential recoveries from settlements or litigation, which are inherently inestimable. Any such recoveries would reduce the cumulative total costs.
[3] The previous loss estimates were as of the fourth quarter 2010, and based in part on modeling of the corporate credit unions' legacy assets performed by Barclays Capital.
[4] The current loss estimates are as of June 30, 2011, and based in part on modeling of the corporate credit unions' legacy assets performed by BlackRock.
[5] Actual cost will be based on 2012 quarter-end insured shares or the most recent quarter-end at the time of the assessment.

The NCUSIF currently has the ability to absorb a modest level of increased failures without significant reductions in the equity ratio:

Table 3

Scenario	Projected NCUSIF Equity Ratio		
	12/31/11	06/30/12	12/31/12
Optimistic	1.28%	1.27%	1.27%
Base	1.27%	1.25%	1.24%
Pessimistic	1.26%	1.24%	1.23%

Even in the pessimistic scenario forecast, a 2012 premium of $607 million (about 7 basis points of insured shares) would return the NCUSIF's equity ratio to a full 1.30% of insured shares under the current anticipated range of outcomes.

Conclusion

NCUA continues to make every effort to prevent and mitigate losses to the Stabilization Fund and the NCUSIF. The agency will continue to keep credit unions informed of loss projections.

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,

/s/

Debbie Matz
Chairman