NCUA LETTER TO CREDIT UNIONS

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

DATE: **December 2012** **LETTER NO: 12-CU-13**

TO: **Federally Insured Credit Unions**

SUBJ: **Projected 2013 NCUSIF Premium and Corporate Stabilization Fund Assessment Range**

Dear Board of Directors and Chief Executive Officer:

Since 2009, NCUA has provided an annual range for National Credit Union Share Insurance Fund (NCUSIF) premiums and Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) assessments. The forecast is provided to assist credit unions in developing budget estimates for the upcoming year.

For 2013, NCUA projects an NCUSIF premium range of 0 and 5 basis points of insured shares, and a Stabilization Fund assessment range of 8 to 11 basis points of insured shares. The combined projected range is 8 to 16 basis points of insured shares.

2013 Forecast	Projected Range
NCUSIF	0 - 5 basis points
Stabilization Fund	8 - 11 basis points
Combined	8 - 16 basis points

The projected NCUSIF premium and Stabilization Fund assessment ranges correspond to the strong positions of these funds and an improving economic environment.

The table below summarizes the past three estimates and actual NCUSIF premiums and Stabilization Fund assessments.

Year	Estimated NCUSIF Premium	Actual NCUSIF Premium	Estimated Stabilization Fund Assessment	Actual Stabilization Fund Assessment
2010	10-25 bps	12.42 bps	5-15 bps	13.4 bps
2011	0-10 bps	0 bps	20-25 bps	25.0 bps
2012	0-6 bps	0 bps	8-11 bps	9.5 bps
2013	0-5 bps	TBD	8-11 bps	TBD

While NCUA provides this forecast to assist credit unions in planning for the following year, the actual premium and assessment levels are subject to change based on a variety of factors. ***Credit unions should not expense any premium or assessment until actually declared by the NCUA Board*, nor use the forecast as the basis for any accruals of future expenses.**

NCUSIF Forecast Considerations

The NCUSIF is projected to remain at or slightly above the 1.30 percent normal operating level at the end of 2012. Any equity in excess of 1.30 percent will be transferred to the Stabilization Fund, as required by statute.

The strong performance of the NCUSIF is consistent with a steady reduction in troubled credit unions and an improving economy.

The following factors will drive the NCUSIF's equity ratio in 2013:

- Growth in insured shares;
- Cost and pace of credit union failures; and
- Yield on NCUSIF investments.

In most stress scenarios, the NCUSIF's equity ratio would not decline substantially. This means there will most likely be no need for a premium in 2013. However, the upper range of the 2013 premium forecast covers a scenario with higher than expected losses from failed credit unions.

Prudent risk management by credit unions and careful supervision by NCUA and state regulators will help ensure the continuing strength of the NCUSIF.

Stabilization Fund Forecast Considerations

NCUA has now retired all $5.5 billion in Medium Term Notes representing obligations of the failed corporate credit unions. The 2012 assessment of 9.5 basis points was used to fund the final $3.5 billion payment of Medium Term Notes. These notes were issued by the failed corporate credit unions and matured in October and November 2012.

The primary remaining obligation of the Stabilization Fund is the outstanding $5.1 billion in funds borrowed from the U.S. Treasury. Funds generated from future assessments will be the primary source of repaying funds borrowed from the U.S. Treasury. Other sources of repayment include potential legal recoveries, some remaining Asset Management Estate assets, and any residual value recoverable from legacy assets securitized in NCUA Guaranteed Notes.

The projected 2013 Stabilization Fund assessment of 8 to 11 basis points would generate between $705 million to $969 million.

The NCUA Board anticipates setting the actual assessment level in July 2013, with the collection due in October 2013.

In setting the annual assessments, the NCUA Board considers the following factors:

- Impact of the assessment on federally insured credit unions;
- Cost associated with borrowed funds;
- Adequacy of remaining borrowing authority;
- Cash generated by liquidation of failed corporate credit unions; and
- Performance of the NCUA Guaranteed Notes.

Dependent upon these variables, the most recent analysis suggests remaining net future assessments will total between $1.9 billion to $4.8 billion.

Stabilization Fund Projections (Figures in Billions)	**Previous Estimate**	**Current Estimate**
Range of Total Projected Assessments	$6.0 - $9.3	$6.0 - $8.9
Less 2009-2012 Assessments	($4.1)	($4.1)
Range of Post 2012 Remaining Net Future Assessments	$1.9 - $5.2	$1.9 - $4.8

The legacy assets are complex and subject to many economic factors. Changes in home prices, gross domestic product, unemployment, interest rates, and other economic variables are key assumptions in determining the value of the legacy assets and the overall projected losses to the credit union system. Thus, loss estimates will vary over time.

Summary

For credit union planning purposes, NCUA is forecasting a combined NCUSIF premium and Corporate Stabilization Fund assessment range for 2013 of 8 to 16 basis points of insured shares. Actual events and unforeseen changes in financial trends or the overall economy could cause the 2013 premium and assessment to fall outside of the range provided and could shift the timing of a premium or assessment.

If you have any questions related to this letter, contact NCUA's Office of Examination and Insurance (703-518-6360 or EIMail@ncua.gov).

Sincerely,

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Debbie Matz
Chairman