NCUA LETTER TO CREDIT UNIONS

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

DATE: **August 2013** **LETTER NO: 13-CU-06**

TO: **Federally Insured Credit Unions**

SUBJ: **2013 Corporate Stabilization Fund Assessment**

Dear Board of Directors and Chief Executive Officer:

At the open meeting on July 25, 2013, the NCUA Board declared an assessment for the Temporary Corporate Credit Union Stabilization Fund of 0.08 percent (8 basis points) of your credit union's insured shares as of June 30, 2013.

This assessment is at the low end of the estimated range of 8-11 basis points announced at the NCUA Board's open meeting in November 2012. It represents a significant improvement from last year's assessment of 9.5 basis points, and it is the lowest assessment charged in the past three years.

Each credit union will receive an invoice in September for the 2013 assessment, which will be due by October 16, 2013.

The rest of this letter provides answers to key questions about this assessment.

Why must all credit unions pay assessments?

Because the credit union system is cooperative, all federally insured credit unions bear the losses from five failed corporate credit unions.

To manage those costs over time – rather than assessing credit unions for billions of dollars in corporate losses in a single year – NCUA worked with Congress to create the Stabilization Fund in 2009.

From 2009 through 2012, the Stabilization Fund's short-term cash needs to satisfy maturing obligations of the failed corporates' asset management estates drove annual assessments.

This year's assessment is needed to help repay the primary remaining obligation: Treasury borrowings that currently stand at $4.7 billion.

Why is the assessment set at 8 basis points?

NCUA will use the cash generated by the 8 basis points assessment—projected to be $700.9 million—to repay at least $650 million in outstanding borrowings from Treasury in November 2013 while also maintaining an adequate reserve.

After the repayment in November, outstanding borrowings from Treasury will total no more than $4.075 billion, leaving a remaining borrowing line of at least $1.925 billion for cash management, including obligations related to the NCUA Guaranteed Notes (NGNs).[1]

How should my credit union account for the assessment?

You should have expensed the assessment in July and must report the entire expense on the September 30, 2013, Call Report using the *Temporary Corporate CU Stabilization Fund Assessment* line (account code 311) on the Statement of Income and Expense.[2]

Consult with your accounting practitioner for further guidance in recording the assessment.

What is the impact of the 2013 assessment on credit unions' earnings and net worth?

March 31, 2013, Call Report data show credit unions continued their strong performance, including a return on average assets (ROA) of approximately 0.83 percent and aggregate net worth of 10.31 percent. The 2013 assessment is projected to reduce ROA for 2013 by 7 basis points and the aggregate net worth ratio by 6 basis points.

Will examiners take the effect of the assessment into account when evaluating credit union earnings and net worth?

NCUA continues to remind examiners to take into account the impact of the assessment when evaluating and rating credit union earnings and net worth performance. The evaluation of earnings focuses on many factors, including your credit union's risk profile, operational structure, and strategic plans.

See Letter to Credit Unions 09-CU-23, *Reviewing Adequacy of Earnings*, which emphasizes the supervisory guidance given to examiners about the evaluation of earnings.

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[1] NCUA Guaranteed Notes (NGNs) are securities successfully sold by NCUA in 2010-2011 to fund holding the legacy assets from the failed corporate credit unions.

[2] GAAP requires "*to the extent that the National Credit Union Administration assesses premiums to cover prior operating losses of the insurance fund or to increase the fund balance to normal operating levels, credit unions shall expense those premiums when assessed by the NCUA Board*" (emphasis added). See FASB Accounting Standards Codification (ASC) Paragraph 942-325-35-4(c).

NCUA will continue to be as flexible as the law allows in reviewing and approving net worth restoration plans for any credit unions that fall into Prompt Corrective Action (PCA) due to the assessment.

What are the net remaining projected costs of the corporate resolution program?

An improving economy and growing credit union strength are helping to reduce projected costs. NCUA has the flexibility to take industry performance and future uncertainties into account when determining Stabilization Fund assessments.

However, even with the improving economy and legacy asset projections, assessments to date are still short of the low end of the projected net remaining assessments range. Prior to the 2013 assessment, the cumulative total projected assessments (after extinguishing $5.6 billion in capital at the five failed corporates) ranged from $1.6 billion to $3.9 billion.

As reflected in the table below, after accounting for the 2013 assessment of approximately $700.9 million, **the projected net remaining assessments over the life of the Stabilization Fund range from $0.9 billion to $3.2 billion.**

Corporate Stabilization Fund	Previous Estimate (Q2 2012)	Current Estimate
Range of Total Projected Assessments	$6.0B to $8.9B	$5.7B to $8.0B
Less Assessments to Date	-$4.1B	-$4.1B
=Range of Post-2013 Projected Net Remaining Assessments	$1.9B to $4.8B	$1.6B to $3.9B
Less 2013 Assessment		-$0.7B
=Range of Post-2013 Projected Net Remaining Assessments		$0.9B to $3.2B

The term "projected net remaining assessments" means the estimated remaining costs to be borne by credit unions over the life of the NGN program from any shortfall of cash inflows versus outflows. However, it does not account for the timing of cash flows. Remaining cash flows include guaranty payments on some NGNs, assets remaining to be monetized from the failed corporates, and some projected residual value remaining from the legacy assets collateralizing the NGNs that will not be available until the NGNs mature.

NCUA has carefully evaluated all the considerations that go into assessments, which have been consistent with legacy assets and credit union performance, and will continue to do so annually. The considerations comprise a combination of factors, including independent modeling of projected cash flows by BlackRock, impact of the assessment on the credit union industry, actual performance of the legacy assets, and projected monetization of other corporate assets in the asset management estates.

These are point-in-time estimates which are reasonable and supportable in the context of accounting estimates. The estimates are subject to change based on actual performance and projections of future performance of the legacy assets.

What if I have more questions?

NCUA maintains two websites that describe in detail the corporate resolution costs and the NGN program. To learn more, please go to www.NCUA.gov, click the tab "Credit Union Resources and Information" and select "Corporate System Resolution Costs" or "NGN Program Information" from the menu. These websites are updated semi-annually with the latest information on loss estimates.

NCUA continues to make every effort to mitigate losses to the Stabilization Fund and the National Credit Union Share Insurance Fund. We will continue to keep you informed.

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