

NCUA LETTER TO CREDIT UNIONS

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

DATE: November 2013 **LETTER NO:** 13-CU-14

TO: Federally Insured Credit Unions

SUBJ: Projected 2014 Stabilization Fund Assessment and Share Insurance Fund Premium Range

Dear Board of Directors and Chief Executive Officer:

Since 2009, NCUA has provided a projected range for Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) assessments and National Credit Union Share Insurance Fund (Share Insurance Fund) premiums. The projections are provided to assist credit unions in developing budget estimates for the upcoming year.

For 2014, NCUA projects no assessment for the Stabilization Fund and a Share Insurance Fund premium range of 0 to 5 basis points (bps) of insured shares.

2014 Projected Range	
Stabilization Fund	None
Share Insurance Fund	0 - 5 bps
Combined	0 - 5 bps

NCUA this month announced its participation in the \$13 billion legal settlement between the U.S. Department of Justice and JPMorgan Chase. NCUA will receive \$1.417 billion in gross proceeds. The net proceeds will be paid to the U.S. Treasury to reduce NCUA's outstanding borrowings related to the corporate resolution program, which currently stand at \$3.9 billion.

NCUA continues to vigorously pursue legal action to hold 16 other securities firms accountable for selling faulty mortgage-backed securities to the five failed corporate credit unions. NCUA thus far has recovered a total of \$1.75 billion in legal settlements.

In light of the latest settlement and the continued strong performance of the legacy assets underlying the NCUA Guaranteed Notes (NGN) portfolio, NCUA does not project an assessment for the Stabilization Fund for 2014.

However, if a major, unexpected development – such as a severe economic downturn – arises in 2014, the NCUA Board may have to reconsider an assessment based on those adverse conditions.

The table below provides estimated and actual Stabilization Fund assessments and Share Insurance Fund premiums for the past five years and projected ranges for 2014.

Year	Estimated Stabilization Fund Assessment	Actual Stabilization Fund Assessment	Estimated Share Insurance Fund Premium	Actual Share Insurance Fund Premium
2009	N/A	4.73 bps	N/A	10.27 bps
2010	5-15 bps	13.4 bps	10-25 bps	12.42 bps
2011	20-25 bps	25.0 bps	0-10 bps	0 bps
2012	8-11 bps	9.5 bps	0-6 bps	0 bps
2013	8-11 bps	8.0 bps	0-5 bps	0 bps
2014	None	TBD	0-5 bps	TBD

Stabilization Fund Projection Considerations

Even without the funds pending from the latest legal settlement, the low end of the assessment range is now negative. This means that, under optimistic economic assumptions and after accounting for NCUA's other legal recoveries of \$335 million through October 2013, there may be funds remaining after all obligations have been repaid.

However, the Treasury debt must be fully repaid before any remaining funds on hand may be distributed to credit unions. This is not likely to occur prior to expiration of the Stabilization Fund in 2021.

It is important to note that the assessment range is generated using legacy assets cash flow projections. These projections are generated by BlackRock based on a number of different economic scenarios that can change at any time. As the housing market and economy in general have improved, the projected cash flows have increased.

A great deal of disciplined work and careful planning has kept the corporate resolution on-track. These latest estimates are very good news. NCUA's recoveries from Wall Street firms responsible for the corporate crisis, and our continuing efforts to effectively manage losses, along with an improving economy, are significantly reducing costs to credit unions.

Share Insurance Fund Projection Considerations

The Share Insurance Fund remains slightly above the 1.30 percent normal operating level as of September 30, 2013. NCUA will transfer any equity in excess of the 1.30 percent to the Stabilization Fund, as required by statute.

The following factors will drive the Share Insurance Fund's equity ratio in 2014:

- Growth in insured shares,
- Yield on Share Insurance Fund investments, and
- Cost and pace of credit union failures.

Even though the cost and pace of credit union failures has declined, the equity ratio is projected to decline to a level between 1.25 and 1.29 percent due to strong growth in insured shares and low yield on Share Insurance Fund investments.

As a result, the projected range of 2014 Share Insurance Fund premiums is 0 to 5 basis points.

Summary

For credit union planning purposes, NCUA is projecting a combined Stabilization Fund assessment and Share Insurance Fund premium range for 2014 of 0 to 5 basis points of insured shares. Actual events and unforeseen changes in financial trends or the overall economy could cause the 2014 assessment or premium to differ from the estimates provided.

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

For more information related to the corporate resolution and the NGN program, visit these recently updated web pages:

Corporate System Resolution Costs

<http://www.ncua.gov/Resources/Corps/RCost/Pages/default.aspx>

NGN Program Information

<http://www.ncua.gov/Resources/Corps/NGN/Pages/default.aspx>

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,

/s/

Debbie Matz
Chairman