

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: July 15, 2013

FROM: Office of Examination and Insurance

SUBJ: 2013 Stabilization Fund
Assessment

ACTION REQUESTED: Approval of the following actions:

- Schedule a repayment of at least \$650 million in Temporary Corporate Credit Union Stabilization Fund (TCCUSF) borrowings for November 2013.
- Assess 0.08 percent (8 basis points) of each federally insured credit union's (FICUs) insured shares as of June 30, 2013, for an estimated total of \$700.9 million, to ensure the TCCUSF is able to make the scheduled repayment.¹ This assessment will be made in accordance with § 217(d)(2) of the FCU Act.

DATE ACTION REQUESTED: July 25, 2013

OTHER OFFICES CONSULTED: Office of the Chief Financial Officer, Office of General Counsel, Asset Management and Assistance Center, and Office of Chief Economist.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: TCCUSF receipt and subsequent disbursement to the United States Treasury of at least \$650 million to repay TCCUSF borrowings.

RESPONSIBLE STAFF MEMBERS: Larry Fazio, Director of Examination and Insurance; Mary Ann Woodson, Chief Financial Officer; Brian Heitman, Supervisory Financial Analyst.

SUMMARY: In November 2012, NCUA provided to FICUs an estimate of 8 to 11 basis points of insured shares for the 2013 TCCUSF assessment for budgeting purposes. Due to the repayment of the medium-term notes in fall 2012, there are minimal short-term cash needs for the TCCUSF at this time. Instead, staff recommends that the Board schedule a repayment of TCCUSF borrowings of at least \$650 million for November 2013 and set an assessment of 8 basis points to ensure the TCCUSF is able to make the scheduled repayment while maintaining an adequate cash reserve. The repayment amount may increase based on actual funds available in the TCCUSF at the discretion of the NGN Securities Management and Oversight Committee.

After the repayment in November, the outstanding borrowings to Treasury will total no more than \$4.075 billion, leaving a remaining borrowing line of at least \$1.925 billion for unexpected contingencies.

¹ Estimated based on insured shares as of March 31, 2013. The actual assessment will be billed based upon insured shares as of June 30, 2013.

As reflected in Table 1, after accounting for the proposed assessment of approximately \$700.9 million, bringing total TCCUSF assessments to \$4.8 billion, **the projected net remaining assessments over the life of the TCCUSF range from \$0.9 billion to \$3.2 billion.**

Table 1. Assessment Ranges

TCCUSF	Previous Estimate (Q2 2012)	Current Estimate (Q4 2012)
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 Remaining Projected Assessments	\$1.9B to \$4.8B	\$1.6B to \$3.9B
Less 2013 Assessment		-\$0.7B
= Range of Post-2013 Remaining Projected Assessments		\$0.9B to \$3.2B

A. Impact of the Assessment: The March 31, 2013 Call Report data discloses continued strong performance from FICUs, including a return on average assets (ROA) of 0.83 percent. An assessment of 8 basis points (the low end of the estimated range) reduces annualized aggregate ROA for FICUs by 7 basis points. Profitability does vary across asset sizes, with smaller institutions having lower ROA levels, albeit higher Net Worth Ratios (NWR), as noted in Table 2 below.²

Table 2. Impact on FICUs³

FICU Assets	< \$10M	\$10M- \$100M	> \$100M	All
ROA (adjusted)	-0.14%	0.33%	0.90%	0.83%
Projected ROA after assessment	-0.21%	0.26%	0.83%	0.76%
Number projected to be unprofitable after assessment	112	165	51	328
NWR	14.28%	11.27%	10.16%	10.31%
Projected NWR after assessment	14.21%	11.20%	10.08%	10.25%

Additional information on the impact of the assessment using annualized March 31, 2013 data is as follows:

² The assessment's impact on federally insured corporate credit unions is less significant due to their lesser amount of insured shares.

³ The projected impact on FICU performance is based on March 31, 2013 Call Report data, excluding accruals some FICUs reported for the projected 2013 NCUSIF premium and TCCUSF assessment. Under GAAP, FICUs should not accrue for NCUSIF premiums or TCCUSF assessments. These numbers could vary substantially by June 30, 2013, especially for small FICUs that employ non-accrual accounting methods.

- 328 FICUs (6.86%) reporting positive net income may experience negative core income for 2013 as a result of the TCCUSF assessment.⁴ Core net income excludes any current accrual for potential NCUA assessments, gain on sale of investments and fixed assets, non-operating gains, and merger-related gains.
- 31 FICUs (0.48%) reporting net worth greater than 7 percent may experience a decline in net worth to less than 7 percent as a result of the assessment, subjecting them to the earnings retention requirement of Prompt Corrective Action.
- 8 FICUs (0.12%) reporting net worth greater than 6 percent may experience a decline in net worth to less than 6 percent as a result of the assessment, requiring them to prepare a net worth restoration plan.
- None of the FICUs reporting net worth greater than 2 percent are expected to experience a decline to less than 2 percent as a result of the assessment.

Given the relatively strong financial performance of the credit union industry, staff recommends the NCUA Board approve an assessment at the low end of the 8-to-11 basis point range. A 2013 TCCUSF assessment of 8 basis points would represent a decrease in the assessment level compared to the 2012 assessment of 9.5 basis points. As such, it would recognize improvements in the economy while allowing a substantial repayment to Treasury.

B. Recording the Assessment: The Office of the Chief Financial Officer will prepare the TCCUSF assessment invoices and distribute them to all FICUs, with payment due in October 2013. Since NCUA Board approval of this scheduled repayment and assessment establishes the liability, FICUs should expense the assessment in July and report the entire expense on the September 30, 2013 Call Report.⁵

RECOMMENDED ACTION: Approval of the following actions:

- Schedule a repayment of at least \$650 million in TCCUSF borrowings for November 2013.
- Assess 0.08 percent (8 basis points) of each FICU's insured shares as of June 30, 2013, for an estimated total of \$700.9 million, to ensure the TCCUSF is able to make the scheduled repayment.⁶ This assessment will be made in accordance with § 217(d)(2) of the FCU Act.

⁴ The analysis of the impact of the assessment on net income is based on performance data as of March 31, 2013, as only one quarter's worth of 2013 performance data is available at this time. Net income historically is lower in the first quarter of the year; thus, the actual number of FICUs experiencing negative income for the year as a result of the assessment will likely be lower.

⁵ 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).

⁶ Estimated based on insured shares as of March 31, 2013. The actual assessment will be billed based upon insured shares as of June 30, 2013.