NCUA LETTER TO CREDIT UNIONS

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

DATE: **November 2016** **LETTER NO:** **16-CU-10**

TO: **Federally Insured Credit Unions**

SUBJ: **Projected 2017 Share Insurance Fund Premium and Stabilization Fund Assessment 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 projection is provided to assist credit unions in developing budget estimates for the upcoming year.

For 2017, NCUA projects <u>no</u> assessment range for the Stabilization Fund and a Share Insurance Fund premium of 3 to 6 basis points (bps) of insured shares.

2017 Projected Range	
Stabilization Fund	None
Share Insurance Fund	3–6 bps
Combined	3–6 bps

The following table provides estimated and actual Stabilization Fund assessments and Share Insurance Fund premiums for the past eight years and projected ranges for 2017.

Year	Estimated Stabilization Fund Assessment	Actual Stabilization Fund Assessment	Estimated Share Insurance Fund Premium	Actual Share Insurance Fund Premium	Combined Actual Premium
2009	N/A	4.73 bps	N/A	10.27 bps	**15.0 bps**
2010	5–15 bps	13.4 bps	10–25 bps	12.42 bps	**25.82 bps**
2011	20–25 bps	25.0 bps	0–10 bps	0 bps	**25.0 bps**
2012	8–11 bps	9.5 bps	0–6 bps	0 bps	**9.5 bps**
2013	8–11 bps	8.0 bps	0–5 bps	0 bps	**8.0 bps**
2014	0 bps	0 bps	0–5 bps	0 bps	**0 bps**
2015	0 bps	0 bps	0–5 bps	0 bps	**0 bps**
2016	0 bps	0 bps	0–6 bps	0 bps	**0 bps**
2017	0 bps	TBD	3–6 bps	TBD	**TBD**

Notwithstanding a major, unexpected development, such as a severe economic downturn, the Stabilization Fund assessment is expected to be zero for 2017. However, if adverse conditions develop, the NCUA Board may have to reconsider an assessment. Staff will provide additional information on the Stabilization Fund and NCUA Guaranteed Notes Program at the December open Board meeting.

The Share Insurance Fund's equity ratio is 1.27 percent as of September 30, 2016, which is below the Board approved normal operating level of 1.30 percent.[1] The equity ratio is projected to fall to between 1.24 percent and 1.27 percent by year-end 2017 because of growth in insured shares combined with the low yield on the Share Insurance Fund's investment portfolio. These two factors will continue to place negative pressure on the equity ratio, making it improbable that the ratio will reach 1.30 percent without a premium.

Over the last few years the equity ratio remained near, or above, the normal operating level of 1.30 percent resulting in no need for a premium. The equity ratio remained near 1.30 percent mainly as a result of insurance loss expense reversals the Share Insurance Fund has recorded since 2011. In 2009 and 2010, during the heart of the crisis, credit union performance was deteriorating as reflected in significantly higher levels of CAMEL 3, 4, and 5 institutions, including some very large credit unions. The accounting standards and related reserve model resulted in the need to establish significantly higher levels of reserves at that time. Since then, industry performance has improved substantially with a relatively low level of CAMEL 3, 4, and 5 credit unions today, as well as better than expected outcomes on several large institutions that were in danger of failing. Thus, the reserve model now calculates a much lower level of reserves needed. The reversals of the insurance loss expense funding from 2011 through 2015 have largely offset declines in the equity ratio that otherwise would have occurred. This is not expected to continue given the current relatively low level of loss reserves.

NCUA considered many factors in forecasting the equity ratio, including:

- Impact of premiums on net worth and profitability in aggregate and by individual credit unions;
- Range of possible losses incurred in resolving failed natural person credit unions and the level of reserves;
- Trends in CAMEL ratings;
- The pace of credit union failures;
- Earnings of the Share Insurance Fund's investments and Share Insurance Fund operating expenses; and
- Growth in insured shares.

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[1] The NCUA Board approved a normal operating level of 1.30 percent at the December 13, 2007 Board meeting.

Please note, in the event of an extraordinary change in economic condition or material failure of a large credit union, actual premium needs in 2017 could vary significantly from the projected range.

For credit union planning purposes, NCUA is projecting a combined Stabilization Fund assessment and Share Insurance Fund premium range for 2017 of 3 to 6 basis points of insured shares.

NCUA provides this information only to assist credit unions in developing budgets and planning for the following year. The actual premium and assessment levels for 2017 will be determined by the Board at a future date. ***Credit unions should not expense any premium or assessment until actually declared by the NCUA Board, nor use the projection as the basis for any accruals of future expenses.***

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/

Rick Metsger
Chairman