Good morning, Chairman McWatters and Board Member Metsger. We are here today to recommend the Board close the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) in 2017. As part of closing the Stabilization Fund, we are recommending increasing, at least for the time being, the normal operating level of the Share Insurance Fund. Today, we will provide a summary of the comments received and present staff’s recommendation regarding closing the Stabilization Fund in 2017 and setting the normal operating level.

It is important to note the information and projections we are providing today represent a point-in-time estimate generated as of the end of the first quarter of 2017. This information is preliminary, unaudited, and subject to change. We include a variety of projections, and actual results may vary.
Slide 2 Summary of July Proposal (Larry)

As you recall, at the July 20, 2017 open meeting, we explained in detail the proposed plan to close the Stabilization Fund and revise the policy for setting the normal operating level. We also explained in detail how we calculated the proposed normal operating level of 1.39%. This briefing was based on over a year of staff research and analysis of the various legal, operational, and financial aspects of closing the Stabilization Fund early and setting the normal operating level.

The Board published a Request for Comment in the Federal Register and on NCUA’s website, shortly after the July Board meeting to obtain stakeholder input. The public comment period ran through September 5, 2017.

Kevin will now summarize the comments we received.
Slide 3 Summary of Comments (Kevin)

Thank you, Larry. In total, NCUA received 663 formal comment letters. Most of the commenters either support or did not expressly oppose closing the Stabilization Fund in 2017. Almost all commenters support the distribution of equity to credit unions in the near future.

There were some commenters that opposed closing the Stabilization Fund in 2017, with many of these commenters contending that NCUA could make distributions to credit unions directly from the Stabilization Fund.

Many of the commenters opposed any increase in the normal operating level, citing that a normal operating level of 1.30 percent was sufficient to weather the Great Recession. A common theme from commenters was a request for a “full refund.” There were some commenters that believed the Stabilization Fund’s equity should not be available to increase the Share Insurance Fund’s equity ratio or for insurance losses related to natural person credit unions. Some commenters advocated for
only a temporary increase in the normal operating level, with most requesting it return to 1.30 percent at some future point in time.

As part of the Board’s actions today, we recommend publishing a notice in the Federal Register, which responds to these and other salient comments received.

Slide 4 Closing the Stabilization Fund in 2017 (Kevin)

The Stabilization Fund can be closed in 2017, if the Board so elects, as all the statutory criteria to close it have been met. In particular, the Treasury borrowings have been repaid as of October 2016. Also, the Stabilization Fund has a positive net position as of June 2017 of $2.0 billion.

Closure in 2017 has no effect on the claims against the corporate credit union asset management estates of depleted member capital investors. Further, the decision to close does not, in and of itself, affect the total amount available for distribution from the Share Insurance Fund.
This is because the amount of total receivables the Stabilization Fund holds against the asset management estates, which affects the amount that could eventually be distributed to credit unions, depending on future performance of the Legacy Assets, will not change as a result of the closure. All receivables the Stabilization Fund holds as of October 1, 2017 will be distributed to the Insurance Fund and equity will build from those receivables in the Insurance Fund rather than building and remaining in the Stabilization Fund until its scheduled closure date in 2021. Equity that builds in the Insurance Fund will become available for future distributions to the extent the equity ratio exceeds the normal operating level at the end of a calendar year.

Distributions directly to credit unions from the Stabilization Fund are not permissible under the Federal Credit Union Act. The distribution of assets and liabilities to the Share Insurance Fund is permissible only upon closure of the Stabilization Fund. Distributions to credit unions
will be governed by the Act’s provisions for Share Insurance Fund distributions.

Further, transparent reporting of asset management estates, the Fund’s related receivable, and the performance of the Legacy Assets will continue.

With that, I will turn it back over to Larry.

**Slide 5 Closing the Stabilization Fund in 2017 (Larry)**

Thanks, Kevin. As there are no additional projected assessments needed, the Stabilization Fund has fulfilled its purpose of spreading out and containing the corporate resolution costs within the credit union system. In addition, the remaining obligations of the Corporate System Resolution Program can now be borne by the Share Insurance Fund without inordinate risk, provided additional equity is maintained.
For context, as shown on the slide, the total exposure from the Legacy Assets is less than the size of the Share Insurance Fund. Therefore, the Stabilization Fund can be prudently closed in 2017, ending this temporary, crisis-era arrangement. It would also likely lead to a distribution to credit unions in 2018.

**Slide 6 Equity Ratio Projections (Larry)**

In fact, if we don’t close the Stabilization Fund, there would not be a distribution in 2018, and we could reach the statutory trigger to declare a premium in 2019.

**Slide 7 Evaluation of Post Closure NOL (Larry)**

As we noted in July, if NCUA closes the Stabilization Fund, all of its assets and liabilities will transfer to the Share Insurance Fund. The remaining Corporate System Resolution Program obligations will create additional risk for the Share Insurance Fund until the end of the NGN program in 2021. With this in mind, we evaluated what the normal operating level should be to ensure the Share Insurance Fund holds
enough equity to cover the risks posed by these additional obligations, as well as its customary exposures.

To determine what level of equity the Share Insurance Fund needs, we evaluated how it would perform in an economic downturn. We need to make sure the Share Insurance Fund can withstand a recession without the equity ratio falling below the statutory minimum of 1.20%.

With that, I’ll turn it over to Amanda to walk through a summary of the analysis we presented in July.

**Slide 8 Evaluation of Post-Closure NOL (Amanda)**

Thanks, Larry. Using the economic scenarios developed by the Federal Reserve as part of their work on the Comprehensive Capital Analysis and Review, we modeled the impact on the equity ratio over 5 years under both a moderate and a severe recession. For Share Insurance Fund performance, we looked at the 3 primary drivers: insurance losses, insured share growth, and yield on investments. We also modeled the
Share Insurance Fund’s claims on the asset management estates under these scenarios. As you’ll recall, the normal operating level for the Share Insurance Fund would need to be 1.39% to withstand a moderate recession without the equity ratio dropping below 1.20%. Next, I’ll briefly discuss each component of the recommended normal operating level.

Slide 9 Economic Stress Analysis (Amanda)

Based on the goal of keeping the fund’s equity ratio from falling below 1.20% over the five forecast years, the starting equity ratio would need to be 1.33% to withstand a moderate recession represented by the Adverse scenario. As a reminder, the details of the Share Insurance Fund simulations under the economic stress performed by the NCUA’s Office of the Chief Economist can be found in the July Board presentation on our website.
Slide 10 5-Year Equity Ratio Projections (Amanda)

A 2-basis point decline in the equity ratio is expected to occur prior to when the remaining NGNs begin to mature in 2020 and remaining exposure to the Legacy Assets can begin to be reduced. This will help ensure there is sufficient equity to account for the potential decline in value of the claims on the asset management estates and avoid future premiums.

Slide 11 AME Cash Flow Summary (Amanda)

As presented at the July Board meeting, BlackRock modeled the Legacy Asset and NGN cash flows under the macroeconomic scenarios developed by the Federal Reserve. We evaluated the impact of the change in projected cash flows on the net receivables from the estates, based on the estate payout priorities. We project a reduction of $400 million in the Adverse scenario, which equates to approximately 4 basis points on the equity ratio.
As summarized on this slide, in a moderate recession, the equity ratio would decline by 13 basis points from its customary exposures and another 4 basis points from a reduction in the value of the claims on the corporate estates. In addition, the equity ratio of the fund is expected to decline by 2 basis points even with no economic stress. Given the proposed goal of withstanding a moderate recession without the equity ratio falling below 1.20%, the recommended normal operating level is 1.39%.

The agency will continue to evaluate what the normal operating level needs to be, based on the risk exposure of the Share Insurance Fund, as it evolves over time.

With that, I’ll turn it back over to Larry.
Slide 13 Share Insurance Fund During Crisis (Larry)

Thanks, Amanda. As noted previously, some commenters asserted that a normal operating level of 1.30% was sufficient to withstand the Great Recession. This was simply not the case.

Prior to the creation of the Stabilization Fund, the corporate credit union losses depleted the Share Insurance Fund’s retained earnings and impaired the contributed capital deposit by 69%. Even if you exclude corporate credit union losses, the Share Insurance Fund’s equity ratio fell below 1.20% in both 2009 and 2010, due to pressures from natural person credit union performance. The reserves needed for the high level of troubled institutions, combined with insured share growth, resulted in the need for a total of 23 basis points in premiums. Without these premiums, the equity ratio of the Share Insurance Fund would have fallen to approximately 1.07%. Ultimately, 112 natural person credit unions failed from 2008 to 2012, at a cost of over $800 million to the Share Insurance Fund.
Slide 14 Estimated 2018 Distribution (Larry)

The closure of the Stabilization Fund will increase the Share Insurance Fund’s equity ratio. The calendar year-end equity ratio is therefore projected to be 1.45% to 1.47%. With a normal operating level of 1.39%, this would result in a projected Share Insurance Fund distribution in 2018 of $600 million to $800 million. Please keep in mind, actual results may vary from the projections.

Slide 15 Distribution Reconciliation (Larry)

At the top of the slide, you can see the projected $600 million to $800 million distribution to be paid in 2018. There may anywhere from $600 million to $1.1 billion of potential future distributions. These potential future distributions would be due to additional recovery on the U.S. Central capital note, the equity held for the claims on the estates if there is no economic downturn, and other revenue projected through the end of the NGN program.
The remaining surplus equity would be retained in the Share Insurance Fund to restore its health and help avoid future premiums.

**Slide 16 Actual Performance**

We discussed on the prior slide how the projected distribution and funds retained in the Share Insurance Fund of $2.6 to $3.0 billion are allocated. Some commenters assert that none of these funds should be retained in the Share Insurance Fund, because they are derived from prior Stabilization Fund assessments, which are reflected as the red bars on this slide, totaling $4.8 billion.

The $4.8 billion in assessments, combined with over $5 billion in borrowings from Treasury, were necessary to pay obligations of the estates maturing through 2012. In addition, when the last assessment was charged in mid-2013, the Stabilization Fund’s net position was still negative, and NCUA still owed Treasury $2.9 billion. It was only the legal recoveries, shown here as the green bars and totaling almost $4
billion, that provided the funds to fully repay Treasury, supply the current cash position of the Stabilization Fund, and fuel the positive net position.

Slide 17 Performance without Legal recoveries (Larry)

In fact, as you can see on this slide, without the legal recoveries the Treasury borrowings would still be outstanding, we wouldn’t be able to repay Treasury until 2021, the net position would still be negative, and there would be no projected distribution to credit unions or recovery for depleted capital holders. So with the closure of the Stabilization Fund, the legal recoveries would be predominately responsible for the restoration of the Share Insurance Fund’s equity ratio and the distribution to insured credit unions in 2018.

Slide 18 Recommended Action 1 (Larry)

With all that said, staff recommends the Board approve closing the Stabilization Fund with an effective date of October 1, 2017. Staff also recommends the Board set the National Credit Union Share Insurance
Fund normal operating level at 1.39 percent, effective September 29, 2017; publish in the Federal Register the attached Notice explaining the bases for these actions; adopt the policy for setting forth the normal operating level outlined in the Notice; amend NCUA’s Delegations of Authority to reflect closing the Stabilization Fund; and authorize NCUA staff to take any actions necessary to close the Stabilization Fund, all as detailed in the Board Action Memorandum and its attachments.

Slide 20 What to Expect in 2018 (Larry)

If the Board approves these actions, credit unions can expect in 2018 what’s reflected here on this slide. Please keep in mind that these are projections. Actual results could be better or worse depending on many factors, such as those listed here. Any distribution will be based on actual results at calendar yearend.

That concludes our presentation. We’d be happy to answer any questions at this time.