$736 Million Distribution Came Through Prudent, Bipartisan Efforts

By J. Mark McWatters, NCUA Board Chairman

We are nearing the end of a decade-long effort, first to rescue the credit union system from collapse and then to restore its strength and stability. Now, we have moved into a new phase, one that provides credit unions with a nearly $736 million distribution that they can invest in their members and communities.

The effort has been unprecedented, marked by many long hours and much hard work. There are remarkable stories about the commitment and creativity shown during those months of uncertainty as the financial crisis and corporate crisis broke out and then deepened. Led by then-Chairman Michael Fryzel, the NCUA acted in real time, without a template from the U.S. Treasury or the Federal Reserve and without a Troubled Assets Relief Program-like bailout from the taxpayers, to develop a market-oriented framework to prevent the widening financial crisis from overwhelming the credit union community. The NCUA created the Corporate System Resolution Program and launched what some considered an audacious legal strategy with little chance of success. Through innovative thinking and prudent management, these actions helped rebuild stability, and yielded a measure of accountability in the form of $3.8 billion in net legal recoveries from those financial institutions that caused the corporate crisis in the first place.

The Corporate System Resolution Program did not bail out corporate credit unions. The May 2009 legislation that created the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) was funded from two primary sources: $4.8 billion in Stabilization Fund assessments paid by insured credit unions and borrowings on the NCUA's $6 billion line of credit with the U.S. Department of the Treasury. The NCUA fully repaid Treasury borrowings in October 2016, primarily through legal recoveries, credit union assessments, NCUA Guaranteed Notes (the NGNs) fees, and distributions from the National Credit Union Share Insurance Fund (Share Insurance Fund). Without these sources of repayment, the NCUA would probably have had little choice but to assess credit unions for the outstanding balance of the loan from Treasury.

Beginning in December 2016, the NCUA, under the direction of a bipartisan Board, took a disciplined, innovative approach to creating a plan to close the Stabilization Fund four years ahead of schedule and transfer its remaining assets and obligations to the Share Insurance Fund. This approach included a rigorous review of the potential effects the plan might have on safety and soundness, and it accomplished some significant goals:

- It protected the credit union community from potentially $1.3 billion in Share Insurance Fund premiums this year.
- It materially increased the necessary and appropriate GAAP reserves for potential future Share Insurance Fund losses.

- It maintained a normal operating level necessary to protect the Share Insurance Fund's equity ratio from falling below 1.20 percent in a moderate recession, as determined by a series of stress-test analyses conducted using the same methods and assumptions the Federal Reserve uses to stress-test the world's largest banks.
- It allowed for a $736 million Share Insurance Fund distribution to eligible credit unions, which they can expect to receive next week.

It was very important to us, as we worked through this plan, that we followed a transparent process that was careful to respect stakeholder concerns. Beginning in July 2017, we put out for comment our proposed plan to close the Stabilization Fund and a proposed rule governing the Share Insurance Fund distribution. Last August, the agency hosted a webinar that explained our plans and responded to stakeholder questions and concerns. In September 2017, the Board approved the final closure plan and, this past February, we announced the Share Insurance Fund distribution amount being made next week.

Throughout the process, the Board carefully reviewed the comments received. The ideas we heard were always part of our deliberations. We spent months analyzing and developing an equitable distribution formula that worked within our statutory authority to give the most benefit to the largest number of credit unions. In effect, the NCUA is returning to the credit union community a portion of the assessments levied during the financial crisis while maintaining the safety and soundness of the Share Insurance Fund. The final product may not completely satisfy everyone, but the result – the final act of a decade-long prudent and well-managed effort to protect and rebuild the credit union system – is the largest Share Insurance Fund distribution ever made.

Credit unions will use their distributions in a variety of ways. Some will provide increased dividends to their members. Others will increase their lending to their members. Still, others will make charitable donations. The important thing is that the money is going back to work in the communities credit unions serve.

During my tenure on the NCUA Board, as a Member and as Chairman, we have had many moments of satisfaction at what we've been able to accomplish. Seeing the completion of 10 years of work and this new investment in credit unions and their communities rates as one of the best.