



NCUA
National Credit Union Administration

Office of the Chief Financial Officer

Share Insurance Fund Equity Distribution

February 15, 2018

Agenda

- **FCU Act Insurance Provisions**
- **Financial Considerations for Distribution of Share Insurance Fund Equity**
- **Amount of the Distribution**
- **Distribution Timing**
- **Hypothetical condition of the Share Insurance Fund without closure of the Corporate Stabilization Fund**
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FCU Act Insurance Provisions

- **Normal Operating Level**
- **Deposit with Share Insurance Fund**
- **Insurance premium charges**
- **Distributions from Share Insurance Fund required**

Financial Considerations for Distribution of Share Insurance Fund Equity

- **Per the Federal Credit Union Act §1782(c)(3)(A)**
“The Board shall, effect a pro rata distribution to insured credit unions after each calendar year if, as of the end of that calendar year –
 - i. Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid;
 - ii. The Fund’s equity ratio exceeds the normal operating level and
 - iii. The Fund’s available assets ratio exceeds 1.0 percent”

Financial Considerations for Distribution of Share Insurance Fund Equity

- i. Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid**
 - The final payment to the U.S Treasury for outstanding borrowings of the Corporate Stabilization Fund was made in October 2016 in the amount of \$1.0 billion.
 - ☑ As of December 31, 2017, there were no outstanding loans to the Share Insurance Fund.

Financial Considerations for Distribution of Share Insurance Fund Equity

ii. The Fund's equity ratio exceeds the normal operating level

- The NCUA Board unanimously approved a normal operating level for the Share Insurance Fund of 1.39 percent on September 28, 2017.
- The Federal Credit Union Act §1782(h)(2) defines the equity ratio as the ratio of – “(A) the amount of Fund capitalization, including insured credit unions’ 1 percent capitalization deposits and the retained earnings balance of the Fund (net of direct liabilities of the Fund and contingent liabilities for which no provision for losses has been made) to (B) the aggregate amount of the insured shares in all insured credit unions.”
- Per NCUA Rules and Regulations §741.4(b), the equity ratio shown as an abbreviated mathematical formula is:

$$\frac{\textit{insured credit unions' 1.0\% capitalization deposits} + \textit{(NCUSIF's retained earnings - contingent liabilities *)}}{\textit{aggregate amount of all insured shares}}$$

*For which no provision for losses has been made

Financial Considerations for Distribution of Share Insurance Fund Equity

ii. The Share Insurance Fund exceeds its normal operating level:

- ✓ The equity ratio of the Share Insurance Fund as of December 31, 2017 is 1.46 percent, exceeding the approved normal operating level of 1.39 percent.

$$\frac{\$10,765,320,410^1 + \$5,087,817,109^2}{\$1,087,586,958,402^3} = 1.46\%$$

¹ Contributed Capital as reported on the Balance Sheet of the 2017 audited financial statements.

² SIF Retained Earnings of \$5,087,817,109 which is defined as: cumulative results of operations of \$4,971,366,765, excluding net cumulative unrealized gains and losses on investments of \$(116,450,344) as reported on the Balance Sheet and in Note 3 of the 2017 audited financial statements, respectively.

³ For purposes of calculating the distribution, insured shares are based on year-end call reports as of February 10, 2018. Subsequent corrections to insured shares will not adjust the distribution.

Financial Considerations for Distribution of Share Insurance Fund Equity

iii. The Available Assets Ratio exceeds 1.0 percent

- The Federal Credit Union Act §1782(h)(1) defines the available assets ratio as the ratio of – “(A) the amount determined by subtracting – (i) direct liabilities of the Fund and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under section 1783(c) of this title, to (B) the aggregate amount of the insured shares in all insured credit unions.”
- Per NCUA Rules and Regulations §741.4(b), the available assets ratio shown as an abbreviated mathematical formula is:

$$\frac{\text{(cash + market value of unencumbered investments)} - \text{(liabilities + contingent liabilities *)}}{\text{aggregate amount of all insured shares from final reporting period of calendar year}}$$

*For which no provision for losses has been made

Financial Considerations for Distribution of Share Insurance Fund Equity

iii. The Available Assets Ratio exceeds 1.0 percent

- ✓ As of December 31, 2017 the available assets ratio is 1.40 percent.

$$\frac{(\$3,161,816^1 + 16,106,499,694^2) - \$935,131,361^3}{1,087,586,958,402^4} = 1.40\%$$

¹ Cash which is defined as Fund Balance with Treasury as reported on the Balance Sheet of the 2017 audited financial statements.

² Market Value of unencumbered investments which is defined as Investments, Net – U.S. Treasury Securities as reported on the Balance Sheet of the 2017 audited financial statements.

³ Total Liabilities as reported on the Balance Sheet of the 2017 audited financial statements.

⁴ For purposes of calculating the distribution, insured shares are based on year-end call reports as of February 10, 2018. Subsequent corrections to insured shares will not adjust the distribution.

Amount of Distribution

- **Per Federal Credit Union Act §1782(c)(3)(B), “The Board shall distribute the maximum possible amount that –**
 - Does not reduce the Fund’s equity ratio below the normal operating level; and
 - Does not reduce the Fund’s available assets ratio below 1.0 percent.”

Amount of Distribution: \$735.7 million

- $\frac{x}{\$1,087,586,958,402} = 0.0139$ or 1.39 percent
- The equity ratio's numerator must be reduced from \$15,853,137,519 to \$15,117,458,722 in order to return the equity ratio back to the approved normal operating level of 1.39 percent.
- A distribution in the amount of \$735,678,797 (\$15,853,137,519 – \$15,117,458,722) is required.
- The available assets ratio will equal 1.33 percent after the distribution.

Distribution Timing

- **Per NCUA Rules and Regulations §741.4(e):**
 - The distribution will be after the calendar year and in the form determined by the NCUA Board. The form of the distribution may include a waiver of insurance premiums, premium rebates, or distributions from NCUSIF equity in the form of dividends.
- **The NCUA estimates eligible financial institutions will receive a pro rata distribution, in the form of a dividend for calendar year 2017, in the third quarter of 2018.**

without closure of the Corporate Stabilization Fund

HYPOTHETICAL CONDITION OF THE SHARE INSURANCE FUND

Hypothetical condition of the Share Insurance Fund without closure of the Corporate Stabilization Fund

- Retained earnings of the Share Insurance Fund would be an estimated \$2,046,000,000 as of December 31, 2017, without the closure of the Stabilization Fund and distribution of its assets and liabilities to the Share Insurance Fund.
 - Actual retained earnings are \$5,087,817,109 as of December 31, 2017.
- The resulting equity ratio is:

$$\frac{\$10,765,320,410^1 + \$2,046,000,000^2}{\$1,087,586,958,402^3} = 1.18\%$$

¹ Contributed Capital as reported on the Balance Sheet of the 2017 audited financial statements.

² Estimated SIF Retained Earnings without closure of the Stabilization Fund.

³ Insured shares are based on year-end call reports as of February 10, 2018.

Hypothetical condition of the Share Insurance Fund without closure of the Corporate Stabilization Fund

Per Federal Credit Union Act §1782(c)(2):

“(B) Relation of premium charge to equity ratio of Fund. – The Board may assess a premium charge only if –

- i. the Fund’s equity ratio is less than 1.3 percent; and
- ii. the premium charge does not exceed the amount necessary to restore the equity ratio to 1.3 percent.

(C) Premium charge required if equity ratio falls below 1.2 percent – if the Fund’s equity ratio is less than 1.2 percent, the Board shall, subject to subparagraph (B), assess a premium charge in such an amount as the Board determines to be necessary to restore the equity ratio to, and maintain that ratio at 1.2 percent.

(D) Fund Restoration Plans. – (i) In general. – Whenever –

- I. the Board projects that the equity ratio of the Fund will, within 6 months of such determination, fall below the [1.2 percent]; or
- II. the equity ratio of the Fund actually falls below the [1.2 percent] without any determination under sub-clause (I) having been made,

the Board shall establish and implement a restoration plan within 90 days that meets the requirements of clause (ii) and such other conditions the Board determines to be appropriate.

(ii) Requirements of restoration plan. - A restoration plan meets the requirements of this clause if the plan provides that the equity ratio of the Fund will meet or exceed the [1.2 percent] before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the Board may determine to be necessary due to extraordinary circumstances).”

Hypothetical condition of the Share Insurance Fund without closure of the Corporate Stabilization Fund

	Description	To Attain an Equity Ratio of 1.3% ¹
1	Hypothetical retained earnings without closure of the Corporate Stabilization Fund (slide 14)	\$2,046,000,000
2	Hypothetical numerator without closure of the Corporate Stabilization Fund (hypothetical retained earnings + actual contributed capital, slide 14)	\$12,811,000,000
3	Required numerator to increase the equity ratio to 1.3 percent (1.3 percent times insured shares as of December 31, 2017)	\$14,139,000,000
4	Hypothetical Premium Charge (equals line 3 minus line 2)	\$1,328,000,000

- **A premium charge of \$1.3 billion would be necessary to increase the equity ratio to 1.3 percent.**

¹A premium charge that brings the equity ratio to 1.3 percent is the maximum amount allowable per FCU Act §1782(c)(2)(B)(ii), as outlined on slide 15.

Hypothetical condition of the Share Insurance Fund without closure of the Corporate Stabilization Fund

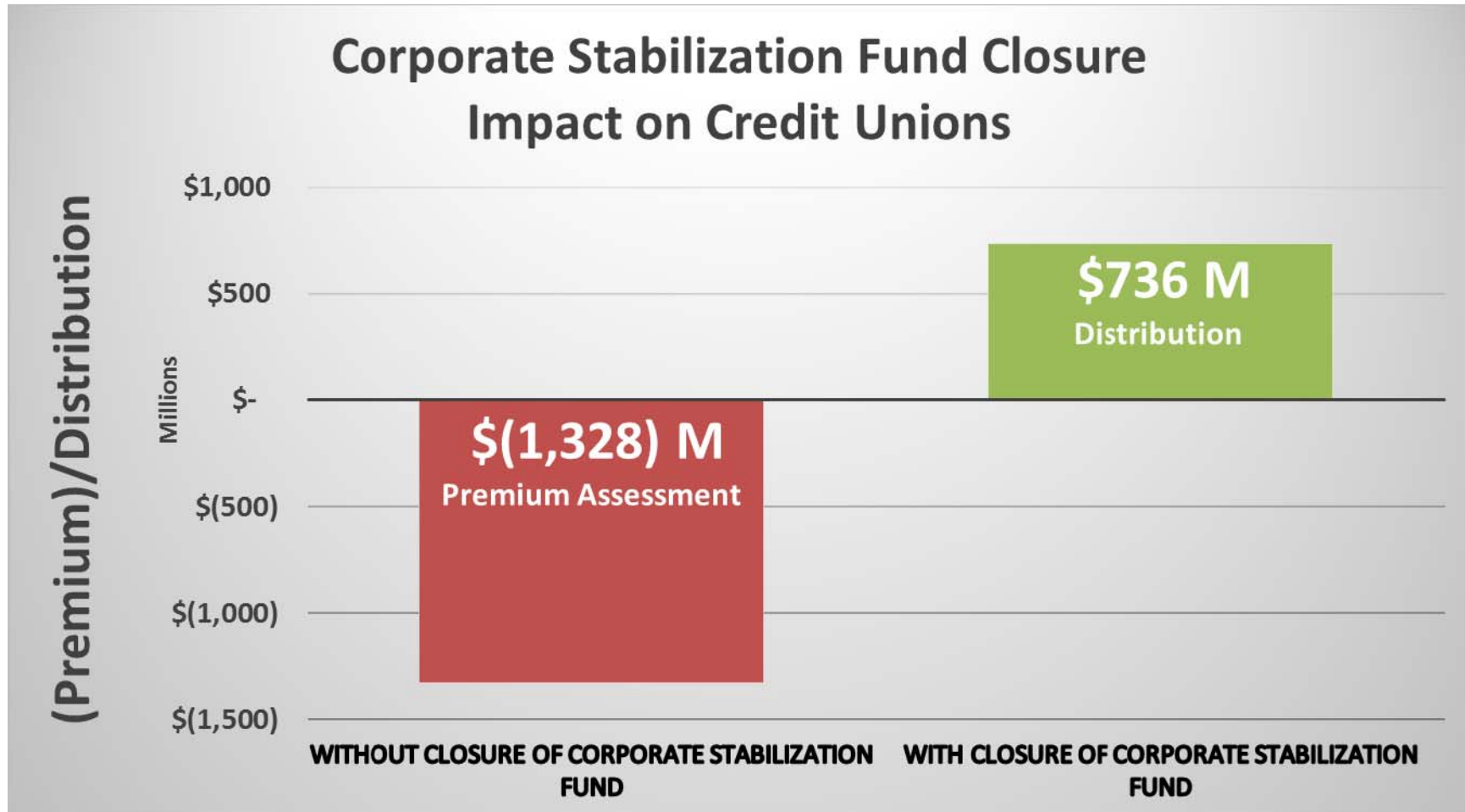
	Description	To Attain an Equity Ratio of 1.3% ¹
Numerator	Total hypothetical premium charge required to increase the equity ratio to 1.3 percent (slide 16, line 4)	\$1,328,000,000
Denominator	Aggregate amount of insured shares as of December 31, 2017 (slide 14)	\$1,087,586,958,402
% Per Insured Share		0.122%

¹A premium charge that brings the equity ratio to 1.3 percent is the maximum amount allowable per FCU Act §1782(c)(2)(B)(ii), as outlined on slide 15.

Summary

- **If the NCUA Board had not closed the Corporate Stabilization Fund in October 2017, credit unions would expect:**
 - Distributed equity for 2017 to be \$0.
 - Premium charges totaling \$1.3 billion.
- **Closure of the Corporate Stabilization Fund in October 2017 allows for credit unions to expect the following in 2018:**
 - Distribution of equity of \$735.7 million for 2017.
 - Premium charges of \$0.
- **Both scenarios above would be prudent actions to protect the Share Insurance Fund. Even with the increased loss reserves consistent with GAAP, the normal operating level and the equity ratio will be 1.39 percent and credit unions will receive a \$735.7 million distribution of equity for the year ended December 31, 2017.**

Summary



Recommended Action

- **Declare a distribution in the form of a dividend in the amount of \$735.7 million for the year ending December 31, 2017, estimated to be paid in the third quarter of 2018.**