NCUA Accounting Bulletin

NO. 09-1

DATE: February 2009

PURPOSE. To provide guidance to credit unions with less than $10 million in total assets on regulatory reporting matters related to recent NCUA Board actions to stabilize the corporate credit union system. This guidance can be referenced by credit unions larger than $10 million in total assets in consultation with their independent accountants.

BACKGROUND. Letter to Credit Unions (LTCU) No. 09-CU-02 dated January 2009 notified http://www.ncua.gov/letters/2009/CU/LCU_09-CU-02_CorporateCreditUnionStrategy.pdf you of several NCUA Board actions that will affect your National Credit Union Share Insurance Fund (NCUSIF) Capitalization Deposit and expectation of future premium assessments. The LTCU indicated:

> "*The expense of the actions will be passed on proportionately to all federally-insured credit unions through a partial write-off of your existing 1 percent NCUSIF deposit, as well as the assessment of a premium, sufficient to return the NCUSIF's equity ratio to 1.30 percent.*"

The FCU Act requires credit unions $10 million or more in total assets to file their Call Reports in accordance with generally accepted accounting principles (GAAP). Section 202(a)(6)(C)(i). GAAP in the U.S. is established by the Financial Accounting Standards Board (FASB) under oversight of the Securities and Exchange Commission. When auditing financial statements, licensed, independent accountants determine the extent to which the audited entity maintains its financial statements in conformance with GAAP. GAAP requires the asset impairment and premium assessment flow through the income statement as an expense in the period it occurs.

NCUA has the ability to establish regulatory accounting procedures for credit unions less than $10 million, which is the intent of this Accounting Bulletin. However, the policy and entries outlined in this Bulletin are generally consistent with GAAP.

The impact on credit union financial performance outlined in the LTCU is an estimate only and is subject to change prior to the NCUA billing. The method to calculate your credit union's assessment level, as provided below in the accounting entries, is for illustrative purposes. But you can use the calculation method as a guide in determining your credit union's accounting entries and cost estimate. Your credit union should make its own best estimate of the probable loss it has incurred based on the NCUA Board's action and its insured shares balance.

POLICY. Credit unions will report the effects of these actions for regulatory reporting purposes as follows:

The capital infusion to U.S. Central Federal Credit Union from the NCUSIF and other NCUA Board actions highlighted in the LTCU should result in your recognition of an impaired NCUSIF asset. To the extent your NCUSIF Deposit is no longer refundable, the asset should be written down and the amount charged to expense in the period the asset becomes impaired.[1] We estimate the impairment to be 51 percent of your NCUSIF Deposit. Record the impairment charge to the Call Report, Income Statement, Line item 26, Member Insurance.

As a result of the costs to the NCUSIF described in the LTCUs and the Board's related decision to return the NCUSIF's equity ratio to its normal operating level of 1.30 percent, there is a .3 percent of insured shares cost beyond the capitalization deposit you should consider. Any related contingent loss or guarantee you may report should be reflected in the Call Report, Balance Sheet, Liabilities, Line item 8, Accounts Payable and Other Liabilities and supplemental schedule, Liquidity Commitments and Sources, Line item 5, Other Contingent Liabilities.

Later in 2009, when you receive the assessment billing, you should capitalize as an asset the portion necessary to restore your NCUSIF Deposit to "one percent of total insured shares." You should resolve the contingent liability or guarantee and expense any remaining assessment charge, if you have not done so, to the Call Report, Statement of Income, Line item 26, Member Insurance.

You may wish to consult an independent accountant on the application of generally accepted accounting principles to these facts and circumstances as they bear on your financial reports and related disclosures.

ILLUSTRATION OF POLICY.

Illustrative Entries

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a) The issuance of the LTCU notified you the NCUA Board had taken action precipitating "*a partial write-off of your existing 1 percent NCUSIF deposit*." Assume a NCUSIF Deposit of $125,000; impairment estimated at 51 percent; calculation reflects insurance up to $100,000 per account and is the insurance coverage amount you should use in your estimate:

Dr.-Member Insurance (Line 26 - Expense)	$63,750	
Cr.-NCUSIF Capitalization Deposit		$63,750

(***Calculation:*** $12,500,000 insured shares x.01 x .51)

[1] Statement of Position No. 01-6, paragraph 11(a). See American Institute of Certified Public Accountants Audit and Accounting Guide: Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies (Updated as of May1, 2008), Chapter 12, paragraph 12.43-12.46.

b) Since the NCUA Board indicated they expect to issue an assessment later in 2009 to return the NCUSIF capitalization ratio to 1.30 percent, establish a contingent liability or guarantee for the probable and estimable assessment:

Dr.-Member Insurance (Expense)	$37,500	
Cr.-Other Contingent Liabilities or Guarantee (Accounts Payable and Other Liabilities - Line 8)		$37,500

(***Calculation:*** $12,500,000 insured shares x .003)

c) Later in 2009, when the NCUA Board provides the billing, assume for simplicity of illustration, there is no change in your insured shares balance in the interim and the billed assessment is exactly at the amount originally estimated:

Dr.- NCUSIF Capitalization Deposit	$63,750	
Dr.- Other Contingent Liabilities or Guarantee	37,500	
Cr.-Cash		$101,250

1st – Return the Capitalization Deposit to 1 percent.
2nd – Resolve the Contingent Loss or Guarantee.

Note: If you had not earlier estimated a contingent loss or guarantee for the additional insurance assessment, you would debit "Member Insurance" instead of "Other Contingent Liabilities."

EFFECTIVE DATE. This Bulletin is effective immediately upon issuance.

EXPIRATION DATE. This Bulletin will expire when superseded or incorporated into the *Accounting Manual for Federal Credit Unions*, whichever occurs first.

John Kutchey
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