FREQUENTLY ASKED QUESTIONS REGARDING THE CORPORATE CREDIT UNION STABILIZATION FUND LEGISLATION PROPOSAL

	Question	Answer
Q1	What is the proposed legislation intended to do?	The proposed legislation creates a stabilization fund providing the Board a range of options in making assessments over a period of years to restore the NCUSIF to at least a 1.20 percent equity level, with the objective of allowing credit unions to expense the premiums when assessed. The proposed new fund would allow NCUA to borrow money from the Treasury to pay for corporate credit union losses, and then pay back the Treasury over time with funds obtained from assessments on federally insured credit unions. The losses related to NCUA's efforts to stabilize the corporate credit union system exceed the insurance funds' retained earnings and impair by 69% the NCUSIF deposit insured credit unions hold as an asset on their books. In total, the cost to credit unions is 99 basis points of insured shares, which equates to 72BP of ROA and 65BP of net worth on average. Many credit unions are also facing write-downs of the paid-in-capital and membership capital accounts held at corporate credit unions. Though the on whole the credit union system has the net worth to absorb these costs and remain well capitalized, the combination of these expenses taken all at once will result in a contraction of lending and other services. Such a large, sudden impact on credit unions' financial statements could also destabilize consumer confidence. This would come at a particularly bad time, when it is vital that credit unions be a source of consumer confidence and continue to make credit available to support an economic recovery.
Q2	Why is legislation necessary to spread the expense out over time? Doesn't the provision in H.R. 1106 to recapitalize the NCUSIF over 5 years address this?	The House of Representatives has passed legislation (H.R. 1106) to provide NCUA the ability to return the insurance fund's equity ratio to the statutory minimum of 1.20% over a 5-year period. However, generally accepted accounting principles, GAAP, requires credit unions to recognize the impairment of the NCUSIF deposit in

		the accounting period in which it was incurred through the income statement as an expense. Thus, though the 5-year restoration legislation would allow NCUA to assess premiums to rebuild the fund's retained earnings over time, and credit unions to expense this when assessed, it will not enable credit unions to spread out the expense for the deposit impairment. Per AICPA Statement of Position 01-6, the NCUSIF deposit is an asset to the extent it is refundable. The proposed stabilization fund would shift liability for losses in corporate credit unions from the NCUSIF to the new fund. The new stabilization fund would then assess federally-insured credit unions for these costs over time. It is anticipated that the Senate will move legislation similar to H.R. 1106, and NCUA is working to ensure that the stabilization fund proposal is included in that bill.
Q3	Won't the proposed new legislation allow credit unions to escape the cost by converting to private insurance or a bank? Wouldn't this result in a disproportionate burden on the remaining federally-insured credit unions?	This provision was necessary. Without the provision that future premiums are based on future coverage, the proposed legislation would not satisfy a key assertion in expensing premiums when assessed. One potential consequence of pursuing this approach is that if there is a material level of credit union insurance conversions, the proportional burden on credit unions for any outstanding liability of the stabilization fund will increase. The NCUA Board will have discretion over how much and when to assess credit unions for the cost under this proposal. If it appeared there were a significant number of pending conversions that would materially increase the burden on the remaining credit unions, the NCUA Board could choose to accelerate the repayment of any remaining liability of the proposed corporate credit union stabilization fund. The conversion process to a bank is relatively lengthy. Conversions to private insurance, only available currently in 8 states for state-chartered credit unions, would require a membership vote. With these mitigating factors, and the flexibility it provides the NCUA Board in choosing the optimal approach, the NCUA Board believes it is appropriate to pursue this legislation.
Q4	When future assessments are made will the insured share number still tie to 12-31-08 or to the	To address legal requirements and accounting considerations, the future assessments need to be based on insured shares at the most recent prior reporting

	insured shares on deposit at each succeeding assessment? If the assessment is based on a new number each year then couldn't that have the potential for credit unions to pay much more into the fund than the amount that is due should the assessment go through 03-31-09?	date of each assessment. This in part addresses the accounting for recognition of the expense when assessed, and the legal standard of being the same treatment as if the NCUSIF had billed all credit unions (avoids being an ex-post facto law). Though the dollar amount would go up for credit unions that grow more than average, the converse is that the charge will actually diminish as a proportion of insured shares since the dollar amount of the cost remains fixed.
Q5	Is there a chance that credit unions would be allowed to choose a preferred repayment method, such as paying for the cost all up front?	In order to address the legal (i.e., constitutional) requirements, it is not possible to have an optional payment method.
Q6	How will the stabilization fund impact the annual premium expense credit unions will be required to pay? Why doesn't the NCUA Board tell us up front how much we're going to have to pay each year?	The NCUA Board has significant discretion regarding how much and when to assess credit unions for the cost under this proposal. The Board would need to consider a variety of factors, such as credit union performance, actual borrowings outstanding, other sources of repayment, level of insured shares, and the status of the economy when determining the level of assessment in a given year. Absent the concurrence of Treasury for an extension, any borrowings will need to be repaid within 7 years. As a very simple example, 99 basis points of insured shares over a straight line of 7 years equates to an average annual expense of 14 basis points of insured shares. However, there are many variables that would affect the actual annual assessment on credit unions. A fixed repayment plan could trigger immediate expense recognition for credit unions.
Q7	Does the proposed legislation change the accounting for the deposit impairment and upcoming premium expense? When are you going to issue guidance about accounting treatment of the deposit impairment (don't I need it by March 31)?	NCUA will be issuing updated guidance shortly. Credit unions should rely upon the advice and guidance of their independent licensed accountant to interpret generally accepted accounting procedures (GAAP) and ensure accurate and transparent reporting on their financial statements. If a credit union's licensed practitioner is willing to provide a written opinion that allows for the delay in the recording of the expenses and indicates in their opinion it is in compliance with GAAP, without qualifying language, NCUA examiners will not take exception absent a definitive ruling from accounting standard setters to the contrary.

Q8	Will the stabilization fund increase the cost to federally-insured credit unions?	Other than interest on borrowings from the Treasury to finance the stabilization fund and some small administrative costs, this proposal does not affect the total cost for which insured credit unions are responsible. The ultimate cost credit unions will have to pay will be driven by the losses attributable to the distressed assets held by the corporate credit unions and NCUA's success in achieving least cost resolution. The proposed legislation merely provides a vehicle that should allow for spreading out over time the expense insured credit unions must record.
Q9	Why did NCUA wait until now to unveil this plan?	NCUA has been exploring various means to achieve the objective of assessing credit unions over time for the cost of the corporate credit union stabilization program. It wasn't until mid-March that NCUA had sufficient information from the accounting standard setters to finalize how the proposed stabilization fund would need to be structured to achieve this objective.
Q10	Where did you get this $6 billion figure? Are you going to assess me again if the numbers turn out to be worse? What happens if we end up owing less than $6 billion?	The $6 billion represents the proposed borrowing authority for the NCUSIF in H.R. 1106. The $6 billion represents NCUA's current borrowing authority of $100 million, provided in 1970 when the NCUSIF was created, indexed to growth in assets of federally insured credit unions. It is also comparable to borrowing authority proposed for the FDIC relative to the assets of insured banks. The NCUA Board will only need to borrow funds to the extent of losses in corporate credit unions, so any used funds would be returned to the Treasury and remain part of the aggregate borrowing authority available to NCUA for future contingencies.
Q11	Why can't NCUA utilize the CLF to accomplish the replenishment, and then pay it back in the same fashion?	Using the CLF to provide capital via borrowings from Treasury creates a variety of problems, including lack of authority to assess credit unions for repayment, placing a disproportionate burden on the subset of credit unions that are CLF members, and serious potential consequences on the CLF's activities and borrowing authority.
Q12	Paid-in capital (PIC) and membership capital shares (MCS) in U.S. Central and Wescorp are impaired, and so other corporates or natural person CUs must expense the impairment immediately. Will the stabilization fund allow the cost of impaired PIC and MCS to be spread over	The write-downs of PIC and MCS have to be recorded via an expense through the income statement within the accounting period the impairment occurred. The proposed stabilization fund cannot cover PIC and MCS losses, so these write-downs must be recorded when the impairment is incurred.

	seven years?	
Q13	What can credit unions do to help?	All credit unions are urged to carefully consider the proposed legislation in consultation with other credit unions and take whatever action they deem appropriate.