NCUA Accounting Bulletin

NO. 09-2

DATE: April 2009

PURPOSE. To provide guidance to credit unions with less than $10 million in total assets on regulatory reporting matters related to the additional actions taken by the Board (March 20, 2009) to stabilize the corporate credit union system.

BACKGROUND. Letter to Credit Unions (LTCUs) No. 09-CU-06 dated March 2009[1] notified you the NCUA Board took additional actions to further stabilize the corporate credit union system and bring the credit union community closer to resolution of the issues facing the system. The LTCUs provided,

> "*NCUA's primary goal is to minimize the adverse impact on natural person credit unions and their members so credit unions remain a vibrant and healthy sector of the U.S. financial system. The current plan NCUA has in place provides the framework for minimizing the financial impact on credit unions and allows the credit union industry control of several of the variables, including the level of liquidity in the system.*"

The Board had taken earlier actions described in Letter to Credit Unions (LTCU) No. 09-CU-02 dated January 2009.[2] The regulatory reporting of the January actions was addressed in Accounting Bulletin 09-1 dated February 2009.[3] This Bulletin provides regulatory reporting guidance related to the March 2009 Board actions.

POLICY. For regulatory reporting purposes, the NCUA will collect financial data related to the Board's January 28, 2009 and March 20, 2009 corporate stabilization actions in the Call Report for the quarter ending 3/31/2009. Credit unions over $10 million in assets are reminded they are required to report on their regulatory reports to the Board consistent with generally accepted accounting principles (GAAP). A credit union choosing to report the related expenses in their 2008 regulatory reports by filing a revised 12/31/2008 Call Report, may only do so if they have obtained, and can readily produce, an unqualified opinion by an independent accountant on their 12/31/2008 financial statements prepared in accordance with GAAP. The financial statements should clearly display and measure, not simply disclose, the corporate stabilization-related expenses in the 2008 yearend Statement of Income.

---

[1] http://www.ncua.gov/letters/2009/CU/09-CU-06.pdf

[2] http://www.ncua.gov/letters/2009/CU/LCU_09-CU-02_CorporateCreditUnionStrategy.pdf

[3] http://www.ncua.gov/GuidesManuals/accounting_bulletins/ACCTBUL_09-1(Final).pdf

Based on Accounting Bulletin 09-1, credit unions should have already recorded expenses as follows:

Total Assets	**Less Than $50 Million:**	**$50 million or Greater:**
NCUSIF Impairment[4]	51 percent of NCUSIF Deposit (Deposit based on 12/31/2007 insured shares)	51 percent of NCUSIF Deposit (Deposit based on 6/30/2008 insured shares)
Premium Expense[5]	.3 percent of 12/31/2008 insured shares	.3 percent of 12/31/2008 insured shares

Based on the Board's March 20, 2009 actions and the regulatory reporting guidance provided in this Bulletin, credit unions should record an additional NCUSIF deposit impairment expense through the income statement, as necessary, to bring the total impairment expense to .69 percent of December 31, 2008 insured shares.

Later in 2009, when you receive a premium assessment billing to return the NCUSIF's equity ratio to its normal operating level of 1.30 percent, you should capitalize as an NCUSIF asset the portion necessary to restore your NCUSIF Deposit to "one percent of total insured shares". You should expense any remaining assessment charge, if you have not done so, using the Call Report, Statement of Income, Line item 31, NCUSIF Stabilization Expense. **[Note: This expense line item has been changed from the guidance originally provided in Accounting Bulletin 09-1.]** Though the Call Report income statement presentation is not in line with GAAP, we believe it provides users of the Call Report with an understanding of the corporate stabilization expenses.

You may wish to consult an independent accountant on the application of GAAP to these facts and circumstances as they bear on your financial reports and related disclosures. If a credit union chooses to implement an accounting treatment other than that discussed in this letter, they should be prepared to provide written guidance from their accounting practitioner with a clear statement such written guidance is in conformance with GAAP. The written guidance cannot include any qualifying language by their independent accountant such as "*[our written opinion] should not be construed to represent an accounting opinion or position issued in accordance with U.S. generally accepted accounting principles.*" Under the Federal Credit Union Act, credit unions are required to file their Call Reports consistent with GAAP.

ILLUSTRATION OF POLICY.

Illustrative Entries

Remember, this guidance is intended for credit unions under $10 million in assets.

Based on Accounting Bulletin 09-1 you should have made the following entries to date:

[4] Credit unions are reminded that Statement of Position (SOP) 01-6 states "*to the extent that NCUSIF deposits are not refundable, they should ordinarily be charged to expense in the period in which the deposits. . . become impaired*."

[5] Credit unions are reminded that Statement of Position (SOP) 01-6 states "*to the extent that the NCUA Board assesses premiums to cover prior operating losses of the insurance fund or to increase the fund balance to "normal operating levels," credit unions should expense those premiums when assessed*."

a) The issuance of the LTCU 09-CU-02 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.-NCUSIF Stabilization Expense (Line 31 - Expense)	$63,750	
Cr.-NCUSIF Capitalization Deposit		$63,750

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

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.-NCUSIF Stabilization Expense (Line 31 - 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)

These are the additional entries you should make based on the Board's further actions:

c) The issuance of LTCUs 09-CU-06 notified you of the additional March 20, 2009 Board actions further impairing your NCUSIF capitalization deposit asset.

Dr.-NCUSIF Stabilization Expense (Line 31 - Expense)	$22,500	
Cr.-NCUSIF Capitalization Deposit		$22,500

Calculation:

Deposit Balance, 3/19/2009	(See Accounting Bulletin 09-1 entries)	$61,250
Balance Needed, 3/20/2009	(12/31/2008 insured shares x .31 percent)	38,750
Additional Impairment		22,500

d) Later in 2009, the NCUA Board will collect the assessment based on its January 28, 2009 Board action to return the NCUSIF to an equity level of 1.30 percent. For simplicity of illustration, <u>*assume no change*</u> in your insured shares balance between 12/31/2008 and the 2009 billing date:

Dr.- NCUSIF Capitalization Deposit	$86,250	
Dr.- Other Contingent Liabilities or Guarantee	37,500	
Cr.-Cash		$123,750

Calculation:

1st – Return the Capitalization Deposit to 1 percent.

Balance Needed Post- Billing (12/31/2008[6] insured shares x 1 percent)	$125,000
Less: Deposit Balance at time of Billing (12/31/2008 x .31 percent)	38,750
Recapitalization Amount	$86,250

2nd – Resolve the Contingent Loss or Guarantee. (See Accounting Bulletin 09-1)

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

LEGISLATIVE OPTIONS CONSIDERED. Between now and the time the Board acts to collect the assessment it made January 28, 2009 to bring the NCUSIF equity level to 1.30 percent, NCUA continues to seek additional statutory flexibilities to mitigate the impact of the assessment on federally insured credit unions. The accounting standards are designed to transparently report the actions the Board takes with regard to the NCUSIF. Thus, the regulatory reporting guidance above reflects the actions the Board has taken which appropriately should be reported by the March 31, 2009 quarter-end.

EFFECTIVE DATE. This Bulletin is effective March 31, 2009.

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

Melinda Love
Director
Office Examination and Insurance

[6] Refer to NCUA Rules and Regulations § 741.4(b)(5) "*Reporting period*" and (c) "*One percent deposit*". A credit union with total assets less than $50 million would use a December 31, 2008 insured shares balance ($100,000 level) for this calculation; a credit union with total assets of $50 million or greater would use a June 30, 2009 insured shares balance ($100,000 level).

cc: All FCUs Under $10 Million in Assets (pdf) – Electronically
Reading File
Chief Accountant
NCUA Webmaster (pdf) – Electronically

s:\StaffFolders\KK\Wrk09\AccountingBulletins\Acct Bul 09-2.docx