NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **June 2009** **LETTER NO: 09-CU-14**

TO: **Federally Insured Credit Unions**

SUBJ: **Corporate Stabilization Fund Implementation**

Dear Board of Directors:

Acting under new authority granted by Congress, the NCUA Board ("Board") took action to provide significant relief to credit unions in dealing with assessments related to corporate stabilization actions while maintaining a safe and strong National Credit Union Share Insurance Fund ("NCUSIF"). The purpose of this Letter is to outline the benefits and requirements of the new legislation; describe the actions taken to implement the legislation; and summarize the impact of the actions on the NCUSIF capitalization deposit and the premium assessment. This letter is the first of many communications we are planning with stakeholders. Additional information will be provided during the previously announced June 24th webcast. We also plan to issue answers to frequently asked questions regarding the issues addressed in this Letter in early July.

Benefits and Responsibilities of the New Legislation. On May 20, 2009, Congress enacted and the President signed into law the *Helping Families Save Their Homes Act of 2009* ("Helping Families Act"). The legislation amended the Federal Credit Union Act providing several provisions favorable to credit unions:

- Create a Temporary Corporate Credit Union Stabilization Fund ("Stabilization Fund") to mitigate near-term corporate stabilization costs with Board authority to assess premiums over 7 years;
- Extend through 2013 the $250,000 share and deposit insurance ceiling Congress had enacted as part of the Emergency Economic Stabilization Act of 2008;
- Provide the NCUSIF authority to assess premiums over 8 years to rebuild the equity ratio should the ratio fall below 1.20%;
- Increase NCUA borrowing authority to $6 billion; and
- Establish NCUA emergency borrowing authority of $30 billion.

The Stabilization Fund provides an immediate opportunity to mitigate the onetime assessment burden on insured credit unions for corporate credit union stabilization actions. The authorities and obligations of the Stabilization Fund are summarized below:

- The Stabilization Fund is administered by the NCUA and is separate from the NCUSIF.
- The Stabilization Fund may borrow from the Treasury to make expenditures only in connection with the conservatorship, liquidation or threatened conservatorship or liquidation of a corporate credit union.
- The Stabilization Fund must repay all advances plus interest to the Treasury within seven years from the time of the first advance, unless the Board, with Treasury's approval, extends the final repayment date.
- The Board has discretion in setting the time and amount of repayments. At least 90 days prior to each repayment to Treasury, the Board will determine if the Stabilization Fund has sufficient funds to make the repayment. If the Stabilization Fund does not have sufficient funds, it must assess each federally insured credit union an aggregate amount necessary to make the payment to Treasury. The charge will be stated as a percent of insured shares as represented on the credit union's previous call report.
- The NCUSIF is prohibited from paying dividends to federally insured credit unions while the Stabilization Fund has an outstanding advance from the Treasury. Instead, the amount that would normally be paid as a dividend will be distributed to the Stabilization Fund.
- The Stabilization Fund is subject to the same administrative provisions as the NCUSIF including the preparation of an annual budget and audited financial statements.

Through a series of actions described below, the new Stabilization Fund allows the Board to improve the NCUSIF's equity ratio to better position the NCUSIF to cover future insurance losses. **Essentially, it means insured credit unions will not bear a significant, current, concentrated, onetime burden for stabilizing the corporate system. The September 2009 NCUSIF billing to insured credit unions will be significantly reduced.** While the Board has recognized the corporate stabilization costs under the Stabilization Fund, the Board at its discretion determines if, and when, to assess premiums over the next seven years. Credit unions will recognize assessments when levied by the Board.

Implementation of the Stabilization Fund. With the June 18, 2009 action, the Board authorized staff to establish the corporate governance structure of the Stabilization Fund. The Board has delegated operational oversight and provided authority to staff to borrow funds, invest, and approve assistance to corporate credit unions subject to limitations. Stabilization Fund staff will prepare an operating plan, a budget, a financial reporting structure, and other corporate governance oversight mechanisms as appropriate. Annual financial statement audits will be conducted for transparent financial reporting to the federal government and the credit union industry.

On June 18, 2009, the Board approved the following actions to legally obligate the Stabilization Fund for the costs of stabilizing the corporate system. In the process, the NCUSIF will be legally released from its present obligations related to corporate stabilization actions.

- The Stabilization Fund will pay the NCUSIF $1 billion for assignment of the full right, title and interest in the outstanding capital note extended to U.S. Central Federal Credit Union executed on January 28, 2009.

- Appropriate steps will be taken to legally obligate the Stabilization Fund for any liability arising from the Temporary Corporate Credit Union Share Guarantee Program ("TCCUSGP") and the Temporary Corporate Credit Union Liquidity Guarantee Program ("TCCULGP"). To the extent that any liability from the TCCUSGP or TCCULGP exceeds funds available from the Stabilization Fund, funds shall be made available from the NCUSIF.

Recapitalization of NCUSIF Deposit. The Board took additional actions that result in a fully restored and fully refundable NCUSIF capitalization deposit. Due to the financial and regulatory reporting implications of these issues, these actions and their impact on credit unions are discussed more fully in Enclosures A and B. Credit unions and their licensed, independent accountants will need to review this new information as they reevaluate expense estimates presently and into the immediate future.

Adjustments to the NCUSIF Capitalization Deposit for the Increase in the Share Insurance Limit. The Helping Families Act extended the $250,000 share and deposit insurance ceiling through 2013 and provided the authority to base assessments and the NCUSIF capitalization deposit balance on the higher maximum insurance amount. Accordingly, credit unions need to consider the impact of this higher assessment base on their expected insurance billing and plan for the increased cash needed to fund the capitalization deposit adjustment. Credit unions with $50 million or more in assets will receive their normal, semiannual NCUSIF capitalization deposit adjustment notice in the fall based on the June 30, 2009 report of insured shares. Credit unions with less than $50 million in assets will not receive their adjustment notice until the spring of 2010 and it will be based on insured shares reported as of December 31, 2009.

Reduction in Premium Assessment Billing Estimate. The implementation of the new legislation has provided greater discretion in the imposition of premiums; however, the bill for losses in both natural person credit unions and corporate credit unions will have to be paid. The Board will have to balance the need to maintain the NCUSIF's strength, against the desire to reduce the burden on credit unions during difficult economic times, while not creating long-term adverse financial consequences for credit unions from higher assessments over an extended period.

As part of the January corporate stabilization program action, the Board declared a premium assessment, to be collected later this year, sufficient to restore the NCUSIF equity ratio to 1.30 percent. In September the Board will evaluate all of the factors that impact the measures of strength of the NCUSIF and approve the level of premium necessary to maintain a strong NCUSIF that promotes confidence. When the one percent NCUSIF capitalization deposits are adjusted for the increase in the maximum insurance amount, the NCUSIF's equity ratio will decline. Additionally, losses incurred in the resolution of problems at natural person credit unions during this difficult time are expected to reduce the equity ratio.

Most credit unions have already recorded an estimated expense and contingent liability for the premium assessment based upon the expectation of a 0.30 percent of insured shares premium. Credit unions should adjust this premium expense estimate amount to 0.15 percent of insured shares which is the current estimate of the actual premium billing including potential assessments for the Stabilization Fund. The estimate is subject to change between now and September.

Prompt Corrective Action Implications. A credit union's obligations under Prompt Corrective Action ("PCA") will not change as a result of the stabilization expense entries made in either December 31, 2008 or March 31, 2009. As Enclosure A to this Letter states, "These new actions do not negate or cure impairment reported in past quarters or calendar year-end financial or regulatory reports." Except as explained below, credit unions having net worth between 6 and 6.99 percent are subject to an earnings retention requirement, and credit unions having net worth of less than 6 percent, must timely submit a Net Worth Restoration Plan ("NWRP") for approval.

A credit union having net worth between 6 and 6.99 percent may apply for a waiver of the earnings retention requirement by demonstrating that it is necessary to avoid a significant redemption of shares and will further the purpose of PCA. A credit union having net worth of less than 6 percent may incorporate a waiver of the earnings retention requirement in the NWRP it is required to submit for NCUA approval. NCUA will be receptive to granting a waiver under the following conditions:

1. The primary reason the credit union fell below 7 percent net worth is due to the recorded stabilization expense; and
2. Once the credit union records the entries as discussed in Enclosure A, the net worth ratio will exceed 6.99 percent.

A credit union seeking a waiver of the earnings retention requirement is urged to contact their district examiner or regional office.

NCUA will be receptive to approving NWRPs that allow maximum flexibility to the credit union, under the following conditions:

1. The stabilization expense is the reason for the decline to a lower PCA category; and

2. Recording the entries in Enclosure A restores the net worth ratio above 5.99 percent.

Under these conditions, an NWRP may merit approval if it consists of the single step of recording the entries addressed in Enclosure A and pro forma financial statements covering the next two years showing the net worth ratio remains above 6 percent for four consecutive quarters. Credit unions are again encouraged to contact their district examiner or regional office to discuss the content of an NWRP.

Conclusion. Congressional action enabled the creation of the Corporate Stabilization Fund to assist the credit union industry with managing the costs of stabilizing the corporate system. With the isolation of the corporate credit union stabilization costs in the Stabilization Fund, the result is improved capital for credit unions to meet the economic and financial challenges facing our nation.

In its first Letter to Credit Unions on the corporate stabilization actions, the Board indicated it would "*use its full rulemaking and supervisory authority and with the full participation of the credit union community, seek the lowest cost option to stabilize the corporate system*." In its March Letter notification to the industry that it had conserved U.S. Central Federal Credit Union and Western Corporate Federal Credit Union, the Board reaffirmed "*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 NCUA Board has remained committed to this end and has acted accordingly.

If you have any questions related to this Letter, you should contact your regional office, district examiner, or appropriate state supervisory authority.

Sincerely,

/s/

Michael E. Fryzel
Chairman

Enclosures

Enclosure A

Regulatory Reporting of 2009 Insurance Expenses

This communication provides *new information* that credit unions should consider to adjust current and forward-looking estimates in their financial and regulatory reports in consultation with their licensed, independent accountant as applied to their individual facts and circumstances. The new information affects financial and regulatory reporting *currently and into the future*; it does not permit restatement of past quarters' or calendar year's financial or regulatory reports. The Board's actions did not reverse any previous deposit impairment or premium expenses properly recognized to date under U.S. generally accepted accounting principles ("GAAP").

Your credit union's past regulatory reports should transparently reflect the NCUSIF deposit was impaired and not fully refundable during the period January 28, 2009 through implementation of this action as of June 30, 2009. A premium estimate based on then-existing facts of 0.30 percent was necessary during this period as well. These new actions do not negate or repair impairment reported in past quarters or calendar yearend financial or regulatory reports.

The Board actions described in this Letter to Credit Unions ("LTCUs") allows the Board to improve the NCUSIF's equity ratio thus better positioning the NCUSIF to cover future insurance losses. Since a credit union's estimate of its NCUSIF deposit impairment (and/or refundability) and estimated premium liability is directly related to the equity ratio of the NCUSIF at any given reporting date, a discussion of the described Board actions in relation to the NCUSIF equity ratio is relevant.

Changing NCUSIF Equity Ratio Based on Chronology of Events. The NCUSIF began the 2009 calendar year with an equity ratio of 1.27 percent of insured shares comprised of a 1.00 percent capitalization deposit and .27 percent retained earnings component. The capitalization deposit at 1.00 percent was fully refundable consistent with NCUA Rules & Regulations.

The Board took a series of actions on January 28, 2009 described in LTCUs No. 09-CU-02 to stabilize the corporate credit union system. As a result of these actions, the (see: http://www.ncua.gov/Resources/CorporateStabilization/LCU_09-CU-02CorporateCreditUnionStrategy.pdf) the NCUSIF equity ratio dropped to .49 percent of insured shares comprised of the capitalization deposit alone. The initial costs of stabilizing the corporate credit union system depleted the NCUSIF's retained earnings and took an additional 51 percent of the then-existing capitalization deposit.

The Board took further actions on March 19, 2009 placing two corporate credit unions into conservatorship and conducting additional analysis of the corporate credit union system mortgage-backed assets. These actions were described in LTCUs No. 09-CU-06, (see: http://www.ncua.gov/letters/2009/CU/09-CU-06.pdf). With these actions, the NCUSIF equity ratio dropped further to .31 percent of December 31, 2009 insured shares. The capitalization deposit was depleted further.

The cumulative effect of the Board's first quarter 2009 actions affected credit unions' regulatory reports for the quarter ending March 31, 2009.[1] The NCUSIF deposit was depleted to .31 percent of December 31, 2008 insured shares and refundable only to that amount. Accordingly, credit unions had to recognize a deposit impairment at .69 percent of insured shares based on the December 31, 2008 reporting date ($100,000 per account). In addition, since the Board made an assessment to be billed and collected later in 2009 at its January meeting in an amount to raise the equity ratio of the NCUSIF back to its 1.30 normal operating level, credit unions had to establish a .30 percent premium liability based on estimated insured shares to comply with the Board's action. The assessment is to be billed and collected by the NCUSIF later in 2009.

NCUSIF Equity Accts	Beg. Jan 2009	After Jan 28, 2009	After March 19, 2009
Capitalization Deposit	1.000 percent	.490 percent	.310 percent
Retained Earnings	.270 percent	-0-	-0-
Total Equity Ratio***	1.270 percent	.490 percent	.310 percent
Estimated Total Billing	--	.810 percent	.990 percent

** - The presentation does not include Unrealized Gains/Losses on Available for Sale Securities as these Other Comprehensive Income accounts are not part of the NCUSIF equity ratio.

<u>Overall Impact of Stabilization Fund Actions on the NCUSIF Equity Ratio</u>. The LTCUs included herein describes the Board actions to create and implement the Stabilization Fund. The actions legally obligated the Stabilization Fund for the costs of stabilizing the corporate system and legally released the NCUSIF from its present stabilization obligations. The NCUSIF's equity position improved as the Board acted.

The NCUSIF will receive $1 billion from the Stabilization Fund for the assignment of full right, title and interest in the outstanding capital note extended to U.S. Central Federal Credit Union executed on January 28, 2009. The NCUSIF had established a 100 percent estimated loss reserve on the Note. Accordingly, the collection (for its assignment) of the full outstanding amount owing on the Note previously estimated as fully uncollectible improved the retained earnings of the NCUSIF by $1 billion.

Additional actions improved the equity ratio of the NCUSIF. The LTCUs indicates appropriate steps were taken to legally obligate the Stabilization Fund for any liability arising from the TCCUSGP and the TCCULGP. Related to these actions, specific corporate loss reserves were assumed by the Stabilization Fund. Contingent losses and guarantee liabilities were resolved. These actions, scheduled to be completed by June 30, 2009, will improve the retained earnings of the NCUSIF by an additional $4.9 billion.

The result of the above described Board actions will improve the equity ratio of the NCUSIF from .31 percent to 1.257 percent based on December 31, 2008 insured

[1] Some credit unions choose to reflect these expenses on their December 31, 2008 regulatory reports to be consistent with their licensed, independent accountant's treatment of the items (subsequent events) in their yearend audited financial statements.

shares ($100,000 per account). The NCUSIF will have recovered earnings in the amount of .947 percent of insured shares. (Refer to table next paragraph).

The Board took additional action to pass-back to insured credit unions an amount from the improved or recovered retained earnings to recapitalize the NCUSIF. Specifically, an amount equal to 0.69 percent of each insured credit union's December 31, 2008 insured shares ($100,000 per account) will be passed-back and credited to each insured credit union's NCUSIF deposit account as a recapitalized NCUSIF deposit. The equity ratio of the NCUSIF reflects the Board's action:

NCUSIF Equity Accts	Without New Fund	After New Fund	Pass-Back, & Recap
Capitalization Deposit	.310 percent	.310 percent	1.000 percent
Retained Earnings	-0-	.947 percent	.257 percent
Total Equity Ratio***	.310 percent	1.257 percent	1.257 percent

Estimated based on 4/30/2009 financial highlights and insured shares at $100,000 per account: **

So through these Board actions, we see the full life cycle of 2009 events on the NCUSIF equity ratio based on current information. The effect of these actions on the anticipated premium billing necessary to return the NCUSIF to a 1.30 equity level has also evolved (See latter section on Regulatory Reporting of the NCUSIF Premium Assessment).

Regulatory Reporting of the NCUSIF Capitalization Deposit. Prior to staff implementation of this Board action, each federally-insured credit union should be reflecting a refundable deposit asset at 0.31 percent of December 31, 2008 insured shares ($100,000 per account). A sixty-nine percent asset impairment in the first quarter 2009 regulatory reports was necessary to comply with GAAP.

Statement of Position ("SOP") 01-6, *Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others*, paragraph 11(a), provides (emphasis added):

> "NCUSIF Deposit. Amounts deposited with the NCUSIF should be accounted for and reported as assets as long as such amounts are fully refundable. The refundability of NCUSIF deposits should be reviewed for impairment. When the refundability of a deposit is evaluated, the financial condition of both the credit union and of the NCUSIF should be considered. Deposits may be returned to solvent credit unions for a number of reasons, including termination of insurance coverage, conversion to insurance coverage from another source, or transfer of operations of the insurance fund from the NCUA Board. However, insolvent or bankrupt credit unions are not entitled to a return of their deposits. To the extent that NCUSIF deposits are not refundable, they should be charged to expense in the period in which the deposits are made or the assets become impaired."

The Board's new action -- the NCUSIF earnings recovery through legal release from obligations, pass-back of income to credit unions, and recapitalization of the capitalization deposit on their behalf -- results in a fully restored and fully refundable 1 percent of insured shares deposit asset on each insured credit union's regulatory reports as of June 30, 2009. This benefit to insured credit unions -- passing back funds and simultaneously recapitalizing their deposit without their additional cash outlay -- is income, not the reversal of a previous impairment. The previous impairment is not reversed; but the recapitalization is recorded. The transaction is essentially the Board's return of cash income to the credit union and their simultaneous reinvestment of that cash back into the NCUSIF as a fully refundable NCUSIF deposit. [2] Accordingly, no deposit collection will be necessary. Based on refundability, the deposit was impaired but will be recapitalized as follows:

Deposit Refundability (as a percentage of insured shares)			
CY 2008-1/27/2009	1/28 - 3/18, 2009	3/19 - 6/30, 2009	Approx 6/30/2009 forward
1.00 percent	.49 percent	.31 percent	1.00 percent

Current regulatory reports should include the recovery of NCUSIF earnings passed-back to insured credit unions and the recapitalization of its NCUSIF deposit on their behalf as fully refundable with implementation of these completed Board actions expected by June 30, 2009. Every insured credit union will receive an informational notice this July providing the dollar amount of the recovered NCUSIF earnings passed-back and recapitalized as a fully refundable deposit. See the enclosed example informational notice.

<u>Regulatory Reporting of the NCUSIF Premium Estimate</u>. Most credit unions have already recorded an estimated expense and contingent liability for the premium assessment based upon the expectation of a 0.30 percent of insured shares premium collection ($100,000 per account). The applicable accounting guidance is set forth in SOP 01-6, paragraph 11(c) (emphasis added):

> In years in which the insurance premiums are not waived by the NCUA Board, the premiums should be expensed in the period to which they relate. 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," <u>credit unions should expense those premiums when assessed</u>.

The premium was assessed in the first quarter 2009. Based on the new information included in this LTCUs, credit unions should adjust this premium expense estimate amount to 0.15 percent of insured shares ($250,000 per account) which is the current estimate of the actual premium billing including potential repayments for the Stabilization Fund.[3] The estimate is subject to change between now and its collection depending on a number of factors.

- Semiannual June 30, 2009 billing adjustment (level of insured shares not known);
- Adjustment to $250,000 per account from $100,000 per account;

[2] Credit unions debit the NCUSIF Deposit asset and credit Income.

[3] Credit unions reduce the liability estimate by debiting the Liability and crediting Expense.

- Losses incurred in the resolution of natural person credit union failures; and
- Prior to the premium billing, NCUA anticipates obtaining an updated estimate of credit risk in the mortgage backed securities portfolios of corporate credit unions. This analysis will be integral to staff's recommendation to the Board on the needed premium billing.

These factors together will bear on the amount and timing of the NCUSIF billing. In September the Board will approve the level of premium that will be charged to all credit unions based on insured shares reported as of the applicable annual or semiannual reporting period.

Resulting Reduction in Estimated Billing. Credit unions must transparently reflect in their regulatory reports the information as set forth above. The overall effect of these current Board actions has been to substantially reduce the credit unions' 2009 expenses related to the 2009 NCUSIF assessment.

The Board mandate to collect amounts necessary to restore the NCUSIF to its normal operating level of 1.30 percent remains intact. However, the billing necessary to achieve that mandate has been substantially reduced:

Estimated Billing:**	**Estimate Before Stabilization Fund**	**Estimate Based on *New Information* from Completed Board Action**
Deposit	.69 percent	-0-
Premium	.30 percent	.15 percent
TOTAL	**.99 percent**	**.15 percent**
	$100,000 per account	$250,000 per account

** -- As a reminder in adjusting your estimate, the reporting period to determine the insured shares base on which to apply the assessment rate differs depending on a credit union's asset size – see the NCUA Rules and Regulations § 741.4(b)(5) and (c).

Assets less than $50 million	**Assets equal to or greater than $50 million**
Insured shares at 12/31/2008	Insured shares at 6/30/2009

NCUA staff will continue to work with practitioners and their client credit unions to understand the Board's actions and the implications of those actions on the credit union's deposit assets and their estimated premium liability. Regulatory reporting matters will continue to be addressed as part of our continuing communications efforts.

National Credit Union Share Insurance Fund Capitalization Deposit

Informational Notice – June 30, 2009

MORRIS SHEPPARD TEXARKANA
FEDERAL CREDIT UNION
419 W 4TH ST
TEXARKANA, TX 75501-5642

Charter: 1

The purpose of this informational notice is to confirm that your National Credit Union Share Insurance Fund ("NCUSIF") Capitalization Deposit balance is fully capitalized and refundable as of June 30, 2009, as provided by Section 202 of the Federal Credit Union Act (12 USC 1782(c)(1)(B)(i)-(iv)) and Section 741.4 the NCUA Rules and Regulations (12 CFR § 741.4(j)).

Total Insured Shares and Deposits as of December 31, 2008*	$ 5,672,666	
Refundable percentage	0.31%	
Refundable balance as of June 17, 2009		$ 17,585.26
Total Insured Shares and Deposits as of December 31, 2008*	$ 5,672,666	
Pass-back and recapitalization percentage	0.69%	
Recapitalization amount as of June 30, 2009		$ 39,141.40

Total NCUSIF Capitalization Deposit Balance as of June 30, 2009**	**$ 56,726.66**

**Total Insured Shares and Deposits* on this notice reflect the amount of your credit union's insured shares and deposits up to $100,000 and IRA/KEOGH accounts insured up to $250,000 based on total insured shares and deposits as of December 31, 2008, plus any insured shares and deposits acquired through mergers occurring between December 31, 2008, and the date of this notice.

**The *NCUSIF Capitalization Deposit* balance on this notice is based on total insured shares and deposits as of December 31, 2008, plus any insured shares acquired through mergers between December 31, 2008, and the date of this notice, and reflects all amounts due/refunded included on the Capitalization Deposit Invoice dated April 15, 2009.

If you have any questions concerning this informational notice, please contact the regional office, your district examiner or appropriate state supervisory authority.

THIS IS NOT AN INVOICE