

Corporate Stabilization Fund Assessment Analysis

Presented by Larry Fazio, NCUA Deputy Executive Director

**Open NCUA Board Meeting
May 20, 2010**

There are 2 primary considerations that affect the timing and amount of Stabilization Fund assessments:

- 1) The first is the total expected losses and the time remaining on the life of the Temporary Corporate Credit Union Stabilization Fund, which is now down to 6 years as noted by the Chairman. The current reserve for corporate credit union losses is \$6.4 billion. The most recent loss estimates are from this amount up to \$11 billion in a pessimistic scenario over the life of distressed securities. The estimates are primarily derived from an individual security level analysis of expected credit defaults and available capital at the corporate credit unions holding the securities. For assessments in any given year, it is a balancing act of taking into account the impact of the assessment on earnings and capital for insured credit unions, as is also done for the NCUSIF, and not back-end loading the assessments. That is, to the extent assessing for the ultimate obligations of the Stabilization Fund are delayed toward the end of the Stabilization Fund's life, this increases the amount in the out years that would need to be assessed to credit unions. Also, the specific amount and timing of confirmed defaults on the distressed securities are a key variable determining a given year's level of assessment. For context, over \$7.6 billion in total defaults for 2010 and 2011 are expected, though not all of which is in excess of available capital at the respective corporate credit unions and thus flowing down to the stabilization fund.
- 2) The second key consideration is operational cash management needs for the Stabilization Fund. In particular, the Stabilization Fund borrowed \$1 billion to acquire from the NCUSIF the capital note at U.S. Central. Last year's Stabilization Fund assessment repaid \$310 million, so \$690 million is still outstanding that needs to be repaid. Any other liabilities of the Stabilization Fund that create cash needs would also affect borrowing activity and assessments.

As we have solid estimates on the size of the Stabilization Fund's obligation for corporate losses, and to address cash management needs for the remainder of the year, we expect to come to the NCUA Board this summer with a recommendation for a Stabilization Fund assessment.