



NCUA
National Credit Union Administration

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Office of Examination and Insurance

Share Insurance Fund

2021 Normal Operating Level

December 17, 2020

Normal Operating Level (NOL)

NOL is the *desired equity level* of the SIF.

- **Under FCU Act, NOL:**
 - Can be set from 1.20 to 1.50 percent (12 U.S.C. 1782(h)(4))
 - Distribution to credit unions required if SIF equity exceeds normal operating level and other statutory conditions are met (12 U.S.C. 1782(c)(3) & 1790(e))
- **Board last set NOL at 1.38% (Dec. 2019) based on methodology approved by Board in Sept. 2017**

Setting Normal Operating Level

- **Board policy objectives:**
 - Retain public confidence in federal share insurance
 - Prevent impairment of the 1 percent contributed capital deposit
 - Ensure Insurance Fund can withstand moderate recession without equity ratio declining below 1.20 percent over a five-year period

Setting the NOL

- **Calculation based on projections related to:**
 - Modeled SIF performance over five-year period assuming moderate recession
 - Stress scenario entails estimating three primary drivers of outcomes: insurance losses, insured share growth, and yield on investments
 - Potential decline in value of SIF's claims on corporate asset management estates in a moderate recession as modeled by BlackRock
 - Projected equity ratio decline through end of 2021 without economic downturn

Approximating Moderate Recession

- **The Federal Reserve did not publish the economic scenario NCUA typically uses for approximating a moderate recession (Adverse Scenario)**
 - To approximate an Adverse Scenario/Moderate Recession, NCUA (OCE) used mid-point of the Base and Severely Adverse Scenarios published by Federal Reserve in September
 - Federal Reserve published two Severely Adverse scenarios in September; OCE used average of the two to make a combined Severely Adverse scenario
 - OCE used midpoint between Combined Severely Adverse Scenario and Base scenario as the Moderate Recession Scenario

Factors Warranting Consideration

- **Potential decline in value of SIF's claims on corporate asset management estates in a moderate recession as modeled by BlackRock**
 - NGN notes are expected to mature in 2021 and corporate asset management estates are expected to be liquidated
 - Factor will no longer be relevant after NGN matures but there will be risk related to corporate asset management estates
- **Projected equity ratio decline through end of 2021**
 - Factor was originally formulated as backstop to provide extra protection for equity ratio to address the time it might take to liquidate corporate asset management estates
 - With corporate asset management estates so close to liquidation, the original intent of this factor may no longer be necessary

NOL Options

Option A	Option B	Option C
<p>Set NOL using all three risk factors noted in policy</p>	<p>Set NOL using only following factors:</p> <ul style="list-style-type: none">• Modeled performance of SIF over a five-year period assuming moderate recession• Potential decline in value of SIF claims on corporate asset management estates in a moderate recession as modeled by BlackRock	<p>Leave NOL unchanged (1.38%)</p>

NOL Options (Continued)

Component	2020	2021 (option A)	2021 (option B)
Statutory Minimum	1.20%	1.20%	1.20%
Potential Decline in SIF Performance	0.15%	0.16%	0.16%
Potential Decline of Value in Claims on Corporate Estates	0.02%	0.01%	0.01%
Projected Equity Ratio Decline through Dec. 2021	0.01%	0.02%	NA
<i>Equals: NOL</i>	1.38%	1.39%	1.37%

Adverse & Severely Adverse Results

2020 Scenario for 2021	Adverse* (option A)	Adverse* (option B)	Severely Adverse*
Equity for SIF Stress	1.36%	1.36%	1.42%
Equity for Potential Declines of Value in Claims on Estates	0.01%	0.01%	0.01%
Projected Equity Ratio Decline in 2020 and 2021	0.02%		0.02%
Equals: NOL	1.39%	1.37%	1.44%

**Numbers may not add up due to rounding*

- Recommend maintaining NOL at 1.38%
- In moderate recession, equity ratio would not fall below 1.20%
- Prevents impairment of 1% contributed capital deposit

Factors May Impact Results

- **Projected declines in equity ratio, even under no economic stress**
- **Unanticipated losses and/or failures in credit unions that are not market-related (such as those from fraud or other asset “bubbles”)**
- **Unusual or abnormally high insured share growth materially different from historical correlation**
- **Volatile economic conditions involving one or more market indicators compared to stress scenarios modeled**

Next Steps

- **Establish working group in the first quarter of 2021**
 - Consider factors that impact methodology
 - Absence of the Federal Reserve's adverse economic scenario
 - NGN program maturity
 - Request public comment
 - Recommend changes to methodology if necessary

Office Contact Page

Contact our office with questions or comments.

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