

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: June 3, 2010

FROM: Director, Office of
Examination and Insurance

SUBJ: Stabilization Fund -
Payout of Insured
Shares

ACTION ITEM: Approval of utilization of the Temporary Corporate Credit Union Stabilization Fund to pay the insured shares up to the Standard Maximum Share Insurance Amount (SMSIA) for any corporate credit union placed into liquidation.

ACTION DATE: June 17, 2010

OTHER OFFICES CONSULTED: Office of General Counsel, AMAC, Office of Corporate Credit Unions, and Office of the Chief Financial Officer.

VIEWS OF OTHER OFFICES CONSULTED: Suggested changes incorporated

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: Insured shares within the corporate system total approximately \$2.1 billion with a total exposure of about \$950 million.

RESPONSIBLE STAFF MEMBERS: Melinda Love, Director Office of Examination and Insurance.

BACKGROUND: The Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) provides a guarantee of 100 percent of participating credit unions' shares in NCUSIF-insured accounts that exceed insured limits (guaranteed shares). When the TCCUSGP was originated, the NCUSIF recorded a contingent liability for the obligation undertaken in issuing the TCCUSGP. The carrying amount of the liability has been revised periodically to reflect changes in the cash flow projection of the underlying corporate credit union assets. When the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) was implemented in June 2009, the Stabilization Fund assumed the legal liability recognized for the TCCUSGP.

The payment of the insured amounts (insured shares) in a liquidating corporate credit union is primarily a liability of the NCUSIF, but the Stabilization Fund legislation allows for the NCUA Board to utilize the Stabilization Fund to make the payment. Utilization of the Stabilization Fund for the payment of the insured shares in liquidating corporate credit unions will allow the Stabilization Fund to accept all losses associated with the corporate credit union resolution plan. The enabling legislation for the Stabilization Fund states,

“...the Stabilization Fund shall be available upon requisition by the Board, without fiscal year limitation, for making payments for the purposes described in Section 203(a), subject to the following additional limitations: (1) All payments other than administrative payments shall be connected to the conservatorship, liquidation, or threatened conservatorship or liquidation, of a corporate credit union.” Section 217(b) of the Federal Credit Union Act, 12 U.S.C. §1709e(b).

Section 203(a) of the FCU Act contains the authorization of the NCUSIF to make payment of insurance under Section 207 (liquidations) and for providing assistance under Section 208 of the Act in connection with the liquidation or threatened liquidation of insured credit unions.

Before the Board’s action at its June 18, 2009 meeting, the NCUSIF was obligated to pay the guaranteed shares of liquidating corporate credit union unions under the TCCUSGP. The NCUSIF was also obligated to pay the insured shares of liquidating corporate credit unions under the Federal Credit Union Act. At the June 18, 2009 Board meeting, it was staff’s intent to recommend that the NCUSIF’s obligation for payment on all of a liquidating corporate credit union’s shares be assumed by the Stabilization Fund, including both the guaranteed share portion and the insured share portion.¹ The wording of the June 2009 BAM, however, technically transferred only the obligation to pay the guaranteed shares and not the insured shares. This BAM completes the transfer of the obligation to pay the insured shares from the NCUSIF to the Stabilization Fund.

Without the payment of the corporate credit union insured shares by the Stabilization Fund in the event of liquidation, the NCUSIF would record the payment of insured shares (a liability of about \$950 million) and recognize the related expenses. The NCUSIF recording a \$950 million expense would reduce the NCUSIF’s equity ratio by thirteen basis points. The insured share expense is included in the \$6,365,500,000 liability recorded by the Stabilization Fund for the TCCUSGP.

RECOMMENDED ACTION: The NCUA Board authorize the Temporary Corporate Credit Union Stabilization Fund to make payment of insured shares up to the Standard Maximum Share Insurance Amount for any corporate credit union placed into liquidation.

¹ The \$4,976,870,000 liability assumed by the Stabilization Fund in June 2009 represented the combined liability for both insured and guaranteed shares.

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