

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board

**DATE:** June 15, 2010

**FROM:** Director, Office of  
Examination and Insurance

**SUBJ:** Stabilization Fund  
Assessment

**ACTION ITEM:** Board authorization of the following:

1. Set a date of September 30, 2010 for repayment of \$1.5 billion in funds borrowed by the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund).
2. Assess each federally insured credit union 0.134 percent of March 31, 2010 insured shares, an estimated total of \$1 billion, according to §217(d) of the FCU Act.

**ACTION DATE:** June 17, 2010

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

**VIEWS OF OTHER OFFICES CONSULTED:** Concur.

**SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW:** Yes.

**BUDGET IMPACT, IF ANY:** Stabilization Fund receipt of approximately \$1.0 billion recognized as income and available to fund repayment of \$1.5 billion in borrowed funds.

**RESPONSIBLE STAFF MEMBERS:** Larry Fazio, Deputy Executive Director; Melinda Love, Director of Examination and Insurance; Mary Ann Woodson, Chief Financial Officer

**SUMMARY:** The Stabilization Fund legislation established a process for attaining funds to pay costs associated with the corporate credit union stabilization by borrowing from the U.S. Department of the Treasury (Treasury) and repaying the borrowed funds with assessments of all federally insured credit unions. In May, the Board approved the Stabilization Fund borrowing up to \$2 billion. Actual borrowings were \$810 million, bringing the total outstanding to \$1.5 billion. The borrowed funds will be placed into the corporate credit union system during the summer, typically a time of reduced liquidity. Staff recommends the NCUA Board approve an assessment of approximately \$1 billion (0.134 percent of insured shares as of March 31, 2010) to repay the \$1.5 billion in outstanding borrowed funds on September 30, 2010. The additional \$500 million will come from a September reduction in the liquidity assistance provided to the corporate system. These actions are consistent with the purpose of the enabling legislation, by resulting in the repayment of \$1 billion in corporate credit union stabilization cost this year with an impact that is manageable for individual credit unions.

## **Background**

The Helping Families Save Their Homes Act added §217 to the Federal Credit Union Act to create the Stabilization Fund. The Stabilization Fund can only be used to pay expenses associated with the ongoing problems in the corporate credit union system, including payments connected to the conservatorship, liquidation, or threatened conservatorship or liquidation of a corporate credit union. The primary purpose of the Stabilization Fund is to assess over multiple years the cost to insured credit unions associated with the corporate credit union stabilization effort.

To pay for the costs associated with the corporate credit union system, the NCUA Board can borrow up to \$6 billion from the Treasury on a revolving basis to make payments from the Stabilization Fund.<sup>1</sup> All borrowings must be repaid to Treasury with interest. The Board has discretion as to the timing of each payment and the amount of principal included with each repayment, as long as all advances are paid in full within the statutory time limitations. The Board will assess all federally-insured credit unions as it determines necessary to make each repayment.

The Stabilization Fund must repay the Treasury and close down within 90 days following seven years of taking the first advance. On June 28, 2009, the Stabilization Fund borrowed \$1 billion to assume the NCUSIF's Capital Note at U.S. Central Federal Credit Union (U.S. Central). On September 26, 2016, the Stabilization Fund will need to fully pay any outstanding liabilities and close. The Board may extend the final repayment date with the prior concurrence of the Secretary of the Treasury.

### Stabilization Fund - Repayment Schedule and Assessment

As of May 31, 2010 the Stabilization Fund recorded total liabilities of \$7.1 billion consisting primarily of the \$6.4 billion liability associated with the guarantee of shares in corporate credit unions and \$690 million in unpaid funds previously borrowed from the Treasury. In May, the Board authorized up to an additional \$2 billion in Stabilization Fund borrowings to provide additional liquidity within the corporate credit union system. Actual borrowings are \$810 million, bringing the outstanding balance to \$1.5 billion. The borrowed funds will be placed into the corporate credit union system to enhance liquidity during the summer when share deposit levels are traditionally lower.

Staff recommends scheduling a repayment of \$1.5 billion of the borrowed funds on September 30, 2010. Staff anticipates continued utilization of about \$310 million in borrowed funds after the summer will result in the Stabilization Fund not having sufficient funds to make the September repayment. An assessment of 0.134 percent of

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<sup>1</sup> The Helping Families Save Their Homes Act amended §203(d) of the Federal Credit Union Act to allow the NCUA Board to request an increase in borrowing authority of up to \$30 billion, with the approval of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The ability to request an increased borrowing limit expires December 31, 2010.

\$744.6 billion in insured shares as of March 31, 2010 will raise an estimated \$1 billion and provide adequate funds for the repayment of borrowings.

This level of assessment is within the 5 to 15 basis point total Stabilization Fund assessment projection for 2010 provided in November 2009. A \$1 billion assessment to repay a portion of the cost associated with the corporate credit union system provides for a reasonable level of repayment with marginal levels of overall impact on individual credit unions. Continued deferment of repayment would further concentrate corporate credit union stabilization costs into future years.

### Impact of Assessment

Since the approval of this assessment establishes the liability, credit unions should expense the assessment in June and report the expense on the June call report.

The March call reports disclose some improvement in the operating conditions of federally insured credit unions, but credit quality remains a concern with continued high levels of delinquent loans and charge-offs. In the aggregate, credit unions reported a Return on Assets (ROA) of 0.50 percent for the first quarter of 2010. This assessment, when annualized, reduces the ROA by 11 basis points. The immediate impact of the assessment reduces the net worth ratio by not more than 13 basis points. Additional analysis of the impact of the assessment includes:

- By projecting March 31, 2010 results for the entire year, 552 FICUs out of the 5,224 (10.6%) credit unions with positive core net income at March 31, 2010 may experience negative core income for the year due to the Stabilization Fund assessment.<sup>2</sup> Core net income excludes any accrual for potential NCUA assessments,<sup>3</sup> gain on sale of investment and fixed assets, and merger-related gains.
- 63 FICUs out of the 7,062 (0.9%) with a net worth ratio over 7 percent as of March 31, 2010 may experience a decline in net worth to less than 7 percent from the assessment, subjecting them to the earnings retention requirement of Prompt Corrective Action (PCA).
- 27 FICUs may experience a decline in net worth to below 6%, requiring them to prepare a net worth restoration plan.
- 2 FICUs with a net worth ratio over 2 percent as of March 31, 2010 may experience a decline to less than 2 percent from the assessment.

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<sup>2</sup> Generally accepted accounting principles require credit unions to expense the assessment when approved by the NCUA Board, ie., second quarter of 2010. The immediate impact of the assessment will result in approximately 1,086 FICUs recording negative net income after stabilization expense for the period ending June 30, 2010. The negative impact of the assessment declines with each subsequent quarter.

<sup>3</sup> As of March 31, 2010, credit unions recorded \$55 million in NCUSIF stabilization expense in anticipation of future assessments.

The Office of the Chief Financial Officer will prepare the associated invoices and provide them to all FICUs in July with the assessments due in August, not less than 60 days of this action.

**RECOMMENDED ACTION:** The NCUA Board authorize:

1. Establishment of a September 30, 2010 date for repayment of \$1.5 billion in funds borrowed by the Temporary Corporate Credit Union Stabilization Fund.
2. An assessment of 0.134 percent of March 31, 2010, insured shares, an estimated total of \$1 billion, according to §217(d) of the FCU Act.