



National Credit Union Administration
Office of the Chief Financial Officer

TO: NCUA Board

DATE: February 14, 2018

FROM: Chief Financial Officer

SUBJ: Share Insurance Fund Equity
Distribution

ACTION REQUESTED: NCUA Board declaration of a Share Insurance Fund Equity
Distribution for Year Ending 2017

DATE ACTION REQUESTED: February 15, 2018

OTHER OFFICES CONSULTED: Office of Examination and Insurance, General Counsel

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: Up to \$115,000 of previously approved funding to support
calculating and executing the distribution.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Rendell L. Jones, Chief Financial Officer, Lindsey
Coates, Management Analyst

SUMMARY: The insurance provisions of the 1998 Credit Union Membership Access Act
(CUMAA) became effective January 1, 2000. There are four key insurance provisions under this
law.

1. Normal Operating Level. When applied to the Share Insurance Fund, the term “normal operating level” means an equity ratio specified by the NCUA Board, which shall not be less than 1.2 percent and not more than 1.5 percent.¹ The equity ratio is defined as the amount of Share Insurance Fund capitalization, including insured credit unions’ one percent capitalization deposits and the retained earnings balance of the Share Insurance Fund (net of direct liabilities and contingent liabilities for which no provision for losses has been made) to the aggregate amount of the insured shares in all insured credit unions.² At the September 28, 2017 Board meeting, the NCUA Board set the normal operating level at 1.39 percent.

¹ 12 U.S.C. §1782(h)(4)

² §1782(h)(2)

2. Deposit with Share Insurance Fund. Each insured credit union shall pay to and maintain with the Share Insurance Fund a deposit in an amount equaling one percent of the total of the credit union's insured shares. The amount of each insured credit union's deposit shall be adjusted as follows: annually, in the case of an insured credit union with total assets of not more than \$50 million; and semi-annually, in the case of an insured credit union with total assets of \$50 million or more.³
3. Insurance premium charges. The NCUA Board may assess a premium charge only if the Share Insurance Fund's equity ratio is less than 1.3 percent and the premium charge does not exceed the amount necessary to restore the equity ratio to 1.3 percent. If the Share Insurance Fund's equity ratio is less than 1.2 percent, the NCUA Board must establish and implement a restoration plan within 90 days that would restore the equity ratio to 1.2 percent within a specified period.⁴
4. Distributions from Share Insurance Fund required. The NCUA Board shall effect a pro rata distribution to insured credit unions after each calendar year if, as of the end of that calendar year – any loans to the Share Insurance Fund from the Federal Government, and any interest on those loans, have been repaid; the Share Insurance Fund's equity ratio exceeds the normal operating level; and the Share Insurance Fund's available assets ratio exceeds 1.0 percent. The Board shall distribute the maximum amount possible that does not reduce the Share Insurance Fund's equity ratio below the normal operating level; and does not reduce the Share Insurance Fund's available assets ratio below 1.0 percent.⁵ The distribution will be in the form determined by the NCUA Board and may include a waiver of insurance premiums, premium rebates and/or dividends from the Share Insurance Fund.⁶

Financial Considerations: The following issues must be considered by the Board prior to any action on the dividend issue addressed in this Board Action Memorandum.

1. Loans to the Share Insurance Fund. As of December 31, 2017, there are no outstanding loans to the Share Insurance Fund. The final payment to the U.S. Treasury for outstanding borrowings of the Corporate Stabilization Fund was made in October 2016 in an amount of \$1.0 billion.
2. Normal Operating Level. Based on the total of insured shares reported in the year-end call report, the equity ratio of the Share Insurance Fund for the year ending December 31, 2017 was 1.46 percent. The NCUA Board approved a normal operating level of 1.39 percent as of September 28, 2017. To reduce the equity ratio to the approved normal operating level, a distribution in the amount of \$735.7 million is required.
3. Available Assets Ratio. The available assets ratio is defined as the ratio of cash plus the market value of unencumbered investments less total liabilities and contingent liabilities for which no provision has been made, divided by the aggregate amount of all insured

³ §1782(c)(1)(A)

⁴ §1782(c)(2)

⁵ §1782(c)(3)

⁶ 12 C.F.R. § 741.4(e).

shares from the final reporting period of the calendar year. The available assets ratio for December 31, 2017 was 1.40 percent before any distribution. Payment of a \$735.7 million distribution will lower the available assets ratio to 1.33 percent.

RECOMMENDED ACTION: It is recommended that the NCUA Board declare a distribution in the form of a dividend in the amount of \$735.7 million for the year ending December 31, 2017, estimated to be paid in the third quarter of 2018.