KANSAS

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DATE: **March 23, 2009**

BULLETIN: **2009-KDCU-CUB-05**

TO: **Management of Kansas chartered credit unions**

SUBJECT: **Actions taken by the National Credit Union Administration (NCUA) to support the Corporate Credit Union System - <u>Conservatorship of U.S. Central Federal Credit Union and Western Corporate Federal Credit Union</u>**

We continue to receive questions about the NCUA's series of actions to enhance and support the corporate credit union system. The actions taken by the NCUA Board on January 28, 2009:

- **Guarantee uninsured shares at all corporate credit unions through February 2009, and establish a voluntary guarantee program for uninsured shares of all corporate credit unions through December 31, 2010;**
- **Issue a $1 billion capital note to U.S. Central Corporate Federal Credit Union (U.S. Central);**
- **Issue an Advance Notice of Public Rulemaking (ANPR) on restructuring the corporate credit union system; and**
- **Declare a premium assessment to restore the National Credit Union Share Insurance Fund (NCUSIF) equity ratio to 1.30 percent, which will be collected in 2009.**

To address the accounting treatment of the premium assessment, NCUA has issued Accounting Bulletin NO. 09-1 for credit unions <10 million in assets. Larger asset credit unions may want to consult their accounting firms.

It is important for members of Kansas' credit unions to understand that their shares/deposits in all credit unions located in this State are federally insured up to $250,000 and backed by the full faith and credit of the United States Government through the National Credit Union Administration as the administrator of the National Credit Union Share Insurance Fund (NCUSIF). If any credit union member has questions or wants more information about deposit insurance at credit unions or the NCUA they can learn more by visiting NCUA's website at http://www.ncua.gov."

<u>Questions from Kansas Credit Unions:</u>

Q: Will this NCUA action of January 28th use taxpayer funds?
A: *No. As it now stands, the financial assistance action taken by the NCUA on January 28, 2009 to strengthen and stabilize the corporate credit union system will be financed entirely by "natural person" credit unions, based proportionally on the amount of insured savings in the 8,300 federally insured credit unions. The NCUA has already announced it would charge a deposit insurance fund premium to all federally insured credit unions to cover the cost of its actions.*

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Q: Why did NCUA choose to take this action now?
A: *NCUA took action to avoid a failure in the corporate system, which could have resulted in numerous natural person credit unions losing their investments and becoming undercapitalized. Generally Accepted Accounting Principles (GAAP) requires expected losses on certain securities determined to be "other than temporarily impaired" (OTTI), to be reflected through current earnings. When the NCUA Board learned US Central expected an OTTI charge of $1.2 billion against current earnings, quick, decisive action was needed. This anticipated charge represented nearly all U.S. Central's core capital (retained earnings and Paid-in Capital). NCUA acted to inject needed capital into U.S. Central and to declare a temporary share guarantee to maintain stability of the entire credit union system. This action represented the lowest cost option to the industry.*

NCUA has published frequently asked questions about its January 28, 2009 Corporate Credit Union Action; some but not all the FAQs follow. For more details of NCUA's action, visit its website at http://www.ncua.gov:

Q: Why doesn't the NCUA use the Central Liquidity Facility (CLF) to fund the capital note or back the share guarantee?
A: *The CLF is primarily liquidity needs lending facility and does not have authority under the Federal Credit Union Act to make capital investments. It is allowed to make liquidity loans to member natural person credit unions.*

Q: How does this recent action (capital note for US Central and share guarantee) affect share insurance protection for members of natural person credit unions?
A: *It doesn't. Each account remains insured up to the $250,000 limit, with the full faith and credit of the federal government (U.S. Treasury) standing behind it. Members that maintain less than $250,000 on deposit, and those that properly structured their accounts to ensure they are fully insured to the statutory limits will not lose any money. Under the NCUA guarantee, accounts maintained by natural person credit unions, regardless of dollar amount, in a corporate credit union that chooses to participate in the guarantee program are NOT at risk. In addition, the actions taken by the NCUA Board require no taxpayer funds. These actions have been taken to ensure the strength of the entire credit union system and to instill the confidence needed to move forward.*

Q: Can Troubled Assets Relief Program (TARP) funds be used to pay for this loss?
A: *As of this date, the Treasury Department has not demonstrated any intent to make TARP funds available to credit unions or NCUA for capital infusions. NCUA continues to pursue TARP funds only for their intended purpose, to purchase troubled assets.*

Q: How is the credit union insurance premium calculated?
A: *A premium is calculated on the insured shares of each credit union. Each quarter, credit unions report their insured shares to NCUA via their call report. The National Credit Union Share Insurance Fund (NCUSIF) will determine the exact amount of each credit union's assessment based on their most recent call report at the time the bills are distributed.*

Q: How much does NCUA expect the premium to cost natural person credit unions?
A: *Each credit union's individual cost is based on their level of insured shares. Based on current information, NCUA estimates the share insurance premium to cause a 56 basis point decline in natural person credit unions' net worth. Prior to actually collecting the premium, NCUA will perform a final analysis and adjust estimates as needed to replenish the NCUSIF normal operating level to 1.30 percent.*

Q: Does the premium assessed by NCUA have to be reflected through current earnings on the Income Statements of natural person credit unions?
A: *Generally Accepted Accounting Principles (GAAP) dictates credit unions that follow GAAP book the premium as an expense in the reporting period incurred. The Federal Credit Union Act requires credit unions to file their Call Reports in accordance with generally accepted accounting principles (GAAP). [Section 202(a)(6)(C)(i).] The Financial Accounting Standards Board (FASB), under oversight of the SEC, establishes GAAP in the United States. When auditing financial statements, accounting practitioners determine the extent to which the audited entity maintains its financial statements in conformance with GAAP. GAAP requires that premium expenses and asset impairments flow through the income statement, and therefore, are charged as an expense. Based on events that occurred in January 2009, the NCUA Board took action on January 28, 2009, to stabilize the corporate credit union system. This action resulted in the impairment to the NCUSIF and resulting premium assessment. Since GAAP requires all expenses to be booked in the period in which they incur, the premium assessment cannot be spread over multiple reporting periods, or be accounted for through a direct transfer from Regular Reserves. Prior to actually collecting the premium, NCUA will perform a final analysis and adjust the premium as needed.*

NCUA will review any suggestions on alternative booking of the assessment which may be presented by the credit union industry.

Q: Does this premium assessment fix the problems, or are additional assessments possible?
A: *Several factors will continue to impact the cost to the industry including OTTI charges, further evaluation of the credit risk in the securities, evolving economic conditions, and liquidity levels. As these factors change, the cost may change in either direction. If the cost estimates decline, you will see a return of your charge in the form of future dividends from the NCUSIF.*

NCUA cannot speculate about future situations that may develop, but will continue to take any steps necessary to maintain a stable and well-functioning credit union system. It is NCUA's strong belief that the industry input received during the Advanced Notice of Proposed Rulemaking (ANPR) process will yield significant and constructive ideas regarding future reforms to the corporate network.

Q: What is NCUA doing to address management issues at US Central and other corporates?
A: *NCUA does not comment on its supervision of individual credit union cases. However, as part of its necessary due diligence in providing the share guarantee, NCUA plans to enter into agreements with participating corporate credit unions for enhanced supervisory oversight and controls for adequate corporate governance. Additionally, NCUA has created an ANPR for the express purpose of receiving industry input on the future structure and operations of the corporate credit union network. The comments received from the credit union industry will significantly determine the future structure of the corporate system.*

/s/ **John P. Smith**

John P. Smith, Administrator February 20, 2009