

Corporate Stabilization Fund & Investments in Corporate Credit Unions Q & A

June 8, 2009

Currently, there is quite a bit of uncertainty surrounding the creation of the new Temporary Corporate Credit Union Stabilization Fund and its impact on NCUSIF deposit impairment. Questions have also been asked regarding the impairment of investments in corporate credit union Paid-In Capital (PIC) and Membership Capital Accounts (MCA). This Accounting Insight addresses some of the more significant questions related to these two items. The answers below are preliminary and depend greatly on what actions the NCUA will take and any additional guidance provided by the NCUA.

The NCUA has announced it will host a webinar on June 24, 2009, at 1:00 pm Eastern Time (12:00 pm Central Time) following its June Board meeting to discuss Board approved action and present guidance to the industry, as well as to provide participating credit unions an opportunity to submit questions to NCUA staff. The NCUA will post a link with registration information on its website (<http://www.ncua.gov>) beginning Friday, June 19, 2009.

The NCUA has also published a document titled Frequently Asked Questions Regarding the Corporate Credit Union Stabilization Fund Legislation Proposal (prior to the enactment of the legislation). This document may provide additional insight on the provisions of the Stabilization Fund and may be found at <http://www.ncua.gov/Resources/CorporateStabilization/CCUStablizationFundQandA.pdf>.

Temporary Corporate Credit Union Stabilization Fund

Q: What is the Temporary Corporate Credit Union Stabilization Fund (the "Stabilization Fund")?

A: The Stabilization Fund was created upon enactment of the Helping Families Save Their Homes Act on May 20, 2009. The NCUA Board may use this fund to borrow money from the U.S. Treasury for the purpose of making payments connected to the threatened or actual conservatorship or liquidation of a corporate credit union that would have otherwise been made out of the National Credit Union Share Insurance Fund (NCUSIF).

The borrowings from the U.S. Treasury are required to be repaid within seven years of the first borrowing unless an extension is obtained from the U.S. Treasury. Funds to repay the borrowings will come from special assessments determined by the NCUA Board on federally insured credit unions as funds are required. The special assessments will be based on a percent of each credit union's insured shares on the previous call report.

Temporary Corporate Credit Union Stabilization Fund (Continued)

Q: Does the existence of the Stabilization Fund mean the NCUSIF deposit is no longer impaired?

A: Once the NCUA uses the Stabilization Fund to reimburse the NCUSIF, it appears a credit union's NCUSIF deposit may no longer be impaired. Impairment losses were recognized in the NCUSIF (and consequently each credit union's NCUSIF deposit) for the \$1 billion investment in US Central Federal Credit Union and the fair value of the Temporary Corporate Credit Union Share Guarantee Program. If the NCUA Board uses the Stabilization Fund to borrow money from the U.S. Treasury and reimburses the NCUSIF for these losses, the related NCUSIF deposit should no longer be impaired.

Q: Will credit unions still have to recognize a liability for future special assessments that will be required by the Stabilization Fund to repay the borrowings?

A: It does not appear a liability will have to be recognized for future special assessments since the assessments will be based on federally insured deposits of credit unions when the special assessments are made. The liability is incurred when the assessments are assessed, at which time each credit union will recognize the expense and liability for that assessment.

Q: If I haven't recognized impairment for the NCUSIF deposit, must I still recognize the impairment?

A: Possibly. Financial statements prepared prior to the recovery of the impairment should recognize the impairment of the NCUSIF deposit and should disclose the expected recovery of the impairment subsequent to the financial statement date. Financial statements prepared after the recovery of the impairment probably will not reflect any impairment. The NCUA has stated it will be issuing accounting guidance related to the Stabilization Fund, which should clarify how any impairment and recovery of impairment should be recognized in call reports.

Q: If I already recognized impairment for the NCUSIF deposit, should I amend/restate my December 2008 and/or March 2009 call report and other financial reports?

A: No. Unless the NCUA provides different guidance, previous call reports reporting the NCUSIF deposit impairment should not be amended. When the impairment is recovered, it should be recognized during that call report period as income (or possibly a reversal of expense).

Q: When should I recognize the recovery of impairment?

A: Until the Stabilization Fund borrows money and reimburses the NCUSIF, NCUSIF deposit balances continue to be impaired. Once the NCUA Board approves the Stabilization Fund's borrowing of money and reimbursement of the NCUSIF, the recovery of impairment should be recognized. The NCUA is expected to provide additional guidance on these matters in late June 2009.

Impairment of Corporate Credit Union Investments

Q: Do I have to recognize impairment of investments in corporate credit unions?

A: Possibly. Each credit union should evaluate whether its Paid-In Capital and/or Membership Capital Account investments in corporate credit unions are impaired. It is fairly clear investments in PIC and MCA of US Central and WesCorp are at least partially, if not wholly, impaired. Evaluation of investments in other corporate credit unions must consider losses incurred by those corporate credit unions resulting from their investments in US Central and/or WesCorp and other losses they may have incurred. The NCUA has prepared [NCUA Letter to Credit Unions No. 09-CU-10](#) that discusses each credit union's responsibility to evaluate whether its investments in corporate credit unions are impaired.

Q: How much impairment should I recognize?

A: If a credit union determines its investments in a corporate credit union is impaired, at a minimum, the credit union should recognize impairment for its share of losses applied by the corporate credit union to PIC and/or MCA. For example, if a corporate credit union has recognized losses that exhausted 23% of its Membership Capital Account, a credit union with an MCA investment in that corporate credit union should recognize a loss of at least 23% of its investment.

The actual impairment recognized should be the difference between the fair value and the carrying basis of the investment. Due to the highly restricted and unique nature of PIC and MCA investments, it may be very difficult to measure fair value of these investments; therefore, in practice, it appears the amount of impairment recognized will be based on the amount of the losses applied by the corporate credit union to the PIC and MCA capital. However, if other factors exist that indicate the fair value of the investment is less than the amount that would be recognized using the above guidance, the impairment recognized should consider these factors as well.

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